Oklahoma State University Medical Authority

Auditor's Reports and Financial Statements

June 30, 2014

BKD LLP
CPAs & Advisors

Oklahoma State University Medical Authority
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Contents

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Independent Auditor's Report

Board of Trustees
Oklahoma State University Medical Authority
Tulsa, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Oklahoma State University Medical Authority (the Authority) which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma State University Medical Authority as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in December 2013, the reporting entity changed to include the Oklahoma State University Medical Trust (the Trust) as part of the combined financial statements as a result of a merger agreement entered into by the Trust and the Oklahoma State University Medical Center Trust. The Authority elected to early adopt Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations.* See *Notes 1* and *2* for the effect of the merger and new accounting guidance.

Our opinion is not modified with respect to this matter.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements due to the lack of comparability as a result of the merger discussed in *Note 1*. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
December 2, 2014

Oklahoma State University Medical Authority

Balance Sheet

June 30, 2014

Assets

Current Assets	
Cash and cash equivalents	$ 16,383,503
Patient accounts receivable, net of allowance; $35,521,000	14,168,245
Other receivables	869,007
Supplies	4,529,195
Prepaid expenses and other	2,604,857
Due from related party	114,600
Total current assets	38,669,407
Capital Assets, Net	39,483,292
Other Assets	1,500
Total assets	$ 78,154,199

Liabilities and Net Position

Current Liabilities	
Current maturities of long-term debt	$ 2,749,055
Accounts payable	10,240,517
Accrued payroll and expenses	6,214,920
Accrued interest payable	391,589
Estimated amounts due to third-party payers	1,200,000
Total current liabilities	20,796,081
Long-Term Debt	14,710,986
Other Long-Term Liabilities	7,803,637
Total liabilities	43,310,704
Net Position	
Net investment in capital assets	22,023,251
Restricted – expendable	
Specific operating activities	114,490
Unrestricted	12,705,754
Total net position	34,843,495
Total liabilities and net position	$ 78,154,199

Oklahoma State University Medical Authority
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts; $26,911,940	$ 124,221,326
Other	7,449,825
Total operating revenues	131,671,151
Operating Expenses	
Salaries and wages	57,775,336
Employee benefits	13,834,261
Purchased services and professional fees	31,216,941
Supplies and other expenses	40,036,167
Depreciation	7,861,151
Total operating expenses	150,723,856
Operating Loss	(19,052,705)
Nonoperating Revenues (Expenses)	
Noncapital grants and gifts	3,470,009
State appropriations	13,000,000
Contribution expense	(9,283,172)
Investment income	16,212
Interest expense	(866,020)
Total nonoperating revenues, net	6,337,029
Deficiency of Revenues over Expenses Before Capital Gifts and Grants	(12,715,676)
Gifts to Purchase Capital Assets and Other Capital Grants	1,404,611
Decrease in Net Position	(11,311,065)
Net Position, Beginning of Year, as Restated	46,154,560
Net Position, End of Year	$ 34,843,495

Oklahoma State University Medical Authority
Statement of Cash Flows
Year Ended June 30, 2014

Operating Activities	
Receipts from and on behalf of patients	$ 127,391,539
Payments to suppliers and contractors	(69,083,030)
Payments to employees	(71,236,446)
Other receipts and payments, net	5,637,057
Net cash used in operating activities	(7,290,880)
Noncapital Financing Activities	
Noncapital grants and gifts	3,470,009
State appropriations	13,000,000
Contribution expense	(9,283,172)
Net cash provided by noncapital financing activities	7,186,837
Capital and Related Financing Activities	
Principal paid on long-term debt	(2,693,627)
Interest paid on long-term debt	(864,605)
Purchase of capital assets	(5,734,838)
Proceeds from sale of equipment	251,479
Capital grants and gifts	1,404,611
Net cash used in capital and related financing activities	(7,636,980)
Investing Activities	
Investment income received	16,212
Net cash provided by investing activities	16,212
Decrease in Cash and Cash Equivalents	(7,724,811)
Cash and Cash Equivalents, Beginning of Year, as Restated	24,359,793
Cash and Cash Equivalents, End of Year	$ 16,634,982

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities

Operating loss	$ (19,052,705)
Loss on disposition of property and equipment	795,791
Depreciation	7,861,151
Amortization in other operating revenue	(307,105)
Provision for uncollectible accounts	26,911,940
Changes in operating assets and liabilities	
Patient accounts receivable	(26,741,727)
Other accounts receivable	200,307
Supplies and prepaid expenses	648,044
Due to/from related party	(2,501,761)
Estimated amounts due to/from third-party payers	3,000,000
Accounts payable and accrued expenses	1,895,185
Net cash used in operating activities	$ (7,290,880)

Supplemental Cash Flows Information

Financed insurance premiums	$ 1,197,151
Capital assets in accounts payable	$ 686,383

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Oklahoma State University Medical Authority

The Oklahoma State University Medical Authority (the Authority) is a state agency created by an act of the Oklahoma Legislature in May 2006. The Authority is empowered to engage in activities to: 1) ensure a dependable source of funding for the graduate medical program associated with the Oklahoma State University Center for Health Sciences (the OSU Center for Health Sciences); 2) provide for stable teaching and training facilities for students enrolled at the OSU Center for Health Sciences; 3) upon a Declaration of Necessity, serve as training and teaching facilities for students at the OSU Center for Health Sciences; 4) serve as a site for conducting medical and biomedical research by faculty members of the OSU Center for Health Sciences; and 5) provide care for the patients of OSU physician trainers.

Oklahoma State University Medical Center Trust

In fiscal year 2009, the leadership of the executive and legislative branches of the state of Oklahoma (the State), Ardent Medical Services, Inc., Oklahoma State University (the University), St. John Health System and members of the Tulsa philanthropic community undertook an effort to pass the ownership of the Oklahoma State University Medical Center (the Medical Center) to a public entity. This effort culminated in the creation of a municipal public trust, the Oklahoma State University Medical Center Trust (the Trust), and the purchase of the teaching hospital by the Trust from Ardent Medical Services, Inc. (see *Note 14*).

The Trust was formed in January 2009 to acquire, own and operate the Medical Center with the general purposes of promoting and supporting the teaching and training of physicians in Tulsa and the delivery of health care services to medically indigent persons.

OSUMC Professional Services LLC (OPS) employs physicians and other health care providers. The Trust is the sole corporate member of OPS, and OPS is included as a blended component unit of the Trust in the accompanying financial statements.

The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Tulsa, Oklahoma, area.

The Authority entered into an interlocal agreement with the Trust to provide funding in accordance with the enabling legislation of the Authority. The Authority entered into two related interagency agreements with the Oklahoma Health Care Authority, the State’s Medicaid agency, and subsequently the Trust to provide certain state matching funds allowing the Medical Center to receive payments at the Upper Payment Limit as defined in the State’s Medicaid plan.

Oklahoma State University Medical Trust

In October 2013, the Trust entered into a Tripartite Agreement and Plan of Merger (Merger Agreement) with the Authority and the Oklahoma State University Medical Trust (OSUMT). Under the terms of the Merger Agreement, effective December 6, 2013, the Trust agreed to the following:

- Transfer and convey substantially all assets and liabilities of the Trust to the Authority
- Amend the Trust's Declaration of Trust to designate the state of Oklahoma as its sole beneficiary and authorize the merger of the Trust with OSUMT
- Merge OSUMT into the Trust and designate OSUMT as the surviving entity
- Enter into a lease agreement for the Medical Center real property between the Authority and OSUMT
- Merge the operations of the Trust with OSUMT (see *Note 2*)

Through December 6, 2013, the Medical Center was the primary operations of the Trust.

OSUMT is deemed to be a component unit of the Authority due to the common governance and the Authority's ability to impose its will on OSUMT. The Authority and OSUMT can be contacted by telephoning 918.599.5900.

Basis of Accounting and Presentation

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014, cash equivalents consisted primarily of money market accounts.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage since the inception of the Authority.

Investment Income

Investment income consists of interest income.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

Supply inventories consist of medical supplies and pharmaceuticals and are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

When the Trust acquired the Medical Center on May 1, 2009, the land, building and equipment acquired were recorded at $100 (see *Note 14*). Capital assets subsequently acquired are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Buildings and leasehold improvements	5–40 years
Equipment	3–10 years

Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

State Appropriations and Matching Funds

As discussed in *Note 14*, in relation to the Medical Center being acquired by the Trust on April 30, 2009, from Ardent Medical Services, Inc., the Trust (now OSUMT) entered into an interlocal agreement with the Authority. The Authority has made payments of approximately $6,450,000 to OSUMT in accordance with the interlocal agreement for the year ended June 30, 2014. The Authority has also received state appropriations in the same fiscal year in the amount of $13,000,000 for the support of the teaching mission at the Medical Center and for the establishment of rural primary care residency programs throughout Oklahoma. In an effort to multiply the appropriated dollars, the Authority may send funds to the Oklahoma Health Care Authority to be matched with the majority of the funds then being paid to OSUMT and a portion paid to the Authority.

The Authority has designated the University to act as its fiscal agent for the purposes of providing fiscal, purchasing and accounting services. As such, the University provides a draw down schedule to the Oklahoma State Regents for Higher Education for those funds based upon the funding needs identified by the Authority and subsequently makes expenditures on behalf of the Authority.

OSUMT entered into a management agreement with Mercy Health Oklahoma Communities, Inc., on May 1, 2014, for the management of the Medical Center.

Income Taxes

As a state agency created by an act of the State of Oklahoma legislature, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for three years based on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is subject to audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other grant requirements applicable for the reporting period.

In 2014, the Authority completed the first-year requirements under the Medicare program and recorded revenue of approximately $1,167,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position and is summarized below for the year ended June 30, 2014:

SHOPP funds recorded and received	$ 10,330,000
SHOPP assessment fees recorded and paid	(3,447,000)
Net SHOPP benefit	$ 6,883,000

The annual amounts to be received and paid by the Authority over the remaining term of the SHOPP program are subject to several factors, including the Federal Medical Assistance Percentages (FMAP) and state funding. Based on information currently available, the annual net benefit received by the Authority under the SHOPP program will decrease by approximately 7.75% in fiscal year 2015 and beyond.

Note 2: Change in Accounting Principle

In 2014, the Authority implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 69, *Government Combinations and Disposals of Government Operations.* The Authority changed its reporting entity to include OSUMT effective July 1, 2013, by including OSUMT's financial position and cash flows as of July 1, 2013. The impact of implementing GASB Statement No. 69 at July 1, 2013, was to increase total assets by $84,379,004, current liabilities by $20,940,540, total liabilities by $46,210,845 and total net position by $38,168,159.

Note 3: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Defined medical education costs are paid based on a cost reimbursement methodology. The Authority is reimbursed for medical education, eligible Medicare bad debts and disproportionate share at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority's cost reports for periods ending June 30, 2010, to present have not been final settled as of June 30, 2014.

- **Medicaid** – Inpatient services provided to the state's Medicaid program beneficiaries are reimbursed on a prospective per discharge method with no retroactive adjustments. Outpatient services are reimbursed on a prospective fee schedule basis with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Claims filed with both the Medicare and Medicaid programs are subject to audit.

Approximately 38% of gross patient service revenue is from participation in the Medicare program for the year ended June 30, 2014. Approximately 25% of gross patient service revenue is from participation in the state-sponsored Medicaid program for the year ended June 30, 2014.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The Authority received approximately $9,000,000 in fiscal 2014 from the State of Oklahoma Medicaid Upper Payment Limit (UPL) program. UPL programs are often an area considered for cost reductions by both federal and state legislators and there is no guarantee that UPL payments will continue at the same level in future years.

Note 4: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure an organization's deposits may not be returned to it. The state treasurer requires that all state funds are either insured by the Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. government obligations.

At June 30, 2014, none of the Authority's bank balances of approximately $17,610,000 were exposed to custodial credit risk as uninsured and uncollateralized. This amount includes approximately $7,746,000 of funds that are pooled with funds of other state agencies.

In the event of future cash deposits, the Authority's deposits with the state treasurer will be pooled with funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the state treasurer may determine in the state's name.

Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in corporate bonds and equity securities. The Authority had no investments at June 30, 2014.

Summary of Carrying Values

The carrying values of deposits as of June 30, 2014, of $16,383,503, are included in the accompanying balance sheet as cash and cash equivalents.

Note 5: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, most of whom are area residents and certain of whom are insured under third-party payer agreements. Patient accounts receivable at June 30, 2014, consisted of:

Medicare	$ 5,828,625
Medicaid	1,564,271
Other third-party payers and patients	42,296,349
	49,689,245
Less allowance for uncollectible accounts	35,521,000
	$ 14,168,245

Note 6: Capital Assets

Capital assets activity for the year ended June 30, 2014, was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 100	$ -	$ -	$ -	$ 100
Land improvements	-	-	-	1,650	1,650
Buildings and leasehold improvements	9,211,502	-	-	5,990,826	15,202,328
Equipment	35,227,682	3,282,477	-	-	38,510,159
Construction in progress	7,970,611	2,897,603	(581,456)	(5,992,476)	4,294,282
	52,409,895	6,180,080	(581,456)	-	58,008,519
Less accumulated depreciation					
Land improvements	-	73	-	-	73
Buildings and leasehold improvements	991,659	835,451	214,335	-	2,041,445
Equipment	9,458,082	7,025,627	-	-	16,483,709
	10,449,741	7,861,151	214,335	-	18,525,227
Capital assets, net	$ 41,960,154	$ (1,681,071)	$ (795,791)	$ -	$ 39,483,292

Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. The Authority has accrued for an estimated liability at June 30, 2014, for incurred but not reported claims, which is included in other long-term liabilities in the accompanying balance sheets. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the year ended June 30, 2014:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	$ 17,855,511	$ -	$ (1,665,541)	$ 16,189,970	$ 1,745,177
Note payable, bank (B)	827,378	-	(412,189)	415,189	415,189
Capital lease obligations	1,371,325	99,454	(615,897)	854,882	588,689
Total long-term debt	20,054,214	99,454	(2,693,627)	17,460,041	2,749,055
Other long-term obligations	8,621,368	1,907,237	(1,340,709)	9,187,896	1,384,259
Total long-term obligations	$ 28,675,582	$ 2,006,691	$ (4,034,336)	$ 26,647,937	$ 4,133,314

Notes Payable

(A) Due December 18, 2021, principal and interest at 4.12% payable annually, principal payments to be funded in accordance with provisions of a certain Academic Affiliation Agreement between the University and the Authority and are guaranteed by a certain lease agreement with the University (see *Note 13*).

(B) There are currently two notes payable under a Master Financing Agreement. The notes payable are due in January 2015 and April 2015. Payments are due monthly, including interest of 4.40% to 4.78% and the notes are secured by certain property and equipment.

The debt service requirements as of June 30, 2014, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2015	$ 2,847,958	$ 2,160,366	$ 687,592
2016	2,425,145	1,818,451	606,694
2017	2,425,144	1,894,802	530,342
2018	2,425,143	1,974,358	450,785
2019	2,425,145	2,057,257	367,888
2020–2022	7,270,661	6,699,925	570,736
	$ 19,819,196	$ 16,605,159	$ 3,214,037

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2014, totaled approximately $2,938,000, net of accumulated depreciation of approximately $1,881,000. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 2.33% to 5.65% together with the present value of the future minimum lease payments as of June 30, 2014:

Year Ending June 30,		
2015	$	618,695
2016		155,327
2017		117,313
Total minimum lease payments		891,335
Less amount representing interest		36,453
Present value of future minimum lease payments	$	854,882

Other Long-Term Liabilities

Other long-term liabilities represent the Trust's estimated liabilities related to litigation, including incurred but not reported claims, and an obligation determined based on future payments to be received under a state of Oklahoma reimbursement program. The liability associated with the obligation to make payments to a third party is discounted at the Trust's average borrowing rate of 4.25%.

Note 9: Uncompensated Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

The Authority's charity care policy includes a component related to presumptive charity care qualification based on various factors, including job status and resident status. The Authority has estimated the cost associated with uncompensated care for the year ended June 30, 2014, as follows:

Cost of uncompensated care to uninsured and charity care patients	$ 5,487,000
Cost of uncompensated care to Medicaid patients	25,551,000
	$ 31,038,000

The cost of uncompensated care is estimated based on the overall cost to charge ratios from the June 30, 2013, Medicare cost report. In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, hospice programs, community educational services and various support groups.

Note 10: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 6.0% and 2.7%, respectively, for 2014. Contributions actually made by plan members and the Authority aggregated approximately $1,582,000 and $685,000, respectively, during 2014.

Note 11: Restricted Net Position

At June 30, 2014, restricted expendable net position of $114,490 was available for patient-related services.

Note 12: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management estimates the amount of ultimate expected loss, if any, for each matter and, if deemed appropriate, records the estimated liability. At June 30, 2014, management determined no accrual for such matters was deemed necessary. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Community Support

In connection with the creation of the Trust, several entities made commitments to the Trust to assist in providing support and funds for the Trust to keep operating the Medical Center. These commitments ranged from direct financial support to indirect community support. Below is a recap of various community support received by the Trust in fiscal year 2014:

State of Oklahoma

The State provided the Trust with approximately $13,000,000 in funds during the year ended June 30, 2014, related to the UPL program. This state-operated program includes direct allocation of funds to the Authority in addition to statewide fund allocations.

The State also committed to financial support for the Trust as detailed in an Interlocal Agreement (the Agreement) between multiple entities, including the Trust and the Authority. Among the commitments made by the State in the Agreement were:

- Maintain funding levels for indirect medical education and graduate medical education for the Authority at the same levels the Medical Center received in 2009.
- Provide the Trust up to $25,000,000 in funding for capital needs during the first year of operations. The funding was provided by a commercial bank loan (see *Note 8*) secured by a lease agreement with the OSU Center for Health Sciences.
- Provide funding for other health care-related activities and programs, such as federally qualified health centers, in the Tulsa area. This funding does not directly benefit the Trust and is not received directly by the Trust. However, the objective of this funding is to serve the uninsured and indigent patient population in the greater Tulsa area in the most effective manner.

As of June 30, 2014, the State has fulfilled its commitment for the current year and no receivable has been recorded for future funding to the Authority as that funding is dependent on future actions, primarily state appropriations.

Oklahoma State University

The University has operational control over the OSU Center for Health Sciences in Tulsa. The OSU Center for Health Sciences provides interns and residents in the Tulsa area. The University has entered into a 10-year lease agreement effective May 2009 with the Authority that provides for annual funding to the Authority of $2,500,000 if certain events occur.

Local Foundation

As part of the commitments made to the Authority to support the operations of the Medical Center, a local foundation committed to provide the Authority with direct and indirect financial support not to exceed $2,333,000 per year for five years ending June 30, 2014. The local foundation has provided support under this commitment by funding certain grants to the Foundation for the Oklahoma State University Medical Center (the Foundation) (see *Note 15*). For the year ended June 30, 2014, the local foundation provided grants to the Foundation of approximately $3,000,000 related to programs to support the Medical Center's provision of health care services and reimbursement for uncompensated care to qualified indigent patients of the Medical Center. These contributions are recorded as part of net patient service revenue when the Foundation reimburses the Medical Center for qualified patients.

In addition to these benefits, the local foundation assisted with raising funds from other local charitable organizations for the direct or indirect support of the Authority.

Revenue recognized by the Authority on the accompanying statement of revenues, expenses and changes in net position for the year ended June 30, 2014, as noncapital grants and gifts were received from the following sources:

Support from the University	$ 2,500,000
Support from local foundation	114,000
Other	970,000
	$ 3,584,000

Note 14: Acquisition of the Medical Center

On March 18, 2009, the Trust entered into a Purchase Agreement with Ardent Medical Services, Inc. (AMS) and related parties for the acquisition of the Medical Center. The acquisition was effective as of May 1, 2009.

The Trust recorded an unearned credit of approximately $1,843,000 as part of this transaction, which represents the value of the assets received, net of liabilities assumed, in excess of the cash paid by the Authority. The unearned credit is being amortized over a five-year period with the amortization recorded in nonoperating revenues on the accompanying statements of revenues, expenses and changes in net position. At June 30, 2014, the unearned credit is fully amortized.

Below is a recap of the purchase transaction with AMS:

Assets acquired	
Supplies inventory	$ 4,002,000
Prepaid expenses	352,000
Capital assets (land and building)	100
Other	71,000
Total assets acquired	4,425,100
Liabilities assumed	
Accrued paid time off	1,263,000
Retirement plan payable	160,000
Indirect medical education obligation	1,157,000
Total liabilities assumed	2,580,000
Assets, net of liabilities acquired	1,845,100
Cash paid by the Trust, net of cash received	2,000
Unearned credit	$ 1,843,100

Note 15: Transactions with the Foundation for Oklahoma State University Medical Center

The Foundation is a nonprofit corporation whose mission and principal activities are to advance osteopathic medical education, research and patient care by financially supporting the operation and continued growth of the Oklahoma State University Medical Center. The Foundation was incorporated on September 30, 2011.

During the year ended June 30, 2014, the Foundation contributed approximately $4,477,000 to the Authority. The contributions are recorded on the accompanying statement of revenues, expenses and changes in net position as follows:

Gifts to purchase capital assets and other capital grants	$ 1,404,611
Noncapital grants and gifts	620,352
Net patient service revenue	2,451,769
	$ 4,476,732

As discussed in *Note 13*, the Foundation also received contributions from a local foundation and other charitable organizations in support of the commitment under the agreement. At June 30, 2014, the Foundation had net assets that were restricted for patient care for the Authority of approximately $1,200,000.

Note 16: Transactions with Oklahoma State University Center for Health Sciences

The Authority has engaged the OSU Center for Health Sciences, an agency of the University, to perform accounting functions, including the receipt, deposit and recording of revenues and the payment and recording of expenses approved by the Authority. Additionally, purchasing actions are also performed by the OSU Center for Health Sciences on behalf of the Authority. The OSU Center for Health Sciences also provides legal consultation as a part of the administrative services agreement and has the right to receive payment for these services based upon the allocation of time spent by their employees for these functions. At June 30, 2014, the Authority owed the OSU Center for Health Sciences approximately $2,691,000.

Note 17: Combining Unit Information

The following table includes combining balance sheet information for the Authority and its component unit, OSUMT, as of June 30, 2014:

	OSUMA	OSUMT	Eliminations	Combined Balance
Assets				
Current Assets	$ 7,745,975	$ 30,923,432	$ -	$ 38,669,407
Capital Assets, Net	-	39,483,292	-	39,483,292
Other Assets	-	1,500	-	1,500
Total assets	$ 7,745,975	$ 70,408,224	$ -	$ 78,154,199
Liabilities and Net Position				
Current Liabilities	$ -	$ 20,796,081	$ -	$ 20,796,081
Long-Term Liabilities	-	22,514,623	-	22,514,623
Total liabilities	-	43,310,704	-	43,310,704
Net Position	7,745,975	27,097,520	-	34,843,495
Total liabilities and net position	$ 7,745,975	$ 70,408,224	$ -	$ 78,154,199

The following table includes combining schedules of revenues, expenses and changes in net position information for the Authority and its component unit for the year ended June 30, 2014:

	OSUMA	OSUMT	Eliminations	Combined Balance
Operating Revenues	$ -	$ 138,121,151	$ (6,450,000)	$ 131,671,151
Operating Expenses	7,254	150,716,602	-	150,723,856
Operating Loss	(7,254)	(12,595,451)	(6,450,000)	(19,052,705)
Nonoperating Revenues (Expenses)	(233,172)	120,201	6,450,000	6,337,029
Deficiency of Revenues over Expenses Before Capital Gifts and Grants	(240,426)	(12,475,250)	-	(12,715,676)
Gifts to Purchase Capital Assets and Other Capital Grants	-	1,404,611	-	1,404,611
Decrease in Net Position	(240,426)	(11,070,639)	-	(11,311,065)
Net Position, Beginning of Year, as Restated	7,986,401	38,168,159	-	46,154,560
Net Position, End of Year	$ 7,745,975	$ 27,097,520	$ -	$ 34,843,495

The following table includes combining statement of cash flows information for the Authority and its component unit for the year ended June 30, 2014:

	OSUMA	OSUMT	Eliminations	Combined Balance
Net Cash Used in Operating Activities	$ (240,426)	$ (7,050,454)	$ -	$ (7,290,880)
Net Cash Provided by Noncapital Financing Activities	-	7,186,837	-	7,186,837
Net Cash Used in Capital and Related Financing Activities	-	(7,636,980)	-	(7,636,980)
Net Cash Provided by Investing Activities	-	16,212	-	16,212
Decrease in Cash and Cash Equivalents	(240,426)	(7,484,385)	-	(7,724,811)
Cash and Cash Equivalents, Beginning of Year, as Restated	7,986,401	16,373,392	-	24,359,793
Cash and Cash Equivalents, End of Year	$ 7,745,975	$ 8,889,007	$ -	$ 16,634,982

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Oklahoma State University Medical Authority
Tulsa, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Oklahoma State University Medical Authority (the Authority), which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated December 2, 2014, which contained an *Emphasis of Matter* paragraph regarding a change in accounting principle.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Authority's Responses to the Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We also noted certain matters that we reported to the Authority's management in a separate letter dated December 2, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
December 2, 2014

Oklahoma State University Medical Authority

Schedule of Findings and Responses

Year Ended June 30, 2014

Reference Number	Finding
2014-001	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Management's procedures for properly accounting for certain cash; capital assets, including depreciation expense; net position; and related-party transactions did not produce materially accurate results. Context – Numerous material journal entries were required to correct misstatements in the June 30, 2014, financial statements. Effect – Potentially material misstatements in the financial statements could occur. Cause – Inaccurate entries to account for transactions and procedures for preparing estimates were inadequate to produce consistently accurate financial information. Recommendation – Management should evaluate the procedures in place related to recording transactions in the financial statements. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will evaluate the process of reviewing interim financial statements to identify unusual entries and transactions. Management will also take steps to periodically evaluate the methodologies used to record the above noted transactions in the financial statements.

Oklahoma State University Medical Authority
Schedule of Findings and Responses
Year Ended June 30, 2014

Reference Number	Finding
2014-002	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – Reconciliation of certain general ledger accounts, including cash, capital assets, payables and net position, were not performed in a timely manner during the year. Context – The standard monthly reconciliation process in place for certain balance sheet accounts, including cash, capital assets and payables, was not performed consistently on a timely basis during the year. Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected and corrected in a timely manner. Cause – Recording and monitoring procedures in the internal control over financial reporting process were not performed timely. Recommendation – Management should revise the monthly reconciliation process for balance sheet accounts to ensure accounts are properly and timely recorded and reconciled to the general ledger. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to ensure all material balance sheet accounts are properly and timely recorded and reconciled to the general ledger.