

Oklahoma State University Medical Authority

Independent Auditor's Reports and Financial Statements

June 30, 2017 and 2016



Oklahoma State University Medical Authority
June 30, 2017 and 2016

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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 financial statements of Oklahoma State University Medical Authority (the Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 audits. We conducted our audits 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, 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 and 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
October 26, 2017

Oklahoma State University Medical Authority

Management's Discussion and Analysis

Years Ended June 30, 2017 and 2016

Introduction

This management's discussion and analysis of the financial performance of Oklahoma State University Medical Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2017 and 2016. This management's discussion and analysis should be read in conjunction with the accompanying financial statements of the Authority.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any authority's finances is, "Is the authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in it. The Authority's total net position—the difference between assets and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased by \$7,689,617 or 16% in 2017 over 2016 and by \$6,413,818 or 15% in 2016 over 2015 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2017	2016	2015
Assets			
Cash and cash equivalents	\$ 33,878,302	\$ 21,656,362	\$ 21,439,470
Patient accounts receivable, net	10,878,432	14,619,663	15,914,572
Other receivables	2,261,285	2,989,126	1,115,613
Other current assets	6,504,925	7,673,174	6,835,174
Due from related party	261,212	229,502	-
Capital assets, net	33,206,607	35,474,611	34,376,156
Other assets	308,267	360,000	360,000
	<u>\$ 87,299,030</u>	<u>\$ 83,002,438</u>	<u>\$ 80,040,985</u>
Liabilities			
Long-term debt (including current portion)	\$ 11,550,987	\$ 13,660,155	\$ 14,765,790
Other current and noncurrent liabilities	19,595,557	20,879,414	23,226,144
	<u>31,146,544</u>	<u>34,539,569</u>	<u>37,991,934</u>
Net Position			
Net investment in capital assets	21,203,853	20,546,008	19,102,952
Restricted	4,000,000	-	-
Unrestricted	30,948,633	27,916,861	22,946,099
	<u>56,152,486</u>	<u>48,462,869</u>	<u>42,049,051</u>
Total liabilities and net position	<u>\$ 87,299,030</u>	<u>\$ 83,002,438</u>	<u>\$ 80,040,985</u>

A significant change in the Authority's assets in 2017 is the increase in cash and cash equivalents. The number of days of cash on hand at June 30, 2017, was 90 days compared to 58 days at June 30, 2016. This increase in cash and cash equivalents is largely attributable to the donations received from Saint Francis Health System, Inc., and Oklahoma State University (see *Note 13*).

A significant change in the Authority's assets in 2016 is the increase in other receivables. This increase is primarily due to a receivable related to state appropriations funding. Patient accounts receivable decreased by \$1,294,909 or 8% at June 30, 2016, compared to June 30, 2015, and days of net revenue in accounts receivable at June 30, 2016, was 38 days compared to 40 days at June 30, 2015.

Operating Results and Changes in the Authority's Net Position

In 2017, the Authority's net position increased by \$7,689,617 or 16% as shown in Table 2. This increase is made up of several different components and represents an improvement of 20% compared with the increase in net position for 2016 of \$6,413,818.

In 2016, the Authority's net position increased by \$6,413,818 or 15% as shown in Table 2. This increase is made up of several different components and represents a decline of 11% compared with the increase in net position for 2015 of \$7,205,556.

Table 2: Operating Results and Changes in Net Position

	2017	2016	2015
Operating Revenues			
Net patient service revenue	\$ 130,339,731	\$ 138,854,275	\$ 143,550,923
Other operating revenues	<u>3,636,872</u>	<u>4,074,796</u>	<u>6,422,743</u>
Total operating revenues	<u>133,976,603</u>	<u>142,929,071</u>	<u>149,973,666</u>
Operating Expenses			
Salaries, wages and employee benefits	75,416,304	76,499,774	76,936,106
Purchased services and professional fees	25,286,327	24,227,276	22,910,756
Supplies and other	35,934,170	35,531,929	38,181,575
Depreciation	<u>5,589,038</u>	<u>7,933,369</u>	<u>8,648,455</u>
Total operating expenses	<u>142,225,839</u>	<u>144,192,348</u>	<u>146,676,892</u>
Operating Income (Loss)	<u>(8,249,236)</u>	<u>(1,263,277)</u>	<u>3,296,774</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	4,805,957	2,751,417	2,637,745
State contract and grant revenue	18,965,541	16,764,524	12,270,020
Contribution expense	(11,365,200)	(11,963,214)	(10,560,494)
Investment income	27,289	28,692	4,062
Interest expense	<u>(494,734)</u>	<u>(622,073)</u>	<u>(654,341)</u>
Total nonoperating revenues (expenses)	<u>11,938,853</u>	<u>6,959,346</u>	<u>3,696,992</u>
Excess of Revenues over Expenses Before Capital Gifts and Grants	3,689,617	5,696,069	6,993,766
Capital Gifts and Grants	<u>4,000,000</u>	<u>717,749</u>	<u>211,790</u>
Change in Net Position	<u>\$ 7,689,617</u>	<u>\$ 6,413,818</u>	<u>\$ 7,205,556</u>

Operating Income (Loss)

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2017 and 2016, the Authority reported an operating loss as a result of a decrease in patient volumes. The Authority reported income from operations in 2015.

The operating loss for 2017 increased by \$6,985,959 or 553% as compared to the operating loss in 2016. The primary component of the increase in operating loss is:

- A decrease in net patient service revenue of \$8,514,544 or 6%

Net patient service revenue decreased principally from a decrease in patient volumes. Patient days decreased by 1,396 or 4% in 2017 compared to 2016 based on total patient days.

The operating loss for 2016 changed by \$4,560,051 or 138% as compared to the operating income in 2015. The primary component of the change from operating income to operating loss is:

- A decrease in net patient service revenue of \$4,696,648 or 3%

Net patient service revenue decreased principally from a decrease in patient volumes. Patient days decreased by 385 or 1% in 2016 compared to 2015 based on total patient days.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of state contract and grant revenue received by the Authority, noncapital grants and gifts, contribution expense associated with the state contract and grant revenue and interest expense, all of which were relatively consistent in 2017 and 2016 except for noncapital grants and gifts as well as state contract and grant revenue and contribution expense. The increase in 2017 related to noncapital grants and gifts is primarily due to donations received from Saint Francis Health System. The increases in 2017 and 2016 related to contract and grant revenue of approximately \$2,200,000 and \$4,495,000, respectively, are primarily due to receiving additional funds from the state for indirect and graduate medical education. In 2017, there was a decrease in contribution expense of approximately \$598,000 primarily due to a decline in the funding for a residency program in Lawton, Oklahoma. In 2016, there was an increase in contribution expense of approximately \$1,403,000 primarily due to the funding of a new residency program in Norman, Oklahoma.

Capital Gifts and Grants

The Authority receives capital gifts and grants from various sources. In 2017, the Authority received \$4,000,000 in capital gifts and grants compared to just \$717,749 in 2016.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2017 and 2016, discussed earlier, except for cash flows from capital and related financing activities.

Capital Assets and Debt Administration

Capital Assets

At the end of 2017 and 2016, the Authority had \$33,206,607 and \$35,474,611, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2017, the Authority purchased new capital assets costing approximately \$3,327,000. In 2016, the Authority purchased new capital assets costing approximately \$9,275,000, of which \$1,163,073 was financed through capital lease obligations.

Debt

At June 30, 2017 and 2016, the Authority had \$11,550,987 and \$13,660,155, respectively, in notes payable and capital lease obligations outstanding as detailed in *Note 6* to the financial statements. The Authority entered capital leases of \$1,163,073 in 2016. The Authority issued no other debt in 2017 or 2016.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's Business Administration by telephoning 918.599.5900.

Oklahoma State University Medical Authority

Balance Sheets

June 30, 2017 and 2016

Assets

	2017	2016
Current Assets		
Cash and cash equivalents	\$ 33,878,302	\$ 21,656,362
Patient accounts receivable, net of allowance; 2017 – \$21,014,000, 2016 – \$21,144,000	10,878,432	14,619,663
Other receivables	2,261,285	2,989,126
Supplies	3,738,080	4,761,469
Prepaid expenses and other	2,766,845	2,911,705
Due from related party	261,212	229,502
Total current assets	53,784,156	47,167,827
Capital Assets, Net	33,206,607	35,474,611
Other Assets	308,267	360,000
Total assets	\$ 87,299,030	\$ 83,002,438

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 2,203,998	\$ 2,147,534
Accounts payable	8,753,085	8,944,662
Accrued payroll and expenses	5,198,810	5,142,307
Accrued interest payable	253,921	300,172
Estimated amounts due to third-party payers	2,421,000	1,500,000
Total current liabilities	18,830,814	18,034,675
Long-Term Debt	9,346,989	11,512,621
Other Long-Term Liabilities	2,968,741	4,992,273
Total liabilities	31,146,544	34,539,569
Net Position		
Net investment in capital assets	21,203,853	20,546,008
Restricted – expendable		
Capital acquisitions	4,000,000	-
Unrestricted	30,948,633	27,916,861
Total net position	56,152,486	48,462,869
Total liabilities and net position	\$ 87,299,030	\$ 83,002,438

Oklahoma State University Medical Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – \$26,370,786, 2016 – \$7,109,199	\$ 130,339,731	\$ 138,854,275
Other	3,636,872	4,074,796
Total operating revenues	133,976,603	142,929,071
Operating Expenses		
Salaries and wages	61,518,904	62,323,946
Employee benefits	13,897,400	14,175,828
Purchased services and professional fees	25,286,327	24,227,276
Supplies and other expenses	35,934,170	35,531,929
Depreciation	5,589,038	7,933,369
Total operating expenses	142,225,839	144,192,348
Operating Loss	(8,249,236)	(1,263,277)
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	4,805,957	2,751,417
State contract and grant revenue	18,965,541	16,764,524
Contribution expense	(11,365,200)	(11,963,214)
Investment income	27,289	28,692
Interest expense	(494,734)	(622,073)
Total nonoperating revenues (expenses)	11,938,853	6,959,346
Excess of Revenues over Expenses Before Capital Gifts and Grants	3,689,617	5,696,069
Capital Gifts and Grants	4,000,000	717,749
Change in Net Position	7,689,617	6,413,818
Net Position, Beginning of Year	48,462,869	42,049,051
Net Position, End of Year	\$ 56,152,486	\$ 48,462,869

Oklahoma State University Medical Authority
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 135,001,962	\$ 139,336,576
Payments to suppliers and contractors	(61,500,437)	(61,414,380)
Payments to and on behalf of employees	(75,304,558)	(77,977,755)
Other receipts and payments, net	3,269,336	4,064,075
Net cash provided by operating activities	1,466,303	4,008,516
Noncapital Financing Activities		
Noncapital grants and gifts	4,805,957	2,751,417
State contract and grant revenue	20,035,173	14,299,238
Contribution expense	(11,365,200)	(11,963,214)
Net cash provided by noncapital financing activities	13,475,930	5,087,441
Capital and Related Financing Activities		
Principal paid on long-term debt	(2,109,168)	(2,268,708)
Interest paid on long-term debt	(540,985)	(648,114)
Purchase of capital assets	(4,097,429)	(7,325,116)
Proceeds from sale of equipment	-	616,432
Capital gifts and grants	4,000,000	717,749
Net cash used in capital and related financing activities	(2,747,582)	(8,907,757)
Investing Activities		
Investment income received	27,289	28,692
Net cash provided by investing activities	27,289	28,692
Increase in Cash and Cash Equivalents	12,221,940	216,892
Cash and Cash Equivalents, Beginning of Year	21,656,362	21,439,470
Cash and Cash Equivalents, End of Year	\$ 33,878,302	\$ 21,656,362

	<u>2017</u>	<u>2016</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (8,249,236)	\$ (1,263,277)
(Gain) loss on disposition of property and equipment	5,965	(372,992)
Depreciation	5,589,038	7,933,369
Provision for uncollectible accounts	26,370,786	7,109,199
Changes in operating assets and liabilities		
Patient accounts receivable	(22,629,555)	(5,814,290)
Other accounts receivable	(341,791)	376,487
Supplies and prepaid expenses	1,658,874	(954,975)
Due from related party	(31,710)	(14,216)
Estimated amounts due to third-party payers	921,000	(812,608)
Accounts payable and accrued expenses	<u>(1,827,068)</u>	<u>(2,178,181)</u>
Net cash provided by operating activities	<u>\$ 1,466,303</u>	<u>\$ 4,008,516</u>
Supplemental Cash Flows Information		
Financed insurance premiums	\$ 1,171,470	\$ 732,578
Capital assets in accounts payable	\$ 197,846	\$ 968,276
Capital lease obligations incurred for capital assets	\$ -	\$ 1,163,073

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

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.

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 Authority

Notes to Financial Statements

June 30, 2017 and 2016

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

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 or voluntary 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.

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, 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 in any of the three preceding years.

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. 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

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2017 and 2016

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 Contract and Grant Revenue and Matching Funds

The Authority received state contract revenue for the years ended June 30, 2017 and 2016, of approximately \$18,338,000 and \$16,203,000, respectively, 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 contract dollars, the Authority may send funds to the Oklahoma Health Care Authority or University Hospitals Authority to be matched with the majority of the funds then being paid to OSUMT and a portion paid to the Authority.

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2017 and 2016

Laws and regulations governing the programs supporting residency programs with federal matching funds are complex and subject to interpretation and change. As a result, it is reasonably possible that revenue received under these programs will change materially in the near term.

As discussed in *Note 1*, in relation to the Medical Center being acquired by the Trust effective May 1, 2009, from Ardent Medical Services, Inc., the Trust (now OSUMT) entered into an interlocal agreement with the Authority. The Authority has appropriated approximately \$7,000,000 and \$5,958,000 to OSUMT in accordance with the interlocal agreement for the years ended June 30, 2017 and 2016, respectively.

The Authority has designated the University to act as its fiscal agent for the purposes of providing fiscal, purchasing and accounting services.

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 Programs

The Electronic Health Records Incentive Programs, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provide 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 programs.

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 specific grant requirements applicable for the reporting period.

The Authority attested to meeting the fourth-year meaningful use requirements for Medicare during 2017. The Authority attested to meeting the third-year meaningful use requirements for Medicaid during 2016. As of June 30, 2017, the Authority has earned all of the incentive payments available under these programs other than retrospective adjustments.

The Authority recorded revenue of approximately \$390,000 and \$950,000 for 2017 and 2016, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Oklahoma State University Medical Authority
Notes to Financial Statements
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Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2020. The SHOPP 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.

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

	2017	2016
SHOPP funds recorded and received	\$ 14,784,000	\$ 11,173,000
SHOPP assessment fees recorded and paid	(3,288,000)	(3,342,000)
Net SHOPP benefit	<u>\$ 11,496,000</u>	<u>\$ 7,831,000</u>

The annual amounts to be received and paid by the Authority over the remaining term of the SHOPP 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 is not expected to be materially different than the amounts received in 2017.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. The reclassifications had no effect on the change in financial position.

Note 2: 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 the years ended June 30, 2016, to present have not been final settled as of June 30, 2017.

Oklahoma State University Medical Authority

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- **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.

Approximately 42% of gross patient service revenue is from participation in the Medicare program for the years ended June 30, 2017 and 2016. Approximately 21% of gross patient service revenue is from participation in the state-sponsored Medicaid program for the years ended June 30, 2017 and 2016.

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

The Authority’s 2016 net patient service revenue increased approximately \$2,200,000 due to removal of previously estimated amounts that are no longer necessary as a result of administrative contractor audits or final settlements.

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 \$7,000,000 and \$9,000,000 in 2017 and 2016, respectively, from the State’s 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 3: 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, 2017 and 2016, none of the Authority’s bank balances of approximately \$37,390,000 and \$20,392,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. These amounts include approximately \$4,698,000 and \$6,232,000 at June 30, 2017 and 2016, respectively, 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.

Oklahoma State University Medical Authority
Notes to Financial Statements
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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, 2017 and 2016.

Summary of Carrying Values

The carrying values of deposits as of June 30, 2017 and 2016, of \$33,878,302 and \$21,656,362, respectively, are included in the accompanying balance sheets as cash and cash equivalents.

Note 4: Patient Accounts Receivable

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

	2017	2016
Medicare	\$ 4,933,039	\$ 4,910,981
Medicaid	1,246,901	2,273,494
Other third-party payers and patients	25,712,492	28,579,188
	31,892,432	35,763,663
Less allowance for uncollectible accounts	21,014,000	21,144,000
	\$ 10,878,432	\$ 14,619,663

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	2,792,937	22,857	-	-	2,815,794
Buildings and leasehold improvements	18,894,969	613,413	-	1,962,063	21,470,445
Equipment	45,174,776	1,859,892	(95,597)	876,888	47,815,959
Construction in progress	2,128,993	830,837	-	(2,838,951)	120,879
	<u>68,991,775</u>	<u>3,326,999</u>	<u>(95,597)</u>	<u>-</u>	<u>72,223,177</u>
Less accumulated depreciation					
Land improvements	28,073	180,327	-	-	208,400
Buildings and leasehold improvements	3,842,497	1,187,933	-	-	5,030,430
Equipment	29,646,594	4,220,778	(89,632)	-	33,777,740
	<u>33,517,164</u>	<u>5,589,038</u>	<u>(89,632)</u>	<u>-</u>	<u>39,016,570</u>
Capital assets, net	<u>\$ 35,474,611</u>	<u>\$ (2,262,039)</u>	<u>\$ (5,965)</u>	<u>\$ -</u>	<u>\$ 33,206,607</u>
	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	1,650	-	-	2,791,287	2,792,937
Buildings and leasehold improvements	15,164,858	13,257	-	3,716,854	18,894,969
Equipment	41,870,082	1,184,675	(1,809,179)	3,929,198	45,174,776
Construction in progress	4,489,000	8,077,332	-	(10,437,339)	2,128,993
	<u>61,525,690</u>	<u>9,275,264</u>	<u>(1,809,179)</u>	<u>-</u>	<u>68,991,775</u>
Less accumulated depreciation					
Land improvements	183	27,890	-	-	28,073
Buildings and leasehold improvements	2,947,931	894,566	-	-	3,842,497
Equipment	24,201,420	7,010,913	(1,565,739)	-	29,646,594
	<u>27,149,534</u>	<u>7,933,369</u>	<u>(1,565,739)</u>	<u>-</u>	<u>33,517,164</u>
Capital assets, net	<u>\$ 34,376,156</u>	<u>\$ 1,341,895</u>	<u>\$ (243,440)</u>	<u>\$ -</u>	<u>\$ 35,474,611</u>

Oklahoma State University Medical Authority
Notes to Financial Statements
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Note 6: Long-Term Obligations

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

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	\$ 12,647,623	\$ -	\$ (1,881,277)	\$ 10,766,346	\$ 1,974,359
Capital lease obligations	1,012,532	-	(227,891)	784,641	229,639
Total long-term debt	13,660,155	-	(2,109,168)	11,550,987	2,203,998
Other long-term obligations	6,309,896	-	(1,567,962)	4,741,934	1,773,193
Total long-term obligations	<u>\$ 19,970,051</u>	<u>\$ -</u>	<u>\$ (3,677,130)</u>	<u>\$ 16,292,921</u>	<u>\$ 3,977,191</u>
	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	\$ 14,454,974	\$ -	\$ (1,807,351)	\$ 12,647,623	\$ 1,894,802
Capital lease obligations	310,816	1,163,073	(461,357)	1,012,532	252,732
Total long-term debt	14,765,790	1,163,073	(2,268,708)	13,660,155	2,147,534
Other long-term obligations	7,458,934	-	(1,149,038)	6,309,896	1,317,623
Total long-term obligations	<u>\$ 22,224,724</u>	<u>\$ 1,163,073</u>	<u>\$ (3,417,746)</u>	<u>\$ 19,970,051</u>	<u>\$ 3,465,157</u>

- (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*).

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

The debt service requirements as of June 30, 2017, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2018	\$ 2,425,145	\$ 1,974,359	\$ 450,786
2019	2,425,145	2,057,257	367,888
2020	2,425,145	2,143,635	281,510
2021	2,425,145	2,233,640	191,505
2022	2,455,176	2,357,455	97,721
	<u>\$ 12,155,756</u>	<u>\$ 10,766,346</u>	<u>\$ 1,389,410</u>

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, 2017 and 2016, totaled approximately \$1,163,000 and \$1,264,000, net of accumulated depreciation of approximately \$169,000 and \$93,000, respectively. At June 30, 2017, terms for all but one capital lease had ended. The following is a schedule by year of future minimum lease payments under the remaining capital lease, including interest at 4.44% together with the present value of the future minimum lease payments as of June 30, 2017:

Year Ending June 30,	
2018	\$ 259,501
2019	259,501
2020	259,501
2021	64,874
Total minimum lease payments	<u>843,377</u>
Less amount representing interest	<u>58,736</u>
Present value of future minimum lease payments	<u>\$ 784,641</u>

Other Long-Term Liabilities

Other long-term liabilities represent OSUMT's estimated liabilities related to litigation, including incurred but not reported claims, and an obligation to a third party 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 OSUMT's average borrowing rate of 4.25%.

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30 consisted of:

	2017	2016
Payable to suppliers and contractors	\$ 8,301,583	\$ 8,455,515
Payable to employees (including payroll taxes and benefits)	3,425,617	3,824,684
Payable to former owner	1,773,193	1,317,623
Payable to patients (including third-party payers)	451,502	489,147
	\$ 13,951,895	\$ 14,086,969

Note 8: 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 an estimated liability at June 30, 2017 and 2016, 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 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.

Prior to December 1, 2016, the Authority's charity care policy included a component related to presumptive charity care qualification based on various factors, including job status and resident status. The presumptive charity care policy allowed the Authority to more efficiently identify and record charity care services.

Beginning December 1, 2016, the Authority's charity care policy no longer includes a component related to presumptive charity care qualification. The current policy only permits application-based qualification.

The Authority has estimated the cost associated with uncompensated care to uninsured and charity care patients for the years ended June 30, 2017 and 2016, to be approximately \$6,105,000 and \$7,715,000, respectively.

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

The cost of uncompensated care is estimated based on the overall cost to charge ratios from the most recently filed 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 screenings 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 5.7% and 2.8% for 2017 and 5.9% and 2.8% for 2016, respectively. Contributions actually made by plan members and the Authority aggregated approximately \$1,498,000 and \$680,000 during 2017 and approximately \$1,553,000 and \$717,000 during 2016, respectively.

Note 11: 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, 2017 and 2016, 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.

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

Note 12: Contract Management Services

Effective October 1, 2016, OSUMT began to be operated by Saint Francis Health System, Inc. (Saint Francis) under a management contract. The contract is for a period of 10 years unless terminated by either party with at least 12 months of notice prior to termination. As part of the management contract, Saint Francis provides three executives serving the Authority on a dedicated, full-time basis who are responsible for operations, finance and nursing. The Authority reimburses Saint Francis for these three executives' salaries as well as any costs associated with any supplemental personnel and their expenses associated with the management contract. The management contract also includes a revenue-sharing calculation as part of the management fees to Saint Francis. Fees earned by Saint Francis for management services were approximately \$1,734,000 for the year ended June 30, 2017. At June 30, 2017, the Authority owed Saint Francis approximately \$1,931,000.

OSUMT was operated by Mercy Health Oklahoma Communities, Inc. (Mercy) under a management contract through September 30, 2016. Fees paid to Mercy for management services were approximately \$764,000 and \$2,012,000 for the years ended June 30, 2017 and 2016, respectively. At June 30, 2016, the Authority owed Mercy approximately \$276,000.

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 Authority in fiscal years 2017 and 2016.

Saint Francis

As part of its management contract with the Authority (see *Note 12*), Saint Francis donated \$2,000,000 to the Authority.

State of Oklahoma

The State provided OSUMT with approximately \$18,338,000 and \$16,203,000 in funds during the years ended June 30, 2017 and 2016, respectively, related to the UPL and graduate education programs. These state-operated programs include direct allocation of funds to the Authority in addition to statewide fund allocations.

The State also committed to 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 6*) secured by a lease agreement with the OSU Center for Health Sciences.

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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.

As part of the management contract with Saint Francis (see *Note 12*), the University donated \$4,000,000 to the Authority for use in funding future capital projects.

Oklahoma Tobacco Settlement Endowment Trust

In 2016, the Authority entered into a grant agreement with the Oklahoma Tobacco Settlement Endowment Trust (TSET) to support the Authority in implementing an Oklahoma hospital residency training program in various Oklahoma communities. The grant is for up to six years of funding. For the years ended June 30, 2017 and 2016, the Authority received approximately \$627,000 and \$562,000, respectively, under this grant agreement.

Note 14: Transactions with the Foundation for Oklahoma State University Medical Center (the Foundation)

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 Medical Center. The Foundation was incorporated on September 30, 2011.

During the years ended June 30, 2017 and 2016, the Authority recorded revenue of approximately \$305,000 and \$983,000, respectively, from the Foundation. The contributions are recorded on the accompanying statements of revenues, expenses and changes in net position as follows:

	2017	2016
Gifts to purchase capital assets and other capital grants	\$ -	\$ 717,749
Noncapital grants and gifts	305,117	99,802
Net patient service revenue	-	165,698
	\$ 305,117	\$ 983,249

The Foundation also received contributions from a local foundation and other charitable organizations in support of the Medical Center. At June 30, 2017 and 2016, the Foundation had net assets that were restricted for patient care or capital expenditures for the Authority of approximately \$729,000 and \$764,000, respectively.

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

Note 15: Transactions with OSU 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, 2017 and 2016, the Authority owed the OSU Center for Health Sciences approximately \$1,201,000 and \$1,248,000, respectively.

Note 16: Combining Unit Information

The following tables include condensed combining balance sheets information for the Authority and its component unit, OSUMT, as of June 30, 2017 and 2016:

	June 30, 2017			
	Authority	OSUMT	Eliminations	Combined Balance
Assets				
Current Assets	\$ 5,878,855	\$ 47,905,301	\$ -	\$ 53,784,156
Capital Assets, Net	-	33,206,607	-	33,206,607
Other Assets	-	308,267	-	308,267
Total assets	<u>\$ 5,878,855</u>	<u>\$ 81,420,175</u>	<u>\$ -</u>	<u>\$ 87,299,030</u>
Liabilities and Net Position				
Current Liabilities	\$ -	\$ 18,830,814	\$ -	\$ 18,830,814
Long-Term Liabilities	-	12,315,730	-	12,315,730
Total liabilities	-	31,146,544	-	31,146,544
Net Position	5,878,855	50,273,631	-	56,152,486
Total liabilities and net position	<u>\$ 5,878,855</u>	<u>\$ 81,420,175</u>	<u>\$ -</u>	<u>\$ 87,299,030</u>

Oklahoma State University Medical Authority
Notes to Financial Statements
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	June 30, 2016			
	Authority	OSUMT	Eliminations	Combined Balance
Assets				
Current Assets	\$ 9,862,955	\$ 41,804,872	\$ (4,500,000)	\$ 47,167,827
Capital Assets, Net	-	35,474,611	-	35,474,611
Other Assets	-	360,000	-	360,000
Total assets	\$ 9,862,955	\$ 77,639,483	\$ (4,500,000)	\$ 83,002,438
Liabilities and Net Position				
Current Liabilities	\$ 4,500,000	\$ 18,034,675	\$ (4,500,000)	\$ 18,034,675
Long-Term Liabilities	-	16,504,894	-	16,504,894
Total liabilities	4,500,000	34,539,569	(4,500,000)	34,539,569
Net Position	5,362,955	43,099,914	-	48,462,869
Total liabilities and net position	\$ 9,862,955	\$ 77,639,483	\$ (4,500,000)	\$ 83,002,438

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2017 and 2016

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Authority and its component unit, OSUMT, for the years ended June 30, 2017 and 2016:

	Year Ended June 30, 2017			Combined Balance
	Authority	OSUMT	Eliminations	
Operating Revenues	\$ -	\$ 140,976,603	\$ (7,000,000)	\$ 133,976,603
Operating Expenses	<u>84,441</u>	<u>142,141,398</u>	<u>-</u>	<u>142,225,839</u>
Operating Loss	(84,441)	(1,164,795)	(7,000,000)	(8,249,236)
Nonoperating Revenues (Expenses)	<u>600,341</u>	<u>4,338,512</u>	<u>7,000,000</u>	<u>11,938,853</u>
Excess of Revenues over Expenses Before Capital Gifts and Grants	515,900	3,173,717	-	3,689,617
Capital Gifts and Grants	<u>-</u>	<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>
Change in Net Position	515,900	7,173,717	-	7,689,617
Net Position, Beginning of Year	<u>5,362,955</u>	<u>43,099,914</u>	<u>-</u>	<u>48,462,869</u>
Net Position, End of Year	<u>\$ 5,878,855</u>	<u>\$ 50,273,631</u>	<u>\$ -</u>	<u>\$ 56,152,486</u>

Oklahoma State University Medical Authority
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	Year Ended June 30, 2016			Combined Balance
	Authority	OSUMT	Eliminations	
Operating Revenues	\$ -	\$ 148,887,381	\$ (5,958,310)	\$ 142,929,071
Operating Expenses	<u>76,436</u>	<u>144,115,912</u>	<u>-</u>	<u>144,192,348</u>
Operating Income (Loss)	(76,436)	4,771,469	(5,958,310)	(1,263,277)
Nonoperating Revenues (Expenses)	<u>(1,157,000)</u>	<u>2,158,036</u>	<u>5,958,310</u>	<u>6,959,346</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Grants	(1,233,436)	6,929,505	-	5,696,069
Capital Gifts and Grants	<u>-</u>	<u>717,749</u>	<u>-</u>	<u>717,749</u>
Change in Net Position	(1,233,436)	7,647,254	-	6,413,818
Net Position, Beginning of Year	<u>6,596,391</u>	<u>35,452,660</u>	<u>-</u>	<u>42,049,051</u>
Net Position, End of Year	<u>\$ 5,362,955</u>	<u>\$ 43,099,914</u>	<u>\$ -</u>	<u>\$ 48,462,869</u>

Oklahoma State University Medical Authority
Notes to Financial Statements
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The following tables include condensed combining statements of cash flows information for the Authority and its component unit, OSUMT, for the years ended June 30, 2017 and 2016:

	Year Ended June 30, 2017			Combined Balance
	Authority	OSUMT	Eliminations	
Net Cash Provided by (Used in) Operating Activities	\$ (2,566,636)	\$ 4,032,939	\$ -	\$ 1,466,303
Net Cash Provided by Noncapital Financing Activities	-	13,475,930	-	13,475,930
Net Cash Used in Capital and Related Financing Activities	-	(2,747,582)	-	(2,747,582)
Net Cash Provided by Investing Activities	-	27,289	-	27,289
Change in Cash and Cash Equivalents	(2,566,636)	14,788,576	-	12,221,940
Cash and Cash Equivalents, Beginning of Year	7,265,123	14,391,239	-	21,656,362
Cash and Cash Equivalents, End of Year	<u>\$ 4,698,487</u>	<u>\$ 29,179,815</u>	<u>\$ -</u>	<u>\$ 33,878,302</u>

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2017 and 2016

	Year Ended June 30, 2016			Combined Balance
	Authority	OSUMT	Eliminations	
Net Cash Provided by (Used in) Operating Activities	\$ (240,426)	\$ 4,248,942	\$ -	\$ 4,008,516
Net Cash Provided by Noncapital Financing Activities	-	5,087,441	-	5,087,441
Net Cash Used in Capital and Related Financing Activities	-	(8,907,757)	-	(8,907,757)
Net Cash Provided by Investing Activities	-	28,692	-	28,692
Change in Cash and Cash Equivalents	(240,426)	457,318	-	216,892
Cash and Cash Equivalents, Beginning of Year	7,505,549	13,933,921	-	21,439,470
Cash and Cash Equivalents, End of Year	\$ 7,265,123	\$ 14,391,239	\$ -	\$ 21,656,362

**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, 2017, 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 financial statements, and have issued our report thereon dated October 26, 2017.

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 of the financial statements, 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.

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 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Oklahoma State University Medical Authority

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*.

We noted certain matters that we reported to the Authority's management in a separate letter dated October 26, 2017.

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
October 26, 2017