

Oklahoma State University Medical Authority

Independent Auditor's Reports and Financial Statements

June 30, 2018 and 2017



Oklahoma State University Medical Authority
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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, as 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 18, 2018, 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 solely 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 effectiveness of the Authority's 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 18, 2018

Oklahoma State University Medical Authority

Management's Discussion and Analysis

Years Ended June 30, 2018 and 2017

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, 2018 and 2017. 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 \$10,333,134 or 18% in 2018 over 2017 and by \$7,689,617 or 16% in 2017 over 2016 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2018	2017	2016
Assets			
Cash and cash equivalents	\$ 47,627,433	\$ 33,878,302	\$ 21,656,362
Patient accounts receivable, net	10,363,280	10,878,432	14,619,663
Other receivables	1,067,733	2,261,285	2,989,126
Other current assets	6,158,958	6,504,925	7,673,174
Due from related party	-	261,212	229,502
Capital assets, net	32,032,248	33,206,607	35,474,611
Other assets	353,699	308,267	360,000
	<u>\$ 97,603,351</u>	<u>\$ 87,299,030</u>	<u>\$ 83,002,438</u>
Liabilities			
Long-term debt (including current portion)	\$ 9,293,373	\$ 11,550,987	\$ 13,660,155
Other current and noncurrent liabilities	21,824,358	19,595,557	20,879,414
	<u>31,117,731</u>	<u>31,146,544</u>	<u>34,539,569</u>
Net Position			
Net investment in capital assets	21,711,466	21,203,853	20,546,008
Restricted	-	4,000,000	-
Unrestricted	44,774,154	30,948,633	27,916,861
	<u>66,485,620</u>	<u>56,152,486</u>	<u>48,462,869</u>
Total liabilities and net position	<u>\$ 97,603,351</u>	<u>\$ 87,299,030</u>	<u>\$ 83,002,438</u>

A significant change in the Authority's assets in 2018 is the increase in cash and cash equivalents. The number of days of cash on hand at June 30, 2018, was 134 days compared to 90 days at June 30, 2017. This increase in cash and cash equivalents is largely attributable to improved operating performance.

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. (SFHS) and Oklahoma State University (see *Note 13*).

Operating Results and Changes in the Authority's Net Position

In 2018, the Authority's net position increased by \$10,333,134 or 18% as shown in Table 2. This increase is made up of several different components and represents an improvement of 34% compared with the increase in net position for 2017 of \$7,689,617.

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.

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue	\$ 134,964,551	\$ 130,339,731	\$ 138,854,275
Other operating revenues	<u>2,628,793</u>	<u>3,636,872</u>	<u>4,074,796</u>
Total operating revenues	<u>137,593,344</u>	<u>133,976,603</u>	<u>142,929,071</u>
Operating Expenses			
Salaries, wages and employee benefits	71,480,661	75,416,304	76,499,774
Purchased services and professional fees	23,432,489	25,286,327	24,227,276
Supplies and other	34,773,911	35,934,170	35,531,929
Depreciation	<u>4,850,174</u>	<u>5,589,038</u>	<u>7,933,369</u>
Total operating expenses	<u>134,537,235</u>	<u>142,225,839</u>	<u>144,192,348</u>
Operating Income (Loss)	<u>3,056,109</u>	<u>(8,249,236)</u>	<u>(1,263,277)</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	2,927,360	4,805,957	2,751,417
State contract and grant revenue	12,819,451	18,965,541	16,764,524
Contribution expense	(8,144,192)	(11,365,200)	(11,963,214)
Investment income	38,418	27,289	28,692
Interest expense	<u>(364,012)</u>	<u>(494,734)</u>	<u>(622,073)</u>
Total nonoperating revenues (expenses)	<u>7,277,025</u>	<u>11,938,853</u>	<u>6,959,346</u>
Excess of Revenues over Expenses Before Capital Gifts and Grants	10,333,134	3,689,617	5,696,069
Capital Gifts and Grants	<u>-</u>	<u>4,000,000</u>	<u>717,749</u>
Change in Net Position	<u>\$ 10,333,134</u>	<u>\$ 7,689,617</u>	<u>\$ 6,413,818</u>

Operating Income (Loss)

The first component of the overall change in the Authority's net position is its operating income or loss. The operating income or loss is the difference between total operating revenue (patient-driven and other) and total operating expenses. The Authority reported income from operations in 2018. In 2017 and 2016, the Authority reported an operating loss, primarily as a result of a decrease in patient volumes.

The operating income for 2018 changed by \$11,305,345 or 137% as compared to the operating loss in 2017. The primary component of the change from operating loss to operating income is a decrease in operating expenses of \$7,688,604 or 5%.

Operating expenses decreased due to continued efforts to manage operating costs in 2018 compared to 2017.

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 due to a decrease in patient volumes. Patient days decreased by 1,396 or 4% in 2017 compared to 2016 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. Nonoperating revenues and expenses decreased in 2018 by \$4,780,807 or 40%. The decrease in 2018 related to noncapital grants and gifts is due to a one-time \$2,000,000 donation received from SFHS in fiscal year 2017. The cash donation represented 50% of the total committed cash donation SFHS agreed upon at the execution of the management agreement. The remaining 50% of the original donation commitment was applied in fiscal year 2018 by a reduction in the EBITDA share agreement paid by the Authority to SFHS in the amount of \$2,000,000. In 2018, there was a decrease in state contract and grant revenue of approximately \$6,146,000 or 32%, which is primarily due to a decrease in state funding. In 2017, there was an increase in state contract and grant revenue of approximately \$2,200,000 or 13%, which is primarily due to receiving additional funds from the state for indirect and graduate medical education. In 2018, there was a decrease in contribution expense of approximately \$3,221,000, which is primarily due to a decrease in state funding. In 2017, there was a decrease in contribution expense of approximately \$598,000 primarily due to a decline in the funding of a residency program in Lawton, Oklahoma.

Capital Gifts and Grants

The Authority receives capital gifts and grants from various sources. In 2018, the Authority received \$0 in capital gifts and grants compared to \$4,000,000 in 2017.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating performance and nonoperating revenues and expenses for 2018 and 2017, discussed earlier, except for cash flows from capital and related financing activities.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018 and 2017, the Authority had \$32,032,248 and \$33,206,607, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2018, the Authority purchased new capital assets costing approximately \$3,676,000, none of which were financed through capital lease obligations. In 2017, the Authority purchased new capital assets costing approximately \$3,327,000.

Debt

At June 30, 2018 and 2017, the Authority had \$9,293,373 and \$11,550,987, respectively, in notes payable and capital lease obligations outstanding as detailed in *Note 6* to the financial statements. The Authority issued no debt in 2018 or 2017.

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, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 47,627,433	\$ 33,878,302
Patient accounts receivable, net of allowance; 2018 – \$21,701,000, 2017 – \$21,014,000	10,363,280	10,878,432
Other receivables	1,067,733	2,261,285
Supplies	3,545,001	3,738,080
Prepaid expenses and other	2,613,957	2,766,845
Due from related party	-	261,212
	65,217,404	53,784,156
Total current assets		
Capital Assets, Net	32,032,248	33,206,607
Other Assets	353,699	308,267
Total assets	\$ 97,603,351	\$ 87,299,030

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 2,297,183	\$ 2,203,998
Accounts payable	13,701,377	8,753,085
Accrued payroll and expenses	5,147,157	5,198,810
Accrued interest payable	207,136	253,921
Estimated amounts due to third-party payers	1,766,714	2,421,000
	23,119,567	18,830,814
Total current liabilities		
Long-Term Debt	6,996,190	9,346,989
Other Long-Term Liabilities	1,001,974	2,968,741
Total liabilities	31,117,731	31,146,544
Net Position		
Net investment in capital assets	21,711,466	21,203,853
Restricted – expendable		
Capital acquisitions	-	4,000,000
Unrestricted	44,774,154	30,948,633
	66,485,620	56,152,486
Total net position		
Total liabilities and net position	\$ 97,603,351	\$ 87,299,030

Oklahoma State University Medical Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$39,870,009, 2017 – \$26,370,786	\$ 134,964,551	\$ 130,339,731
Other	2,628,793	3,636,872
Total operating revenues	137,593,344	133,976,603
Operating Expenses		
Salaries and wages	58,950,905	61,518,904
Employee benefits	12,529,756	13,897,400
Purchased services and professional fees	23,432,489	25,286,327
Supplies and other	34,773,911	35,934,170
Depreciation	4,850,174	5,589,038
Total operating expenses	134,537,235	142,225,839
Operating Income (Loss)	3,056,109	(8,249,236)
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	2,927,360	4,805,957
State contract and grant revenue	12,819,451	18,965,541
Contribution expense	(8,144,192)	(11,365,200)
Investment income	38,418	27,289
Interest expense	(364,012)	(494,734)
Total nonoperating revenues (expenses)	7,277,025	11,938,853
Excess of Revenues over Expenses Before Capital Gifts and Grants	10,333,134	3,689,617
Capital Gifts and Grants	-	4,000,000
Change in Net Position	10,333,134	7,689,617
Net Position, Beginning of Year	56,152,486	48,462,869
Net Position, End of Year	\$ 66,485,620	\$ 56,152,486

Oklahoma State University Medical Authority
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 134,825,417	\$ 135,001,962
Payments to suppliers and contractors	(55,364,668)	(61,500,437)
Payments to and on behalf of employees	(71,540,220)	(75,304,558)
Other receipts and payments, net	<u>3,022,168</u>	<u>3,269,336</u>
Net cash provided by operating activities	<u>10,942,697</u>	<u>1,466,303</u>
Noncapital Financing Activities		
Noncapital grants and gifts	2,927,360	4,805,957
State contract and grant revenue	13,880,840	20,035,173
Contribution expense	<u>(8,144,192)</u>	<u>(11,365,200)</u>
Net cash provided by noncapital financing activities	<u>8,664,008</u>	<u>13,475,930</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(2,257,614)	(2,109,168)
Interest paid on long-term debt	(410,797)	(540,985)
Purchase of capital assets	(3,227,581)	(4,097,429)
Capital gifts and grants	<u>-</u>	<u>4,000,000</u>
Net cash used in capital and related financing activities	<u>(5,895,992)</u>	<u>(2,747,582)</u>
Investing Activities		
Investment income	<u>38,418</u>	<u>27,289</u>
Net cash provided by investing activities	<u>38,418</u>	<u>27,289</u>
Increase in Cash and Cash Equivalents	13,749,131	12,221,940
Cash and Cash Equivalents, Beginning of Year	<u>33,878,302</u>	<u>21,656,362</u>
Cash and Cash Equivalents, End of Year	<u>\$ 47,627,433</u>	<u>\$ 33,878,302</u>

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by		
Operating Activities		
Operating income (loss)	\$ 3,056,109	\$ (8,249,236)
Loss on disposition of property and equipment	-	5,965
Depreciation	4,850,174	5,589,038
Provision for uncollectible accounts	39,870,009	26,370,786
Changes in operating assets and liabilities		
Patient accounts receivable	(39,354,857)	(22,629,555)
Other accounts receivable	132,163	(341,791)
Supplies and prepaid expenses	313,218	1,658,874
Due from related party	261,212	(31,710)
Estimated amounts due to/from third-party payers	(654,286)	921,000
Accounts payable and accrued expenses	<u>2,468,955</u>	<u>(1,827,068)</u>
Net cash provided by operating activities	<u>\$ 10,942,697</u>	<u>\$ 1,466,303</u>
Supplemental Cash Flows Information		
Financed insurance premiums	\$ 1,184,153	\$ 1,171,470
Capital assets in accounts payable	\$ 646,080	\$ 197,846

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2018 and 2017

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 was the sole corporate member of OPS, and OPS was included as a blended component unit of the Trust.

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, 2018 and 2017

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 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's real property between the Authority and OSUMT
- Merge the operations of the Trust with OSUMT

Through December 6, 2013, operating the Medical Center was the primary operation 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, 2018 and 2017

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018 and 2017, 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, 2018 and 2017

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 and 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 expendable 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, 2018 and 2017, of approximately \$12,581,000 and \$18,338,000, 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 being paid to OSUMT and a portion being paid to the Authority.

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2018 and 2017

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 \$3,898,000 and \$7,000,000 to OSUMT in accordance with the interlocal agreement for the years ended June 30, 2018 and 2017, 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's 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 Medicaid during 2017. As of June 30, 2017, the Authority had earned all of the incentive payments available under these programs other than retrospective adjustments.

The Authority recorded revenue of approximately \$0 and \$390,000 for 2018 and 2017, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position. The EHR Incentive Programs ended in fiscal year 2017.

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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 that 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:

	2018	2017
SHOPP funds recorded and received	\$ 14,700,868	\$ 12,207,854
SHOPP assessment fees recorded and paid	(3,490,675)	(3,462,479)
Net SHOPP benefit	<u>\$ 11,210,193</u>	<u>\$ 8,745,375</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 could be materially different from the amounts received in 2018.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 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 Medicare cost reports have been final settled by the Medicare administrative contractor through June 30, 2015.

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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 43% and 42% of gross patient service revenue is from participation in the Medicare program for the years ended June 30, 2018 and 2017, respectively. Approximately 20% and 21% of gross patient service revenue is from participation in the state-sponsored Medicaid program for the years ended June 30, 2018 and 2017, respectively.

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 2018 net patient service revenue increased approximately \$654,000 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 \$2,900,000 and \$7,000,000 in 2018 and 2017, 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, 2018 and 2017, none of the Authority’s bank balances of approximately \$48,627,000 and \$37,390,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. These amounts include approximately \$6,492,000 and \$4,698,000 at June 30, 2018 and 2017, 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.

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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, 2018 and 2017.

Summary of Carrying Values

The carrying values of deposits as of June 30, 2018 and 2017, of \$47,627,433 and \$33,878,302, 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:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 3,868,341	\$ 4,933,039
Medicaid	1,144,557	1,246,901
Other third-party payers and patients	<u>27,051,382</u>	<u>25,712,492</u>
	32,064,280	31,892,432
Less allowance for uncollectible accounts	<u>21,701,000</u>	<u>21,014,000</u>
	<u>\$ 10,363,280</u>	<u>\$ 10,878,432</u>

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Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	2,815,794	1,400	-	-	2,817,194
Buildings and leasehold improvements	21,470,445	115,488	(25,501)	67,783	21,628,215
Equipment	47,815,959	1,913,502	(740,719)	11,311	49,000,053
Construction in progress	120,879	1,645,425	-	(79,094)	1,687,210
	<u>72,223,177</u>	<u>3,675,815</u>	<u>(766,220)</u>	<u>-</u>	<u>75,132,772</u>
Less accumulated depreciation					
Land improvements	208,400	181,762	-	-	390,162
Buildings and leasehold improvements	5,030,430	1,236,647	(91,699)	-	6,175,378
Equipment	<u>33,777,740</u>	<u>3,431,765</u>	<u>(674,521)</u>	<u>-</u>	<u>36,534,984</u>
	<u>39,016,570</u>	<u>4,850,174</u>	<u>(766,220)</u>	<u>-</u>	<u>43,100,524</u>
Capital assets, net	<u>\$ 33,206,607</u>	<u>\$ (1,174,359)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,032,248</u>
	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	<u>29,646,594</u>	<u>4,220,778</u>	<u>(89,632)</u>	<u>-</u>	<u>33,777,740</u>
	<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>

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:

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	\$ 10,766,346	\$ -	\$ (2,027,975)	\$ 8,738,371	\$ 2,057,257
Capital lease obligations	784,641	-	(229,639)	555,002	239,926
Total long-term debt	11,550,987	-	(2,257,614)	9,293,373	2,297,183
Other long-term obligations	4,741,934	-	(1,929,934)	2,812,000	1,810,026
Total long-term obligations	<u>\$ 16,292,921</u>	<u>\$ -</u>	<u>\$ (4,187,548)</u>	<u>\$ 12,105,373</u>	<u>\$ 4,107,209</u>
	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>

- (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 guaranteed by a certain lease agreement with the University (see *Note 13*).

The debt service requirements as of June 30, 2018, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	2,401,060	2,303,839	97,221
	<u>\$ 9,676,495</u>	<u>\$ 8,738,371</u>	<u>\$ 938,124</u>

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Notes to Financial Statements
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Capital Lease Obligations

The Authority is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at June 30, 2018 and 2017, totaled approximately \$1,163,000, net of accumulated depreciation of approximately \$265,000 and \$169,000, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at 1.87%, together with the present value of the future minimum lease payments as of June 30, 2018:

	Year Ending June 30,	
2019		\$ 259,501
2020		259,501
2021		64,875
Total minimum lease payments		583,877
Less amount representing interest		28,875
Present value of future minimum lease payments		\$ 555,002

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 4.12%.

Note 7: Accounts Payable and Accrued Expenses

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

	2018	2017
Payable to suppliers and contractors	\$ 13,274,030	\$ 8,301,583
Payable to employees (including payroll taxes and benefits)	3,337,131	3,425,617
Payable to former owner	1,810,026	1,773,193
Payable to patients (including third-party payers)	427,347	451,502
	\$ 18,848,534	\$ 13,951,895

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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, 2018 and 2017, 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: Charity 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 that 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, 2018 and 2017, to be approximately \$1,115,000 and \$5,990,000, respectively.

The cost of charity care is estimated based on the overall cost to charge ratios from the most recently filed Medicare cost report. In addition to uncompensated costs, the Authority also commits significant time and resources to endeavors and critical services that 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.

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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 6.1% and 2.9% for 2018 and 5.7% and 2.8% for 2017, respectively. Contributions actually made by plan members and the Authority aggregated approximately \$1,275,000 and \$595,000 during 2018 and approximately \$1,498,000 and \$680,000 during 2017, 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, 2018 and 2017, 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 12: Contract Management Services

Effective October 1, 2016, OSUMT began to be operated by Saint Francis Health System, Inc. (SFHS) 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, SFHS provides three executives serving the Authority on a dedicated, full-time basis who are responsible for operations, finance and nursing. The Authority reimburses SFHS 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 SFHS. Fees earned by SFHS for management services were approximately \$4,887,000 and \$1,734,000 for the years ended June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, the Authority owed SFHS approximately \$4,214,000 and \$1,931,000, respectively.

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 for the year ended June 30, 2017.

Oklahoma State University Medical Authority
Notes to Financial Statements
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Note 13: Community Support

In connection with the creation of the Trust (now OSUMT), 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 2018 and 2017.

Saint Francis Health System, Inc.

As part of its management contract with the Authority (see *Note 12*), SFHS committed to a \$4,000,000 donation to the Authority to be paid over two years. In fiscal year 2017, SFHS gave a cash donation of \$2,000,000. In fiscal year 2018, rather than a cash payment, the EBITDA share agreement between SFHS and the Authority was reduced by \$2,000,000 to account for the final donation commitment.

State of Oklahoma

The State provided the Authority with approximately \$12,581,000 and \$18,338,000 in funds during the years ended June 30, 2018 and 2017, 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.

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 SFHS (see *Note 12*), the University donated \$0 and \$4,000,000 to the Authority for use in funding future capital projects in fiscal years 2018 and 2017, respectively.

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, 2018 and 2017, the Authority received approximately \$238,000 and \$627,000, respectively, under this grant agreement.

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Notes to Financial Statements
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Note 14: Transactions with the Foundation for Oklahoma State University Medical Center

The Foundation for Oklahoma State University Medical Center (the Foundation) was a nonprofit corporation whose mission and principal activities were 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, and dissolved on June 30, 2018.

During the years ended June 30, 2018 and 2017, the Authority recorded revenue of approximately \$408,000 and \$305,000, respectively, from the Foundation. The contributions are recorded on the accompanying statements of revenues, expenses and changes in net position as noncapital grants and gifts.

The Foundation also received contributions from a local foundation and other charitable organizations in support of the Medical Center. At June 30, 2018 and 2017, the Foundation had net assets that were restricted for patient care or capital expenditures for the Authority of approximately \$0 and \$729,000, respectively.

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, 2018 and 2017, the Authority owed the OSU Center for Health Sciences approximately \$3,484,000 and \$1,201,000, respectively.

Note 16: Combining Unit Information

The following tables include combining balance sheet information for the Authority and its component unit, OSUMT, as of June 30, 2018 and 2017.

Oklahoma State University Medical Authority
Notes to Financial Statements
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	2018			Combined Balance
	Authority	OSUMT	Eliminations	
Assets				
Current Assets				
Cash and cash equivalents	\$ 6,491,877	\$ 41,135,556	\$ -	\$ 47,627,433
Patient accounts receivable, net	-	10,363,280	-	10,363,280
Other receivables	118,979	948,754	-	1,067,733
Supplies	-	3,545,001	-	3,545,001
Prepaid expenses and other	-	2,613,957	-	2,613,957
Total current assets	6,610,856	58,606,548	-	65,217,404
Capital Assets, Net	-	32,032,248	-	32,032,248
Other Assets	-	353,699	-	353,699
Total assets	<u>\$ 6,610,856</u>	<u>\$ 90,992,495</u>	<u>\$ -</u>	<u>\$ 97,603,351</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ -	\$ 2,297,183	\$ -	\$ 2,297,183
Accounts payable	-	13,701,377	-	13,701,377
Accrued payroll and expenses	-	5,147,157	-	5,147,157
Accrued interest payable	-	207,136	-	207,136
Estimated amounts due to third-party payers	-	1,766,714	-	1,766,714
Total current liabilities	-	23,119,567	-	23,119,567
Long-Term Debt	-	6,996,190	-	6,996,190
Other Long-Term Liabilities	-	1,001,974	-	1,001,974
Total liabilities	-	31,117,731	-	31,117,731
Net Position				
Net investment in capital assets	-	21,711,466	-	21,711,466
Unrestricted	6,610,856	38,163,298	-	44,774,154
Total net position	6,610,856	59,874,764	-	66,485,620
Total liabilities and net position	<u>\$ 6,610,856</u>	<u>\$ 90,992,495</u>	<u>\$ -</u>	<u>\$ 97,603,351</u>

Oklahoma State University Medical Authority
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	2017			
	Authority	OSUMT	Eliminations	Combined Balance
Assets				
Current Assets				
Cash and cash equivalents	\$ 4,698,487	\$ 29,179,815	\$ -	\$ 33,878,302
Patient accounts receivable, net	-	10,878,432	-	10,878,432
Other receivables	1,180,368	1,080,917	-	2,261,285
Supplies	-	3,738,080	-	3,738,080
Prepaid expenses and other	-	2,766,845	-	2,766,845
Due from related party	-	261,212	-	261,212
Total 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				
Current maturities of long-term debt	\$ -	\$ 2,203,998	\$ -	\$ 2,203,998
Accounts payable	-	8,753,085	-	8,753,085
Accrued payroll and expenses	-	5,198,810	-	5,198,810
Accrued interest payable	-	253,921	-	253,921
Estimated amounts due to third-party payers	-	2,421,000	-	2,421,000
Total current liabilities	-	18,830,814	-	18,830,814
Long-Term Debt	-	9,346,989	-	9,346,989
Other Long-Term Liabilities	-	2,968,741	-	2,968,741
Total liabilities	-	31,146,544	-	31,146,544
Net Position				
Net investment in capital assets	-	21,203,853	-	21,203,853
Restricted – expendable				
Capital acquisitions	-	4,000,000	-	4,000,000
Unrestricted	5,878,855	25,069,778	-	30,948,633
Total 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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The following tables include 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:

	2018			Combined Balance
	Authority	OSUMT	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ -	\$ 138,862,640	\$ (3,898,089)	\$ 134,964,551
Other	-	2,628,793	-	2,628,793
Total operating revenues	-	141,491,433	(3,898,089)	137,593,344
Operating Expenses				
Salaries and wages	-	58,950,905	-	58,950,905
Employee benefits	-	12,529,756	-	12,529,756
Purchased services and professional fees	38,500	23,393,989	-	23,432,489
Supplies and other	6,669	28,684,326	-	28,690,995
Rental expense	-	2,054,326	-	2,054,326
Repairs and maintenance	-	4,028,590	-	4,028,590
Depreciation	-	4,850,174	-	4,850,174
Total operating expenses	45,169	134,492,066	-	134,537,235
Operating Income (Loss)	(45,169)	6,999,367	(3,898,089)	3,056,109
Nonoperating Revenues (Expenses)				
Noncapital grants and gifts	-	2,927,360	-	2,927,360
State contract and grant revenue	12,819,451	-	-	12,819,451
Contribution expense	(8,144,192)	-	-	(8,144,192)
Support to the Authority	(3,898,089)	-	3,898,089	-
Investment income	-	38,418	-	38,418
Interest expense	-	(364,012)	-	(364,012)
Total nonoperating revenues (expenses)	777,170	2,601,766	3,898,089	7,277,025
Excess of Revenues over Expenses and Change in Net Position	\$ 732,001	\$ 9,601,133	\$ -	\$ 10,333,134

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2018 and 2017

	2017			
	Authority	OSUMT	Eliminations	Combined Balance
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ -	\$ 137,339,731	\$ (7,000,000)	\$ 130,339,731
Other	-	3,636,872	-	3,636,872
Total operating revenues	-	140,976,603	(7,000,000)	133,976,603
Operating Expenses				
Salaries and wages	-	61,518,904	-	61,518,904
Employee benefits	-	13,897,400	-	13,897,400
Purchased services and professional fees	64,062	25,222,265	-	25,286,327
Supplies and other	20,379	30,080,345	-	30,100,724
Rental expense	-	2,099,644	-	2,099,644
Repairs and maintenance	-	3,733,802	-	3,733,802
Depreciation	-	5,589,038	-	5,589,038
Total operating expenses	84,441	142,141,398	-	142,225,839
Operating Loss	(84,441)	(1,164,795)	(7,000,000)	(8,249,236)
Nonoperating Revenues (Expenses)				
Noncapital grants and gifts	-	4,805,957	-	4,805,957
State contract and grant revenue	18,965,541	-	-	18,965,541
Contribution expense	(11,365,200)	-	-	(11,365,200)
Support to the Authority	(7,000,000)	-	7,000,000	-
Investment income	-	27,289	-	27,289
Interest expense	-	(494,734)	-	(494,734)
Total nonoperating revenues (expenses)	600,341	4,338,512	7,000,000	11,938,853
Excess of Revenues over Expenses Before Capital Gifts and Grants	515,900	3,173,717	-	3,689,617
Capital Gifts and Grants	-	4,000,000	-	4,000,000
Change in Net Position	\$ 515,900	\$ 7,173,717	\$ -	\$ 7,689,617

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2018 and 2017

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:

	2018			Combined Balance
	Authority	OSUMT	Eliminations	
Net Cash Provided by Operating Activities	\$ 1,793,390	\$ 9,149,307	\$ -	\$ 10,942,697
Net Cash Provided by Noncapital Financing Activities	-	8,664,008	-	8,664,008
Net Cash Used in Capital and Related Financing Activities	-	(5,895,992)	-	(5,895,992)
Net Cash Provided by Investing Activities	-	38,418	-	38,418
Change in Cash and Cash Equivalents	1,793,390	11,955,741	-	13,749,131
Cash and Cash Equivalents, Beginning of Year	4,698,487	29,179,815	-	33,878,302
Cash and Cash Equivalents, End of Year	<u>\$ 6,491,877</u>	<u>\$ 41,135,556</u>	<u>\$ -</u>	<u>\$ 47,627,433</u>

	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>

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

Independent Auditor's Report

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, 2018, 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 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (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 from 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*.

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 18, 2018