

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2019 and 2018



Oklahoma State University Medical Authority
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June 30, 2019 and 2018

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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), a component unit of the State of Oklahoma, as of and for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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 30, 2019, 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 30, 2019

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Management’s Discussion and Analysis
Years Ended June 30, 2019 and 2018

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, 2019 and 2018. This management’s discussion and analysis should be read in conjunction with the accompanying financial statements of the Authority. The Authority is considered a nonmajor component unit of the State of Oklahoma.

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 \$7,769,335 or 12% in 2019 over 2018 and increased by \$10,333,134 or 18% in 2018 over 2017 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2019	2018	2017
Assets			
Cash and cash equivalents	\$ 32,147,054	\$ 47,627,433	\$ 33,878,302
Short-term investments	10,082,114	-	-
Patient accounts receivable, net	11,443,032	10,363,280	10,878,432
Other receivables	939,113	1,067,733	2,261,285
Other current assets	6,506,841	6,158,958	6,504,925
Due from related party	-	-	261,212
Capital assets, net	39,500,561	32,032,248	33,206,607
Other assets	283,226	353,699	308,267
	<u>\$ 100,901,941</u>	<u>\$ 97,603,351</u>	<u>\$ 87,299,030</u>
Liabilities			
Long-term debt (including current portion)	\$ 7,077,273	\$ 9,293,373	\$ 11,550,987
Other current and noncurrent liabilities	19,569,713	21,824,358	19,595,557
	<u>26,646,986</u>	<u>31,117,731</u>	<u>31,146,544</u>
Net Position			
Net investment in capital assets	29,746,024	21,711,466	21,203,853
Restricted	-	-	4,000,000
Unrestricted	44,508,931	44,774,154	30,948,633
	<u>74,254,955</u>	<u>66,485,620</u>	<u>56,152,486</u>
	<u>\$ 100,901,941</u>	<u>\$ 97,603,351</u>	<u>\$ 87,299,030</u>

Significant changes in the Authority's assets in 2019 are the decrease in cash and cash equivalents and the addition of short-term investments. Short-term investments increased from \$0 to \$10,082,114 in 2019. Days cash on hand at June 30, 2019, was 118 days compared to 134 days at June 30, 2018, due to the use of cash to purchase capital assets.

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

Operating Results and Changes in the Authority's Net Position

In 2019, the Authority's net position increased by \$7,769,335 or 12% as shown in Table 2. This increase is made up of several different components and represents a decline of 25% compared with the increase in net position for 2018 of \$10,333,134.

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.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	\$ 130,558,943	\$ 134,964,551	\$ 130,339,731
Other operating revenues	<u>3,287,810</u>	<u>2,628,793</u>	<u>3,636,872</u>
Total operating revenues	<u>133,846,753</u>	<u>137,593,344</u>	<u>133,976,603</u>
Operating Expenses			
Salaries, wages and employee benefits	72,016,371	71,480,661	75,416,304
Purchased services and professional fees	25,615,038	23,432,489	25,286,327
Supplies and other	33,320,467	34,773,911	35,934,170
Depreciation	<u>4,621,936</u>	<u>4,850,174</u>	<u>5,589,038</u>
Total operating expenses	<u>135,573,812</u>	<u>134,537,235</u>	<u>142,225,839</u>
Operating Income (Loss)	<u>(1,727,059)</u>	<u>3,056,109</u>	<u>(8,249,236)</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	2,634,327	2,927,360	4,805,957
State contract and grant revenue	14,342,432	12,819,451	18,965,541
Contribution expense	(7,743,881)	(8,144,192)	(11,365,200)
Investment income	575,929	38,418	27,289
Interest expense	<u>(312,413)</u>	<u>(364,012)</u>	<u>(494,734)</u>
Total nonoperating revenues (expenses)	<u>9,496,394</u>	<u>7,277,025</u>	<u>11,938,853</u>
Excess of Revenues over Expenses Before Capital Gifts and Grants	7,769,335	10,333,134	3,689,617
Capital Gifts and Grants	<u>-</u>	<u>-</u>	<u>4,000,000</u>
Increase in Net Position	<u>\$ 7,769,335</u>	<u>\$ 10,333,134</u>	<u>\$ 7,689,617</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 2019 and 2017, the Authority reported an operating loss, primarily as a result of a decrease in patient volumes.

The operating results for 2019 decreased by \$4,783,168 or 157% as compared to the operating results in 2018. The primary component of the change from operating income to operating loss is a decrease in net patient service revenue of \$4,405,608 or 3%.

Operating expenses increased in 2019 due primarily to an increase in purchased services and professional fees of \$2,182,549 or 9% as compared to 2018.

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

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 income and expense. Nonoperating revenues and expenses increased in 2019 by \$2,219,369 or 31%. In 2019, there was an increase in state contract and grant revenue of \$1,522,981 or 12%, which is primarily due to an increase in state funding. Nonoperating revenues and expenses decreased in 2018 by \$4,661,828 or 39%. The decrease in 2018 related to noncapital grants and gifts is due to a one-time \$2,000,000 donation received from Saint Francis Health System (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.

Capital Gifts and Grants

The Authority receives capital gifts and grants from various sources. The Authority did not receive any capital gifts or grants during 2019 and 2018.

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 2019 and 2018, discussed earlier, except for cash flows from capital and related financing activities and investing activities.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2019 and 2018, the Authority had \$39,500,561 and \$32,032,248, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2019, the Authority purchased new capital assets costing approximately \$12,142,000, none of which were financed through capital lease obligations. In 2018, the Authority purchased new capital assets costing approximately \$3,676,000.

Debt

At June 30, 2019 and 2018, the Authority had \$7,077,273 and \$9,293,373, respectively, in notes payable and capital lease obligations outstanding as detailed in *Note 6* to the financial statements. The Authority issued no debt in 2019 or 2018.

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
A Component Unit of the State of Oklahoma
Balance Sheets
June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	\$ 32,147,054	\$ 47,627,433
Short-term investments	10,082,114	-
Patient accounts receivable, net of allowance; 2019 – \$20,242,000, 2018 – \$21,701,000	11,443,032	10,363,280
Other receivables	939,113	1,067,733
Supplies	3,306,065	3,545,001
Prepaid expenses and other	3,200,776	2,613,957
Total current assets	61,118,154	65,217,404
Capital Assets, Net	39,500,561	32,032,248
Other Assets	283,226	353,699
Total assets	\$ 100,901,941	\$ 97,603,351

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 2,394,308	\$ 2,297,183
Accounts payable	14,636,746	13,701,377
Accrued expenses	4,169,673	5,147,157
Accrued interest payable	157,466	207,136
Estimated amounts due to third-party payors	300,000	1,766,714
Total current liabilities	21,658,193	23,119,567
Long-Term Debt	4,682,965	6,996,190
Other Long-Term Liabilities	305,828	1,001,974
Total liabilities	26,646,986	31,117,731
Net Position		
Net investment in capital assets	29,746,024	21,711,466
Unrestricted	44,508,931	44,774,154
Total net position	74,254,955	66,485,620
Total liabilities and net position	\$ 100,901,941	\$ 97,603,351

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$40,283,137, 2018 – \$39,870,009	\$ 130,558,943	\$ 134,964,551
Other	3,287,810	2,628,793
	<u>133,846,753</u>	<u>137,593,344</u>
Operating Expenses		
Salaries and wages	60,345,915	58,950,905
Employee benefits	11,670,456	12,529,756
Purchased services and professional fees	25,615,038	23,432,489
Supplies and other	33,320,467	34,773,911
Depreciation	4,621,936	4,850,174
	<u>135,573,812</u>	<u>134,537,235</u>
	<u>(1,727,059)</u>	<u>3,056,109</u>
Operating Income (Loss)		
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	2,634,327	2,927,360
State contract and grant revenue	14,342,432	12,819,451
Contribution expense	(7,743,881)	(8,144,192)
Investment income	575,929	38,418
Interest expense	(312,413)	(364,012)
	<u>9,496,394</u>	<u>7,277,025</u>
	<u>7,769,335</u>	<u>10,333,134</u>
Increase in Net Position		
	<u>66,485,620</u>	<u>56,152,486</u>
Net Position, Beginning of Year		
	<u>\$ 74,254,955</u>	<u>\$ 66,485,620</u>
Net Position, End of Year		

Oklahoma State University Medical Authority
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Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 128,012,477	\$ 134,825,417
Payments to suppliers and contractors	(60,738,216)	(55,364,668)
Payments to and on behalf of employees	(73,103,049)	(71,540,220)
Other receipts and payments, net	3,349,148	3,022,168
Net cash provided by (used in) operating activities	(2,479,640)	10,942,697
Noncapital Financing Activities		
Noncapital grants and gifts	2,634,327	2,927,360
State contract and grant revenue	14,461,411	13,880,840
Contribution expense	(7,743,881)	(8,144,192)
Net cash provided by noncapital financing activities	9,351,857	8,664,008
Capital and Related Financing Activities		
Principal paid on long-term debt	(2,216,100)	(2,257,614)
Interest paid on long-term debt	(362,083)	(410,797)
Purchase of capital assets	(10,268,228)	(3,227,581)
Net cash used in capital and related financing activities	(12,846,411)	(5,895,992)
Investing Activities		
Purchases of short-term investments	(35,000,000)	-
Sale of short-term investments	25,000,000	-
Investment income	493,815	38,418
Net cash provided by (used in) investing activities	(9,506,185)	38,418
Change in Cash and Cash Equivalents	(15,480,379)	13,749,131
Cash and Cash Equivalents, Beginning of Year	47,627,433	33,878,302
Cash and Cash Equivalents, End of Year	\$ 32,147,054	\$ 47,627,433

See Notes to Financial Statements

	2019	2018
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities		
Operating income (loss)	\$ (1,727,059)	\$ 3,056,109
Loss on disposition of property and equipment	51,697	-
Depreciation	4,621,936	4,850,174
Provision for uncollectible accounts	40,283,137	39,870,009
Changes in operating assets and liabilities		
Patient accounts receivable	(41,362,889)	(39,354,857)
Other accounts receivable	9,641	132,163
Supplies and prepaid expenses	(277,410)	300,535
Due from related party	-	261,212
Estimated amounts due to/from third-party payors	(1,466,714)	(654,286)
Accounts payable and accrued expenses	(2,611,979)	2,481,638
	<u>\$ (2,479,640)</u>	<u>\$ 10,942,697</u>
Supplemental Cash Flows Information		
Capital assets in accounts payable	\$ 2,519,798	\$ 646,080

Oklahoma State University Medical Authority
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Notes to Financial Statements
June 30, 2019 and 2018

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 Center for Health Sciences physician trainers. The Authority is a nonmajor component unit of the State of Oklahoma.

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.

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
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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.

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Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts and certificates of deposit.

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.

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. 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 payors, 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 payors 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

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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

The Authority capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing.

Capital Asset Impairment

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

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 payors 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 payors 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

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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, 2019 and 2018, of approximately \$14,342,000 and \$12,581,000, 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.

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 earlier 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 \$6,242,000 and \$3,898,000 to OSUMT in accordance with the interlocal agreement for the years ended June 30, 2019 and 2018, 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.

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare & Medicaid Services approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2025. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee that will be placed in pools after receiving federal matching

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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:

	2019	2018
SHOPP funds recorded and received	\$ 11,274,064	\$ 14,700,868
SHOPP assessment fees recorded and paid	(3,281,748)	(3,490,675)
Net SHOPP benefit	\$ 7,992,316	\$ 11,210,193

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 2019.

Revisions

Certain immaterial revisions have been made to 2018 disclosures to properly classify prior year capital asset balances and other disclosure items. These revisions did not have a significant impact on the disclosure or financial statement line items impacted.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payors 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, 2017.
- **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

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adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 42% and 43% of gross patient service revenue is from participation in the Medicare program for the years ended June 30, 2019 and 2018, respectively. Approximately 20% of gross patient service revenue is from participation in the state-sponsored Medicaid program for the years ended June 30, 2019 and 2018.

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 2019 and 2018 net patient service revenue increased approximately \$1,406,000 and \$654,000, respectively, 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 \$4,600,000 and \$2,900,000 in 2019 and 2018, 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

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, 2019 and 2018, none of the Authority's bank balances of approximately \$45,005,000 and \$48,627,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. These amounts include approximately \$6,947,000 and \$6,492,000 at June 30, 2019 and 2018, 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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Summary of Carrying Values

The carrying values of deposits are included in the accompanying balance sheets as follows:

	2019	2018
Carrying value		
Deposits	\$ 42,224,418	\$ 47,623,533
Cash on hand	4,750	3,900
	\$ 42,229,168	\$ 47,627,433
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 32,147,054	\$ 47,627,433
Short-term investments	10,082,114	-
	\$ 42,229,168	\$ 47,627,433

Investment Income

Investment income for the years ended June 30, 2019 and 2018, consisted of interest income on cash balances and certificates of deposit of \$575,929 and \$38,418, respectively.

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 payor agreements. Patient accounts receivable at June 30 consisted of:

	2019	2018
Medicare	\$ 3,011,887	\$ 3,868,341
Medicaid	1,672,626	1,144,557
Other third-party payors and patients	27,000,519	27,051,382
	31,685,032	32,064,280
Less allowance for uncollectible accounts	20,242,000	21,701,000
	\$ 11,443,032	\$ 10,363,280

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Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	2,817,194	7,475	-	-	2,824,669
Buildings and leasehold improvements	23,913,908	217,611	-	5,624,502	29,756,021
Equipment	46,714,360	2,326,967	(281,450)	1,513,365	50,273,242
Construction in progress	1,687,210	9,589,893	-	(7,137,867)	4,139,236
	<u>75,132,772</u>	<u>12,141,946</u>	<u>(281,450)</u>	<u>-</u>	<u>86,993,268</u>
Less accumulated depreciation					
Land improvements	390,162	179,333	-	-	569,495
Buildings and leasehold improvements	7,730,447	1,369,991	-	-	9,100,438
Equipment	34,979,915	3,072,612	(229,753)	-	37,822,774
	<u>43,100,524</u>	<u>4,621,936</u>	<u>(229,753)</u>	<u>-</u>	<u>47,492,707</u>
Capital assets, net	<u>\$ 32,032,248</u>	<u>\$ 7,520,010</u>	<u>\$ (51,697)</u>	<u>\$ -</u>	<u>\$ 39,500,561</u>
	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	2,815,794	1,400	-	-	2,817,194
Buildings and leasehold improvements	23,756,138	115,488	(25,501)	67,783	23,913,908
Equipment	45,530,266	1,913,502	(740,719)	11,311	46,714,360
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	6,524,698	1,297,448	(91,699)	-	7,730,447
Equipment	32,283,472	3,370,964	(674,521)	-	34,979,915
	<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>

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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:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	\$ 8,738,371	\$ -	\$ (1,976,174)	\$ 6,762,197	\$ 2,143,635
Capital lease obligations	<u>555,002</u>	<u>-</u>	<u>(239,926)</u>	<u>315,076</u>	<u>250,673</u>
Total long-term debt	9,293,373	-	(2,216,100)	7,077,273	2,394,308
Other long-term obligations	<u>2,812,000</u>	<u>-</u>	<u>(1,872,721)</u>	<u>939,279</u>	<u>633,451</u>
Total long-term obligations	<u>\$ 12,105,373</u>	<u>\$ -</u>	<u>\$ (4,088,821)</u>	<u>\$ 8,016,552</u>	<u>\$ 3,027,759</u>

	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	<u>784,641</u>	<u>-</u>	<u>(229,639)</u>	<u>555,002</u>	<u>239,926</u>
Total long-term debt	11,550,987	-	(2,257,614)	9,293,373	2,297,183
Other long-term obligations	<u>4,741,934</u>	<u>-</u>	<u>(1,929,934)</u>	<u>2,812,000</u>	<u>1,810,026</u>
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>

- (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 note contains provisions that in the event of default outstanding amounts become immediately due and payable and the interest rate increases to 8.12%.

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The debt service requirements as of June 30, 2019, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2020	\$ 2,425,145	\$ 2,143,635	\$ 281,510
2021	2,425,145	2,233,640	191,505
2022	<u>2,482,643</u>	<u>2,384,922</u>	<u>97,721</u>
	<u>\$ 7,332,933</u>	<u>\$ 6,762,197</u>	<u>\$ 570,736</u>

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, 2019 and 2018, totaled approximately \$1,163,000, net of accumulated depreciation of approximately \$362,000 and \$265,000, 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, 2019:

Year Ending June 30,	
2020	\$ 259,501
2021	<u>64,875</u>
Total minimum lease payments	324,376
Less amount representing interest	<u>9,300</u>
Present value of future minimum lease payments	<u>\$ 315,076</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 4.12%.

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Note 7: Accounts Payable and Accrued Expenses

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

	2019	2018
Payable to suppliers and contractors	\$ 14,217,893	\$ 13,274,030
Payable to employees (including payroll taxes and benefits)	3,536,222	3,337,131
Payable to former owner	633,451	1,810,026
Payable to patients (including third-party payors)	418,853	427,347
	\$ 18,806,419	\$ 18,848,534

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, 2019 and 2018, 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: Services to the Community

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.

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The Authority provides a discount to uninsured patients. Effective July 1, 2018, this discount is considered charity care under the Authority's policy.

The Authority has estimated the cost associated with uncompensated care to uninsured and charity care patients for the years ended June 30, 2019 and 2018, to be approximately \$7,305,000 and \$1,046,000, respectively. The change in 2019 is primarily attributable to the charity care policy changes described above.

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.

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 2019 and 6.1% and 2.9% for 2018, respectively. Contributions actually made by plan members and the Authority aggregated approximately \$1,409,000 and \$679,000 during 2019 and approximately \$1,275,000 and \$595,000 during 2018, respectively.

Note 11: Contingencies

Litigation

The Authority is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by 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. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets, the statements of revenues, expenses and changes in net position and cash flows of the Authority. Events could occur that would change this estimate materially in the near term.

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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, including reimbursement of executive salaries, were approximately \$8,038,000 and \$4,887,000 for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, the Authority owed SFHS approximately \$7,045,000 and \$4,214,000, respectively.

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 community support received by the Authority in fiscal years 2019 and 2018.

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 \$14,342,000 and \$12,581,000 in funds during the years ended June 30, 2019 and 2018, 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

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has entered into an Academic Affiliation Agreement and a lease agreement with the Authority that provides for annual funding to the Authority of \$2,500,000 if certain events occur. This annual funding will continue until the retiring of the note payable to bank discussed in *Note 6*.

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, 2019 and 2018, the Authority received approximately \$0 and \$238,000, respectively, under this grant agreement.

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

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 its employees for these functions. At June 30, 2019 and 2018, the Authority owed the OSU Center for Health Sciences approximately \$942,000 and \$3,484,000, 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, 2019 and 2018.

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	2019			Combined Balance
	Authority	OSUMT	Eliminations	
Assets				
Current Assets				
Cash and cash equivalents	\$ 6,947,213	\$ 25,199,841	\$ -	\$ 32,147,054
Short-term investments	-	10,082,114	-	10,082,114
Patient accounts receivable, net	-	11,443,032	-	11,443,032
Other receivables	-	939,113	-	939,113
Supplies	-	3,306,065	-	3,306,065
Prepaid expenses and other	-	3,200,776	-	3,200,776
Total current assets	6,947,213	54,170,941	-	61,118,154
Capital Assets, Net	-	39,500,561	-	39,500,561
Other Assets	-	283,226	-	283,226
Total assets	<u>\$ 6,947,213</u>	<u>\$ 93,954,728</u>	<u>\$ -</u>	<u>\$ 100,901,941</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ -	\$ 2,394,308	\$ -	\$ 2,394,308
Accounts payable	37,683	14,599,063	-	14,636,746
Accrued expenses	-	4,169,673	-	4,169,673
Accrued interest payable	-	157,466	-	157,466
Estimated amounts due to third-party payors	-	300,000	-	300,000
Total current liabilities	37,683	21,620,510	-	21,658,193
Long-Term Debt	-	4,682,965	-	4,682,965
Other Long-Term Liabilities	-	305,828	-	305,828
Total liabilities	<u>37,683</u>	<u>26,609,303</u>	<u>-</u>	<u>26,646,986</u>
Net Position				
Net investment in capital assets	-	29,746,024	-	29,746,024
Unrestricted	6,909,530	37,599,401	-	44,508,931
Total net position	<u>6,909,530</u>	<u>67,345,425</u>	<u>-</u>	<u>74,254,955</u>
Total liabilities and net position	<u>\$ 6,947,213</u>	<u>\$ 93,954,728</u>	<u>\$ -</u>	<u>\$ 100,901,941</u>

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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 expenses	-	5,147,157	-	5,147,157
Accrued interest payable	-	207,136	-	207,136
Estimated amounts due to third-party payors	-	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>

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

	2019			Combined Balance
	Authority	OSUMT	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ -	\$ 136,801,085	\$ (6,242,142)	\$ 130,558,943
Other	-	3,287,810	-	3,287,810
Total operating revenues	<u>-</u>	<u>140,088,895</u>	<u>(6,242,142)</u>	<u>133,846,753</u>
Operating Expenses				
Salaries and wages	-	60,345,915	-	60,345,915
Employee benefits	-	11,670,456	-	11,670,456
Purchased services and professional fees	-	25,615,038	-	25,615,038
Supplies and other	57,735	27,117,803	-	27,175,538
Rental expense	-	2,073,662	-	2,073,662
Repairs and maintenance	-	4,071,267	-	4,071,267
Depreciation	-	4,621,936	-	4,621,936
Total operating expenses	<u>57,735</u>	<u>135,516,077</u>	<u>-</u>	<u>135,573,812</u>
Operating Income (Loss)	<u>(57,735)</u>	<u>4,572,818</u>	<u>(6,242,142)</u>	<u>(1,727,059)</u>
Nonoperating Revenues (Expenses)				
Noncapital grants and gifts	-	2,634,327	-	2,634,327
State contract and grant revenue	14,342,432	-	-	14,342,432
Contribution expense	(7,743,881)	-	-	(7,743,881)
Support to OSUMT	(6,242,142)	-	6,242,142	-
Investment income	-	575,929	-	575,929
Interest expense	-	(312,413)	-	(312,413)
Total nonoperating revenues (expenses)	<u>356,409</u>	<u>2,897,843</u>	<u>6,242,142</u>	<u>9,496,394</u>
Increase in Net Position	<u>\$ 298,674</u>	<u>\$ 7,470,661</u>	<u>\$ -</u>	<u>\$ 7,769,335</u>

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2019 and 2018

	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 OSUMT	(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
Increase in Net Position	\$ 732,001	\$ 9,601,133	\$ -	\$ 10,333,134

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2019 and 2018

The following tables include condensed combining statement of cash flows information for the Authority and its component unit, OSUMT, for the years ended June 30:

	2019			Combined Balance
	Authority	OSUMT	Eliminations	
Net Cash Provided By (Used in) Operating Activities	\$ 455,336	\$ (2,934,976)	\$ -	\$ (2,479,640)
Net Cash Provided by Noncapital Financing Activities	-	9,351,857	-	9,351,857
Net Cash Used in Capital and Related Financing Activities	-	(12,846,411)	-	(12,846,411)
Net Cash Used in Investing Activities	<u>-</u>	<u>(9,506,185)</u>	<u>-</u>	<u>(9,506,185)</u>
Change in Cash and Cash Equivalents	455,336	(15,935,715)	-	(15,480,379)
Cash and Cash Equivalents, Beginning of Year	<u>6,491,877</u>	<u>41,135,556</u>	<u>-</u>	<u>47,627,433</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,947,213</u>	<u>\$ 25,199,841</u>	<u>\$ -</u>	<u>\$ 32,147,054</u>

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2019 and 2018

	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 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>

**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), a component unit of the State of Oklahoma, which comprise the balance sheet as of June 30, 2019, 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 30, 2019.

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 30, 2019