Oklahoma State University Medical Center Trust

A Component Unit of the City of Tulsa, Oklahoma

Auditor's Reports and Financial Statements

June 30, 2013 and 2012

BKD LLP

CPAs & Advisors

Oklahoma State University Medical Center Trust
A Component Unit of the City of Tulsa, Oklahoma
June 30, 2013 and 2012

Contents

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Independent Auditor's Report

Board of Trustees
Oklahoma State University Medical Center Trust
Tulsa, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Oklahoma State University Medical Center Trust (the Trust), a component unit of the City of Tulsa, Oklahoma, which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 respective financial position of Oklahoma State University Medical Center Trust as of June 30, 2013 and 2012, 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.

Emphasis of Matters

As discussed in *Note 2* to the financial statements, in 2013, the reporting entity changed to exclude the Foundation for Oklahoma State University Medical Center, as part of the combined financial statements as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34.*

In 2013, the Trust also implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The effect of this new accounting guidance is discussed in *Note 2*.

Our opinion is not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, 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 audits 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 August 19, 2014, on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
August 19, 2014

Oklahoma State University Medical Center Trust
A Component Unit of the City of Tulsa, Oklahoma
Management's Discussion and Analysis
Years Ended June 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Oklahoma State University Medical Center Trust (the Trust) provides an overview of the Trust's financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Trust.

Financial Highlights

- Unrestricted cash and cash equivalents decreased in 2013 by $11,169,724 or 41% and in 2012 by $10,403,098 or 27%.
- Patient accounts receivable increased in 2013 by $1,760,752 or 14% and by $2,852,739 or 29% in 2012.
- Other receivables decreased by $9,606,301 or 90% in 2013 compared to 2012 and increased by $8,003,319 or 299% in 2012 compared to 2011.
- Capital assets, net of accumulated depreciation increased in 2013 by $5,276,399 or 14% and by $18,884,448 or 106% in 2012.
- The Trust reported an operating loss of $28,501,068 in 2013 and an operating loss of $6,947,508 in 2012. The operating results in 2013 decreased by $21,553,560 over the operating loss reported in 2012.

Using This Annual Report

The Trust's financial statements consist of three statements—balance sheets; statements of revenues, expenses and changes in net position; and statements of cash flows. These statements provide information about the activities of the Trust, including resources held by the Trust but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Trust 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 Sheets and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any organization's finances is, "Is the organization as a whole better or worse off as a result of the year's activities?" The balance sheets and the statements of revenues, expenses and changes in net position report information about the Trust'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 Trust's net position and changes in them. The Trust's total net position—the difference between assets and liabilities—is one measure of the Trust's financial health or financial position. Over time, increases or decreases in the Trust's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Trust'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 Trust.

The Statements of Cash Flows

The statements of cash flows report 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 Trust's Net Position

The Trust's net position is the difference between its assets and liabilities reported in the balance sheet. The Trust's net position decreased by $21,831,607 or 36% in 2013 over 2012 and decreased by $731,810 or 1% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012 (Restated – *Note 2*)	2011 (Restated – *Note 2*)
Assets			
Cash and cash equivalents	$ 16,373,392	$ 27,543,116	$ 37,946,214
Patient accounts receivable, net	14,338,458	12,577,706	9,724,967
Other receivables	1,069,314	10,675,615	2,672,296
Other current assets	10,636,186	10,535,770	9,212,986
Capital assets, net	41,960,154	36,683,755	17,799,307
Other noncurrent assets	1,500	1,500	22,449,547
Total assets	$ 84,379,004	$ 98,017,462	$ 99,805,317
Liabilities			
Long-term debt (including current portion)	$ 20,054,214	$ 22,578,889	$ 24,945,509
Due to related party	2,779,191	291,862	-
Other current and noncurrent liabilities	23,377,440	15,146,945	14,128,232
Total liabilities	46,210,845	38,017,696	39,073,741
Net Position			
Net investment in capital assets	21,175,171	11,135,141	13,801,180
Restricted	1,290,284	293,689	-
Unrestricted	15,702,704	48,570,936	46,930,396
Total net position	38,168,159	59,999,766	60,731,576
Total liabilities and net position	$ 84,379,004	$ 98,017,462	$ 99,805,317

A significant change in the Trust's assets in 2013 is the decrease in cash and cash equivalents. This decrease was primarily due to cash used for operating activities, capital purchases associated with plant renovation, information system replacement project and electronic health record implementation, as discussed in the *Capital Assets* section below, and an increase in days revenue in accounts receivable. Days of net revenue in patient accounts receivable increased to 53 days at June 30, 2013, compared to 46 days at June 30, 2012. The days revenue calculation has been adjusted to exclude revenues related to the state of Oklahoma's Upper Payment Limit (UPL) and Supplemental Hospital Offset Payment Program (SHOPP) of approximately $17,765,000 and $17,413,000 in 2013 and 2012, respectively. The increase in patient accounts receivable was primarily attributable to the implementation of a new electronic health record system and conversion of the billing and charge capture software effective March 1, 2013. Another significant change in the Trust's financial position in 2013 includes the decrease in other current assets, which is due primarily to the timing of receipt of the state UPL funding of $9,000,000 related to fiscal year 2012.

A significant change in the Trust's assets in 2012 is the decrease in cash and cash equivalents. This decrease was primarily due to cash used for operating activities, capital purchases associated with the planned plant renovation and acquisition of new equipment, as discussed in the *Capital Assets* section below, and an increase in days revenue in accounts receivable. Days of net revenue in patient accounts receivable increased to 46 days at June 30, 2012, compared to 38 days at June 30, 2011. The days revenue calculation has been adjusted to exclude revenues related to the state of Oklahoma's UPL and SHOPP programs of approximately $17,413,000 and $34,424,000 in 2012 and 2011, respectively. The increase in patient accounts receivable was primarily attributable to the expansion or addition of new service lines. Another significant change in the Trust's financial position in 2012 includes the increase in other current assets, which is due primarily to the timing of receipt of the state UPL funding of $9,000,000 for 2012 occurring after June 30, 2012.

Operating Results and Changes in the Hospital's Net Position

In 2013, the Trust's net position decreased by $21,831,607, which represents a 36% decrease from 2012. In 2012, the Trust's net position decreased by $731,810, which was a 1% decrease.

Table 2: Operating Results and Changes in Net Position

	2013	2012 (Restated – *Note 2*)	2011 (Restated – *Note 2*)
Operating Revenues			
Net patient service revenue	$ 115,990,609	$ 117,890,351	$ 126,816,740
Other operating revenues	6,742,447	5,025,965	5,844,825
Total operating revenues	122,733,056	122,916,316	132,661,565
Operating Expenses			
Salaries, wages and employee benefits	75,611,722	70,899,888	63,006,147
Purchased services and professional fees	24,906,764	18,504,956	19,818,050
Supplies and other	45,118,786	37,614,884	29,876,282
Depreciation and amortization	5,596,852	2,844,096	1,348,376
Total operating expenses	151,234,124	129,863,824	114,048,855
Operating Income (Loss)	(28,501,068)	(6,947,508)	18,612,710
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	7,282,980	6,711,633	5,053,709
Investment income	50,422	73,779	143,925
Interest expense	(902,811)	(685,174)	(1,207,671)
Total nonoperating revenues (expenses)	6,430,591	6,100,238	3,989,963
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Grants	(22,070,477)	(847,270)	22,602,673
Gifts to Purchase Capital Assets and Other Capital Grants	238,870	-	1,436,377
Increase (Decrease) in Net Position	$ (21,831,607)	$ (847,270)	$ 24,039,050

Operating Income (Loss)

The first component of the overall change in the Trust's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2010 and 2011, the Trust reported operating income, largely the result of funding from contributions and enhanced funding from the federal matching of state contributions related to the Medicaid program. The Trust reported a loss from operations in 2013 and 2012.

The operating loss for 2013 represents a $21,553,560 decrease compared to 2012. The primary component of the decreased operating results was the increase in operating expenses of $21,370,300 compared to 2012.

Salaries, wages and employee benefits increased in 2013 by approximately 7%. This growth is primarily attributable to physician recruitment efforts, expansion of the residency program and annual merit increases.

Purchased services and professional fees increased in 2013 by $6,401,808 or 35% due to the contracted management services beginning in October 2012, electronic health record implementation and information system replacement training and support services as well as additional medical providers on a contracted basis.

The operating loss for 2012 represents a $25,560,218 or 137% decrease compared to 2011. The primary component of the decreased operating results was the reduction in net patient service revenue of $8,926,389 or 7% due to a decrease in UPL funds, which decreased to $9,000,000 in 2012 from $34,400,000 in 2011. The UPL decrease was partially offset by an increase in another state program and net patient service revenue. The SHOPP provided funding of $8,413,000 in 2012 compared to $0 in 2011, and there was an increase in net patient service revenue associated with new or expanded services, specifically surgery and interventional radiology.

Salaries, wages and employee benefits increased in 2012 by approximately 13%. This growth is primarily attributable to physician recruitment efforts, expansion of the residency program and annual merit increases.

Supplies and other expenses increased in 2012 by $7,738,602 or 26% due to the implementation of the SHOPP by the State of Oklahoma (see *Note 1*) as well as increases in patient chargeable supplies and drugs associated with the new and expanded service lines.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital grants and gifts, investment income and interest expense. Noncapital grants and gifts increased in 2013 by $571,347 related to a gift for operating expenses. See *Note 13* for additional information related to this community support. Interest expense increased in 2013 by $217,637 or 32% compared to 2012 and decreased by $522,497 or 43% in 2012 compared to 2011 due to the capitalization of interest on the construction projects during fiscal year 2012.

The Trust’s Cash Flows

Changes in the Trust’s cash flows are consistent with changes in operating loss and nonoperating revenues and expenses for 2013 and 2012, discussed earlier. The largest impact on the reduction of net cash provided by operating activities in 2013 as compared to 2012 relates to the timing of the receipt of the fiscal year 2012 UPL funding of $9,000,000 from the State of Oklahoma, as mentioned earlier. The increase in 2013 in other receipts and payments, net, is primarily related to the receipt of approximately $1,187,000 under the Medicaid electronic health records incentive program and the increase of approximately $2,349,000 due to related party for funds received by the Trust but payable to the Foundation for Oklahoma State University Medical Center.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013 and 2012, the Trust had $41,960,154 and $36,683,755, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2013, the Trust purchased new equipment and construction in progress, including plant renovation, an electronic health records system and an information system replacement project, which cost $10,895,041. In 2012, the Trust purchased new equipment and construction, which cost $21,728,544. $84,000 of the 2012 additions were acquired through equipment capital lease obligations.

Debt

As detailed in *Note 8*, at June 30, 2013 and 2012, the Trust had $20,054,214 and $22,578,889, respectively, in notes payable and capital lease obligations outstanding. The Trust issued new debt of $84,000 in 2012.

Other Items

As discussed in *Note 2*, the reporting entity changed in 2013 due to the implementation of GASB Statement No. 61. Also, as discussed in *Note 17*, subsequent to year-end, operations of the Trust were transferred to the Oklahoma State University Medical Authority and entered into a new management agreement.

Contacting the Trust's Financial Management

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

Oklahoma State University Medical Center Trust
A Component Unit of the City of Tulsa, Oklahoma
Balance Sheets
June 30, 2013 and 2012

Assets

	2013	2012 (Restated – *Note 2*)
Current Assets		
Cash and cash equivalents	$ 16,373,392	$ 27,543,116
Patient accounts receivable, net of allowance; 2013 – $11,953,000, 2012 – $12,259,000	14,338,458	12,577,706
Other receivables	1,069,314	10,675,615
Supplies	4,504,905	4,975,547
Estimated amounts due from third-party payers	1,800,000	1,100,000
Prepaid expenses and other	3,939,251	4,206,649
Due from related party	392,030	253,574
Total current assets	42,417,350	61,332,207
Capital Assets, Net	41,960,154	36,683,755
Other Assets	1,500	1,500
Total assets	$ 84,379,004	$ 98,017,462

Liabilities and Net Position

	2013	2012 (Restated – *Note 2*)
Current Liabilities		
Current maturities of long-term debt	$ 2,814,941	$ 2,629,247
Accounts payable	9,034,755	8,714,833
Accrued payroll and expenses	5,614,374	4,393,916
Accrued interest payable	390,174	441,196
Unearned credit, net of amortization	307,105	675,632
Due to related party	2,779,191	291,862
Total current liabilities	20,940,540	17,146,686
Long-Term Debt	17,239,273	19,949,642
Other Long-Term Liabilities	8,031,032	921,368
Total liabilities	46,210,845	38,017,696
Net Position		
Net investment in capital assets	21,175,171	11,135,141
Restricted – expendable		
Capital acquisitions	238,870	-
Specific operating activities	1,051,414	293,689
Unrestricted	15,702,704	48,570,936
Total net position	38,168,159	59,999,766
Total liabilities and net position	$ 84,379,004	$ 98,017,462

Oklahoma State University Medical Center Trust
A Component Unit of the City of Tulsa, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012 (Restated – *Note 2*)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – $21,482,047, 2012 – $24,386,872	$ 115,990,609	$ 117,890,351
Other	6,742,447	5,025,965
Total operating revenues	122,733,056	122,916,316
Operating Expenses		
Salaries and wages	60,771,651	57,103,027
Employee benefits	14,840,071	13,796,861
Purchased services and professional fees	24,906,764	18,504,956
Supplies and other expenses	45,118,786	37,614,884
Depreciation and amortization	5,596,852	2,844,096
Total operating expenses	151,234,124	129,863,824
Operating Loss	(28,501,068)	(6,947,508)
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	7,282,980	6,711,633
Investment income	50,422	73,779
Interest expense	(902,811)	(685,174)
Total nonoperating revenues (expenses)	6,430,591	6,100,238
Deficiency of Revenues over Expenses Before Capital Gifts and Grants	(22,070,477)	(847,270)
Gifts to Purchase Capital Assets and Other Capital Grants	238,870	-
Decrease in Net Position	(21,831,607)	(847,270)
Net Position, Beginning of Year, as Previously Reported		61,027,945
Adjustments applicable to prior years (*Note 2*)		(180,909)
Net Position, Beginning of Year, as Restated	59,999,766	60,847,036
Net Position, End of Year	$ 38,168,159	$ 59,999,766

Oklahoma State University Medical Center Trust
A Component Unit of the City of Tulsa, Oklahoma
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012 (Restated – *Note 2*)
Operating Activities		
Receipts from and on behalf of patients	$ 122,529,857	$ 105,487,612
Payments to suppliers and contractors	(59,669,990)	(56,302,582)
Payments to employees	(74,391,264)	(71,164,429)
Other receipts and payments, net	9,350,884	5,500,807
Net cash used in operating activities	(2,180,513)	(16,478,592)
Noncapital Financing Activities		
Noncapital grants and gifts	7,282,980	6,711,633
Net cash provided by noncapital financing activities	7,282,980	6,711,633
Capital and Related Financing Activities		
Principal paid on long-term debt	(2,524,675)	(2,450,620)
Interest paid on long-term debt	(953,833)	(1,061,847)
Proceeds from issuance of long-term debt	-	84,000
Purchase of capital assets	(13,082,975)	(19,882,811)
Proceeds from sale of equipment	-	153,313
Capital grants and gifts	238,870	-
Net cash used in capital and related financing activities	(16,322,613)	(23,157,965)
Investing Activities		
Investment income received	50,422	73,779
Net cash provided by investing activities	50,422	73,779
Decrease in Cash and Cash Equivalents	(11,169,724)	(32,851,145)
Cash and Cash Equivalents, Beginning of Year	27,543,116	60,394,261
Cash and Cash Equivalents, End of Year	$ 16,373,392	$ 27,543,116

	2013	2012 (Restated – *Note 2*)
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	$ (28,501,068)	$ (6,947,508)
(Gain) loss on sale of property and equipment	21,790	(153,313)
Depreciation and amortization	5,596,852	2,844,096
Amortization in other operating revenue	(368,527)	(368,526)
Provision for uncollectible accounts	21,482,047	24,386,872
Changes in operating assets and liabilities		
Patient accounts receivable, net	(23,242,799)	(27,239,611)
Other accounts receivable	9,606,301	(8,003,319)
Supplies and prepaid expenses	597,202	(612,110)
Due to/from related party	2,348,873	153,748
Estimated amounts due to/from third-party payers	(700,000)	(550,000)
Accounts payable, accrued expenses and other long-term liabilities	10,978,816	11,079
Net cash used in operating activities	$ (2,180,513)	$ (16,478,592)
Supplemental Cash Flows Information		
Financed insurance premiums	$ 1,859,211	$ 2,000,049
Capital assets in accounts payable	$ 340,595	$ 2,528,529

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

Nature of Operations and Reporting Entity

Oklahoma State University Medical Center Trust (the Trust) is an acute care hospital located in Tulsa, Oklahoma. Through December 6, 2013, the Trust was a component unit of the City of Tulsa, Oklahoma (the City) and the Mayor of the City appointed members to the Board of Trustees of the Trust with the approval of the City Council of the City. Effective December 6, 2013, the operations of the Trust were merged with the Oklahoma State University Medical Trust (OSUMT), which is a trust of the state of Oklahoma (see *Note 17*). The Trust primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Tulsa, Oklahoma, area.

The Trust was formed in January 2009 to acquire, own and operate Oklahoma State University Medical Center (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. The Trust acquired the Medical Center on May 1, 2009 (see *Note 14*) and began hospital operations on that date.

In March 2010, OSUMC Professional Services LLC (OPS) was formed to assist the Trust with employing health care providers. During fiscal year 2011, OPS began operations by employing physicians and other health care providers. The Trust is the sole corporate member of OPS, and OPS is included as a blended component unit in the accompanying financial statements. OPS does not have separately issued financial statements.

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Trust considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of money market accounts.

Risk Management

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

Investment Income

Investment income consists of interest income.

Patient Accounts Receivable

The Trust reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Trust 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 are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

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

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

The Trust capitalizes interest costs as a component of construction in progress based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	2013	2012
Interest costs capitalized	$ -	$ 329,000
Interest costs charged to expense	902,811	685,174
Total interest incurred	$ 902,811	$ 1,014,174

Compensated Absences

Trust 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 Trust 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 Trust, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Trust has agreements with third-party payers that provide for payments to the Trust 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 Trust provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Trust does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the City, the Trust is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Electronic Health Records Incentive Program

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

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

In 2013, the Trust completed the first-year requirements under the Medicaid program and recorded revenue of approximately $1,187,000, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position. Subsequent to year-end, the Trust completed the first-year requirements under the Medicare program and the second-year requirements under the Medicaid program.

Supplemental Hospital Offset Payment Program

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

The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. The amounts noted in the table below for the years ended June 30, 2013 and 2012, represent the approximate annual amounts to be received and paid by the Trust over the remaining term of the SHOPP program.

	2013	2012
SHOPP funds recorded and received	$ 8,767,000	$ 8,413,000
SHOPP assessment fees recorded and paid	(3,198,000)	(3,136,000)
Net SHOPP benefit	$ 5,569,000	$ 5,277,000

Note 2: Changes in Accounting Principles and Reclassifications

In 2013, the Trust changed its reporting entity to exclude the Foundation for Oklahoma State University Medical Center (the Foundation) as the Foundation did not meet the criteria for inclusion as a component unit under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, which became effective for reporting periods beginning after June 15, 2012. The impact of the change in accounting principle was to remove the Foundation as a blended component unit of the Trust. These changes increased net position of the Trust as of July 1, 2011, by $115,460 and decreased the previously reported change in net position for the year ended June 30, 2012, by $570,748.

Also in 2013, the Trust changed its accounting for deferred financing costs as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The impact of the change in accounting principle was to write off previously recorded deferred financing costs. These changes decreased net position of the Trust as of July 1, 2011, by $296,369 and increased the previously reported change in net position for the year ended June 30, 2012, by $28,452.

In addition to the above changes to the 2012 financial statements due to changes in accounting principles, certain other reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net position for 2012.

Note 3: Net Patient Service Revenue

The Trust has agreements with third-party payers that provide for payments to the Trust 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 Trust 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 Trust and audits thereof by the Medicare administrative contractor. The Trust's cost reports for periods ending June 30, 2010, to present have not been final settled as of June 30, 2013.

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

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

Approximately 54% and 46% of net patient service revenue is from participation in the Medicare program for the years ended June 30, 2013 and 2012, respectively. Approximately 30% and 29% of net patient service revenue is from participation in the state-sponsored Medicaid program for the years ended June 30, 2013 and 2012, respectively.

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

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

The Trust received approximately $9,000,000 in fiscal 2013 and 2012 from the State of Oklahoma Medicaid Upper Payment Limit (UPL) program. UPL programs are often an area considered for cost reductions by both federal and state legislators, and there is no guarantee that UPL payments will continue at the same level in future years.

Note 4: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure an organization's deposits may not be returned to it. The Trust's deposit policy for custodial credit risk requires compliance with the provisions of state law, which requires collateralization of all deposits with federal depository insurance (FDIC) and other acceptable collateral in specific amounts.

At June 30, 2013 and 2012, none of the Trust's bank balances of approximately $18,094,000 and $29,846,000 were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The Trust 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 Trust had no investments at June 30, 2013 or 2012.

Summary of Carrying Values

The carrying values of deposits as of June 30, 2013 and 2012, of $16,373,392 and $27,543,116, respectively, are included in the accompanying balance sheets as cash and cash equivalents.

Note 5: Patient Accounts Receivable

The Trust grants credit without collateral to its patients, most of whom are area residents and certain of whom are insured under third-party payer agreements. Patient accounts receivable at June 30, 2013 and 2012, consisted of:

	2013	2012
Medicare	$ 5,159,486	$ 3,261,003
Medicaid	1,901,196	1,474,002
Other third-party payers and patients	19,230,776	20,101,701
	26,291,458	24,836,706
Less allowance for uncollectible accounts	11,953,000	12,259,000
	$ 14,338,458	$ 12,577,706

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012, was:

2013

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 100	$ -	$ -	$ -	$ 100
Buildings and leasehold improvements	3,463,086	-	-	5,748,416	9,211,502
Equipment	27,142,892	7,378,390	(30,071)	736,471	35,227,682
Construction in progress	10,938,847	3,516,651	-	(6,484,887)	7,970,611
	41,544,925	10,895,041	(30,071)	-	52,409,895
Less accumulated depreciation					
Buildings and leasehold improvements	128,128	863,531	-	-	991,659
Equipment	4,733,042	4,733,321	(8,281)	-	9,458,082
	4,861,170	5,596,852	(8,281)	-	10,449,741
Capital assets, net	$ 36,683,755	$ 5,298,189	$ (21,790)	$ -	$ 41,960,154

2012

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 100	$ -	$ -	$ -	$ 100
Buildings and leasehold improvements	2,721,869	96,192	-	645,025	3,463,086
Equipment	13,771,784	13,565,501	(264,777)	70,384	27,142,892
Construction in progress	3,587,405	8,066,851	-	(715,409)	10,938,847
	20,081,158	21,728,544	(264,777)	-	41,544,925
Less accumulated depreciation					
Buildings and leasehold improvements	28,119	100,009	-	-	128,128
Equipment	2,253,732	2,744,087	(264,777)	-	4,733,042
	2,281,851	2,844,096	(264,777)	-	4,861,170
Capital assets, net	$ 17,799,307	$ 18,884,448	$ -	$ -	$ 36,683,755

Note 7: Medical Malpractice Claims

The Trust 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 Trust has accrued at an estimated liability at June 30, 2013 and 2012, for incurred but not reported claims, which is included in other long-term liabilities on the accompanying balance sheets. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Trust for the years ended June 30, 2013 and 2012:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	$ 19,452,233	$ -	$ (1,596,722)	$ 17,855,511	$ 1,674,855
Note payable, bank (B)	1,255,542	-	(428,164)	827,378	447,515
Capital lease obligations	1,871,114	-	(499,789)	1,371,325	692,571
Total long-term debt	22,578,889	-	(2,524,675)	20,054,214	2,814,941
Other long-term obligations	921,368	7,700,000	-	8,621,368	590,336
Total long-term obligations	$ 23,500,257	$ 7,700,000	$ (2,524,675)	$ 28,675,582	$ 3,405,277

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	$ 20,987,104	$ -	$ (1,534,871)	$ 19,452,233	$ 1,607,366
Note payable, bank (B)	1,524,697	84,000	(353,155)	1,255,542	428,163
Capital lease obligations	2,433,708	-	(562,594)	1,871,114	593,718
Total long-term debt	24,945,509	84,000	(2,450,620)	22,578,889	2,629,247
Other long-term obligations	672,042	249,326	-	921,368	-
Total long-term obligations	$ 25,617,551	$ 333,326	$ (2,450,620)	$ 23,500,257	$ 2,629,247

Notes Payable

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

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

The debt service requirements as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	$ 2,900,263	$ 2,122,370	$ 777,893
2015	2,812,632	2,125,040	687,592
2016	2,425,145	1,818,451	606,694
2017	2,425,145	1,894,802	530,343
2018	2,425,145	1,974,359	450,786
2019–2022	9,686,491	8,747,867	938,624
	$ 22,674,821	$ 18,682,889	$ 3,991,932

Capital Lease Obligations

The Trust is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2013 and 2012, totaled approximately $2,938,000, net of accumulated depreciation of approximately $1,371,000 and $812,000, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 2.33% to 5.65% together with the present value of the future minimum lease payments as of June 30, 2013:

Year Ending June 30,	
2014	$ 761,216
2015	581,315
2016	121,866
Total minimum lease payments	1,464,397
Less amount representing interest	93,072
Present value of future minimum lease payments	$ 1,371,325

Other Long-Term Liabilities

This amount represents the Trust's estimated liabilities related to litigation, including incurred but not reported claims, and an obligation determined based on future payments to be received under a state of Oklahoma reimbursement program. The liability associated with the obligation to make payments to a third party was determined to be reasonably estimable during the year ended June 30, 2013, and is discounted at the Trust's average borrowing rate of 4.25%.

Note 9: Uncompensated Care

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

The Trust implemented a new uncompensated care policy after June 30, 2010, to more appropriately capture the cost associated with care for which the Trust is uncompensated. The new policy expands the eligibility criteria for patients to qualify for charity care and includes a component related to presumptive charity care qualification based on various factors, including job status and resident status. The Trust has estimated the cost associated with uncompensated care for the years ended June 30, 2013 and 2012, under the new policy with the approximate costs as follows:

	2013	2012
Cost of uncompensated care to uninsured and charity care patients	$ 12,420,000	$ 13,570,000
Cost of uncompensated care to Medicaid patients	9,580,000	10,980,000
	$ 22,000,000	$ 24,550,000

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

Note 10: Pension Plan

The Trust contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Trust'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 Trust's governing body. Contribution rates for plan members and the Trust expressed as a percentage of covered payroll were 5.6% and 2.8%, respectively, for 2013 and 5.8% and 2.8%, respectively, for 2012. Contributions actually made by plan members and the Trust aggregated approximately $1,539,000 and $772,000, respectively, during 2013 and $1,432,000 and $699,000, respectively, during 2012.

Note 11: Restricted Net Position

At June 30, 2013 and 2012, restricted expendable net position was available for the following purposes:

	2013	2012
Capital acquisitions	$ 238,870	$ -
Operating expenses	1,051,414	293,689
	$ 1,290,284	$ 293,689

Note 12: Contingencies

Litigation

In the normal course of business, the Trust 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 Trust's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Trust 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, 2013 and 2012, management determined no accrual for such matters was deemed necessary. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Community Support

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

State of Oklahoma

The State of Oklahoma (the State) provided the Trust with approximately $9,000,000 in funds during the years ended June 30, 2013 and 2012, respectively, related to the UPL program. This state-operated program includes direct allocation of funds to the Trust in addition to statewide fund allocations.

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

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

As of June 30, 2013 and 2012, the State has fulfilled its commitment for the current year and no receivable has been recorded for future funding to the Trust as that funding is dependent on future actions, primarily state appropriations.

Oklahoma State University

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

Oklahoma State University Medical Authority

In 2009, the Oklahoma State University Medical Authority (OSUMA) received approximately $20,000,000 of funding from the State. Effective April 30, 2009, OSUMA entered into the Agreement with the Trust. During the 14-month period ended June 30, 2010, OSUMA provided approximately $20,000,000 of funding to the Trust to assist with the closing of the purchase from Ardent Medical Services, Inc. (see *Note 14*), satisfy funding needs for the UPL program with the Oklahoma Health Care Authority, support operations and reimburse uncompensated care provided to patients of the Medical Center.

St. John Health System

St. John Health System (SJHS) entered into a management agreement with the Trust through St. John Owasso, Inc. d/b/a St. John Health System Management Services, Inc. The management agreement began on May 1, 2009, and was terminated effective December 31, 2012.

As part of the Agreement, SJHS committed to provide support to the Trust not to exceed $2,333,000 per year for five years ending June 30, 2014, to support the operations of the Medical Center. This support will take various forms, including raising funds from local foundations and providing direct and indirect financial support to the Trust. SJHS' conditions to provide such support commitment included, among other matters, the management agreement with the Trust not be terminated by either party. During the years ended June 30, 2013 and 2012, the Trust received approximately $3,000,000 and $2,900,000 respectively, from SJHS.

Local Foundation

As part of the commitments made to the Trust to support the operations of the Medical Center, a local foundation committed to provide the Trust with direct and indirect financial support not to exceed $2,333,000 per year for five years ending June 30, 2014, and to assist in raising an additional amount not to exceed $2,333,000 per year for five years ending June 30, 2014. The local foundation has also provided support under this commitment by funding grants to the Foundation for the Oklahoma State University Medical Center (the Foundation) (see *Note 15*). For the years ended June 30, 2013 and 2012, the local foundation provided the following benefits either directly to the Trust or to the Foundation:

- Grants of $2,500,000 in 2013 related to programs to support the Medical Center provision of health care services to qualified indigent patients and management of the Medical Center

- Reimbursement for uncompensated care for qualified indigent patients of approximately $713,000 in 2012 to the Trust

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

Revenue recognized by the Trust on the statements of revenues, expenses and changes in net position for the years ended June 30, 2013, 2012 and 2011, as noncapital grants and gifts were received from the following sources:

	2013	2012	2011
Support from the University	$ 2,500,000	$ 2,500,000	$ 2,500,000
Support from SJHS	3,000,000	2,900,000	1,000,000
Support from local foundation	1,051,000	713,000	1,096,000
Other	732,000	599,000	458,000
	$ 7,283,000	$ 6,712,000	$ 5,054,000

Note 14: Acquisition of the Medical Center

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

The Trust recorded an unearned credit of approximately $1,843,000 as part of this transaction, which represents the value of the assets received, net of liabilities assumed, in excess of the cash paid by the Trust. The unearned credit is being amortized over a five-year period with the amortization recorded in nonoperating revenue on the accompanying statements of revenues, expenses and changes in net position. At June 30, 2013, the recorded balance of the unearned credit is $307,105.

Below is a recap of the purchase transaction with AMS:

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

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

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

During the years ended June 30, 2013 and 2012, the Foundation contributed approximately $1,328,000 and $0, respectively, to the Trust. The 2013 contributions are recorded on the accompanying 2013 statement of revenues, expenses and changes in net position as follows:

Gifts to purchase capital assets and other capital grants	$	238,870
Noncapital grants and gifts		1,089,358
	$	1,328,228

As discussed in *Note 13,* the Foundation also received contributions from a local foundation and other charitable organizations in support of the commitment under the agreement. At June 30, 2013, the Foundation had net assets that are restricted to use for the Trust as follows:

Restricted for capital assets and renovation projects	$	1,563,200
Restricted for operating activities and patient care		1,039,991
	$	2,603,191

Note 16: Combining Unit Information

The following tables include combining balance sheet information for the Trust and its component unit, OSUMC Professional Services LLC (OPS) as of June 30, 2013 and 2012:

	June 30, 2013			
	Trust	OPS	Eliminations	Combined Balance
Assets				
Current Assets	$ 51,203,142	$ 1,273,258	$ (10,059,050)	$ 42,417,350
Capital Assets, Net	41,960,154	-	-	41,960,154
Other Assets	1,500	-	-	1,500
Total assets	$ 93,164,796	$ 1,273,258	$ (10,059,050)	$ 84,379,004
Liabilities and Net Position				
Current Liabilities	$ 20,940,540	$ 10,059,050	$ (10,059,050)	$ 20,940,540
Long-Term Debt	17,239,273	-	-	17,239,273
Other Long-Term Liabilities	8,031,032	-	-	8,031,032
Total liabilities	46,210,845	10,059,050	(10,059,050)	46,210,845
Net Position	46,953,951	(8,785,792)	-	38,168,159
Total liabilities and net position	$ 93,164,796	$ 1,273,258	$ (10,059,050)	$ 84,379,004

	June 30, 2012			
	Trust	OPS	Eliminations	Combined Balance
Assets				
Current Assets	$ 66,381,399	$ 946,973	$ (5,996,165)	$ 61,332,207
Capital Assets, Net	36,683,755	-	-	36,683,755
Other Assets	1,500	-	-	1,500
Total assets	$ 103,066,654	$ 946,973	$ (5,996,165)	$ 98,017,462
Liabilities and Net Position				
Current Liabilities	$ 17,146,686	$ 5,996,165	$ (5,996,165)	$ 17,146,686
Long-Term Debt	19,949,642	-	-	19,949,642
Other Long-Term Liabilities	921,368	-	-	921,368
Total liabilities	38,017,696	5,996,165	(5,996,165)	38,017,696
Net Position	65,048,958	(5,049,192)	-	59,999,766
Total liabilities and net position	$ 103,066,654	$ 946,973	$ (5,996,165)	$ 98,017,462

The following tables include combining schedules of revenues, expenses and changes in net position information for the Trust and its component unit for the years ended June 30, 2013 and 2012:

	Year Ended June 30, 2013			
	Trust	OPS	Eliminations	Combined Balance
Operating Revenues	$ 120,101,796	$ 2,835,276	$ (204,016)	$ 122,733,056
Operating Expenses	144,866,264	6,571,876	(204,016)	151,234,124
Operating Loss	(24,764,468)	(3,736,600)	-	(28,501,068)
Nonoperating Revenues	6,430,591	-	-	6,430,591
Deficiency of Revenues over Expenses Before Capital Gifts and Grants	(18,333,877)	(3,736,600)	-	(22,070,477)
Gifts to Purchase Capital Assets and Other Capital Grants	238,870	-	-	238,870
Decrease in Net Position	(18,095,007)	(3,736,600)	-	(21,831,607)
Net Position, Beginning of Year	65,048,958	(5,049,192)	-	59,999,766
Net Position, End of Year	$ 46,953,951	$ (8,785,792)	$ -	$ 38,168,159

	Year Ended June 30, 2012			
	Trust	OPS	Eliminations	Combined Balance
Operating Revenues	$ 119,628,774	$ 3,448,173	$ (160,631)	$ 122,916,316
Operating Expenses	124,234,727	5,789,728	(160,631)	129,863,824
Operating Loss	(4,605,953)	(2,341,555)	-	(6,947,508)
Nonoperating Revenues	6,100,238	-	-	6,100,238
Excess (Deficiency) of Revenues Before Capital Gifts and Grants and Change in Net Position	1,494,285	(2,341,555)	-	(847,270)
Net Position, Beginning of Year, as Previously Reported	63,735,582	(2,707,637)	-	61,027,945
Adjustments applicable to prior years (*Note 2*)	(180,909)	-	-	(180,909)
Net Position, Beginning of Year, as Restated	63,554,673	(2,707,637)	-	60,847,036
Net Position, End of Year	$ 65,048,958	$ (5,049,192)	$ -	$ 59,999,766

The following tables include combining statement of cash flows information for the Trust and its component unit for the years ended June 30, 2013 and 2012:

	Year Ended June 30, 2013			
	Trust	OPS	Eliminations	Combined Balance
Net Cash Provided by (Used in) Operating Activities	$ (2,600,203)	$ 419,690	$ -	$ (2,180,513)
Net Cash Provided by Noncapital Financing Activities	7,282,980	-	-	7,282,980
Net Cash Used in Capital and Related Financing Activities	(16,322,613)	-	-	(16,322,613)
Net Cash Provided by Investing Activities	50,422	-	-	50,422
Change in Cash and Cash Equivalents	(11,589,414)	419,690	-	(11,169,724)
Cash and Cash Equivalents, Beginning of Year	26,923,283	619,833	-	27,543,116
Cash and Cash Equivalents, End of Year	$ 15,333,869	$ 1,039,523	$ -	$ 16,373,392

	Year Ended June 30, 2012			
	Trust	OPS	Eliminations	Combined Balance
Net Cash Provided by (Used in) Operating Activities	$ (16,861,262)	$ 382,670	$ -	$ (16,478,592)
Net Cash Provided by Noncapital Financing Activities	6,711,633	-	-	6,711,633
Net Cash Used in Capital and Related Financing Activities	(23,157,965)	-	-	(23,157,965)
Net Cash Provided by Investing Activities	73,779	-	-	73,779
Change in Cash and Cash Equivalents	(33,233,815)	382,670	-	(32,851,145)
Cash and Cash Equivalents, Beginning of Year	60,157,098	237,163	-	60,394,261
Cash and Cash Equivalents, End of Year	$ 26,923,283	$ 619,833	$ -	$ 27,543,116

Note 17: Subsequent Events

In October 2013, the Trust entered into a Tripartite Agreement and Plan of Merger (Merger Agreement) with the Oklahoma State University Medical Authority (OSUMA) and the Oklahoma State University Medical Trust (OSUMT). OSUMT is a component unit of OSUMA. 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 OSUMA
- Amend the Trust's Declaration of Trust to designate the State of Oklahoma as its sole beneficiary and authorize the merger of the Trust with OSUMT
- Merge OSUMT into the Trust and designate the Trust as the surviving entity
- Enter into a lease agreement for the Medical Center real property between OSUMA and the Trust

In addition, in March 2014, OSUMT completed the Request for Proposal process and has chosen Mercy Health Oklahoma Communities, Inc., to manage the hospital effective May 1, 2014. Negotiations on a long-term management contract are in process at the date of the audit report; a timeline for completion has not yet been established.

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

Board of Trustees
Oklahoma State University Medical Center Trust
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 Center Trust (the Trust), which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated August 19, 2014, which contained an emphasis of matters paragraph regarding changes in accounting principles.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Trust's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-001 and 2013-002 to be material weaknesses.

Board of Trustees
Oklahoma State University Medical Center Trust

Compliance and Other Matters

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

The Trust's Responses to the Findings

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

We also noted certain matters that we reported to the Trust's management in a separate letter dated August 19, 2014.

Purpose of this Report

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

BKD, LLP

Tulsa, Oklahoma
August 19, 2014

Oklahoma State University Medical Center Trust
A Component Unit of the City of Tulsa, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2013

Reference Number	Finding
2013-001	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.
	Condition – Management's procedures for properly accounting for certain cash; capital assets, including depreciation expense; net position; and related-party transactions did not produce materially accurate results.
	Context – Numerous material journal entries were required to correct misstatements in the June 30, 2013, financial statements.
	Effect – Potentially material misstatements in the financial statements could occur.
	Cause – Inaccurate entries to account for transactions and procedures for preparing estimates were inadequate to produce consistently accurate financial information.
	Recommendation – Management should evaluate the procedures in place related to recording transactions in the financial statements.
	Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will evaluate the process of reviewing interim financial statements to identify unusual entries and transactions. Management will also take steps to periodically evaluate the methodologies used to record the above noted transactions in the financial statements.

Reference Number	Finding
2013-002	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.
	Condition – Reconciliation of certain general ledger accounts, including cash, capital assets, payables and net position were not performed in a timely manner during the year.
	Context – The standard monthly reconciliation process in place for certain balance sheet accounts, including cash, capital assets and payables, was not performed consistently on a timely basis during the year.
	Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.
	Cause – Recording and monitoring procedures in the internal control over financial reporting process were not performed timely.
	Recommendation – Management should revise the monthly reconciliation process for balance sheet accounts to ensure accounts are properly and timely recorded and reconciled to the general ledger.
	Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to ensure all material balance sheet accounts are properly and timely recorded and reconciled to the general ledger.