

**University of Kansas School of Medicine -
Wichita Medical Practice Association**

**Financial Report
(Including OMB A-133 Reporting)**

June 30, 2014



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Independent Auditor's Report

Board of Trustees
University of Kansas School of Medicine-
Wichita Medical Practice Association

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Kansas School of Medicine-Wichita Medical Practice Association and subsidiaries, Clinical Research Institute, Clinical Research Institute, L.L.C. and Medical Practice Association Properties, L.L.C., which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Kansas School of Medicine-Wichita Medical Practice Association and subsidiaries as of June 30, 2014, and the results of their operations, their changes in net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2015, on our consideration of the University of Kansas School of Medicine-Wichita Medical Practice Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 University of Kansas School of Medicine-Wichita Medical Practice Association's internal control over financial reporting and compliance.

Regin Can & Monroe, L.L.P.

February 24, 2015
Wichita, Kansas

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Consolidated Balance Sheet
June 30, 2014**

ASSETS

Current assets

Cash and cash equivalents	\$ 6,645,739
Accounts receivable, net of allowances of \$1,069,716	2,734,566
Income tax refunds	56,144
Prepaid expenses	338,968
Total current assets	9,775,417

Property and equipment

Furniture and fixtures	278,032
Medical equipment	390,099
Computer equipment	912,589
Office equipment	131,441
Leasehold improvements	251,085
Buildings	463,173
Total cost	2,426,419
Less accumulated depreciation	1,884,989
Total property and equipment	541,430

Investments

Real estate	2,142,293
Certificates of deposit	64,250
Other investments	3,846,396
Total investments	6,052,939
Total assets	\$ 16,369,786

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable-other	\$ 228,028
Accrued salaries	735,762
Deferred income	65,213
Total current liabilities	1,029,003

Net assets

Unrestricted	15,340,783
Total liabilities and net assets	\$ 16,369,786

The Notes to Consolidated Financial Statements are an integral part of these statements.

**University of Kansas School of Medicine -
Wichita Medical Practice Association**
Consolidated Statement of Operations and Changes in Net Assets
June 30, 2014

Revenue and support	
Gross patient service charges	\$ 17,044,183
Less adjustments	(7,674,317)
Net patient service revenue	<u>9,369,866</u>
Provision for bad debts	(1,109,025)
Net patient service revenue, less bad debts	<u>8,260,841</u>
Grant funds	1,849,588
Contractual revenue	5,885,197
Consultation revenue	70,485
Supplemental medicaid education revenue	4,823,390
Miscellaneous	238,904
Residency reimbursement	242,200
Total revenue and support	<u>21,370,605</u>
Expenses	
Program services	
Physician expenses	11,116,734
Non-physician expenses	7,260,013
Other program expenses	465,174
Total program services	<u>18,841,921</u>
Support services	
Non-physician expenses	1,646,607
Other support expenses	494,161
Total support services	<u>2,140,768</u>
Other expense	<u>66,418</u>
Total expenses	<u>21,049,107</u>
Net income from operations	<u>321,498</u>
Nonoperating income (expense)	
Investment income (loss)	
Interest and dividend income	52,147
Realized net gain	4,610
Unrealized net gain	332,681
Net investment income	<u>389,438</u>
Gain on disposal of assets	4,766,599
Interest expense	(102,178)
Deferred tax expense	(326,500)
Income tax expense	(1,023,856)
Total nonoperating income (expense)	<u>3,703,503</u>
Increase in net assets	4,025,001
Unrestricted net assets-beginning	<u>11,315,782</u>
Unrestricted net assets-ending	<u>\$ 15,340,783</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Consolidated Statement of Functional Expenses
June 30, 2014**

	UKSM - W MPA		MPAP	CRI	CRL	Elimination	Total
	Program	Support	Other	Other	Other		
Physician expenses							
Salary expense	\$ 9,848,972	\$ -	\$ 2,195	\$ -	\$ 1,353	\$ -	\$ 9,852,520
Benefit expense	667,896						667,896
Business expense	599,866						599,866
Total physician expenses	11,116,734		2,195		1,353		11,120,282
Non-physician expenses							
Mid-level salaries & benefits	1,936,268						1,936,268
Other non-physician salary & benefits	2,593,127	1,251,514	2,036	786	898		3,848,361
Supplies	1,197,692	14,300					1,211,992
Computer	110,988	63,341					174,329
Laboratory	525,177						525,177
Radiology	33,645						33,645
Occupancy	215,766	26,819	4,579				247,164
Furniture and equipment	76,481	9,595					86,076
Purchased services	317,925	267,255	43,126	3,802	6,438		638,546
Employee related expenses	85,876	13,783					99,659
HOPWA client expenses	167,068						167,068
Total non-physician expenses	7,260,013	1,646,607	49,741	4,588	7,336		8,968,285
Total physician and non-physician expenses	18,376,747	1,646,607	51,936	4,588	8,689		20,088,567
Other expenses							
General & administrative	465,174	94,161	50	948	207		560,540
KUEA-Dean's fund		300,000					300,000
KUEA-Department development		100,000					100,000
Total other expenses	465,174	494,161	50	948	207		960,540
Total expenses	\$18,841,921	\$2,140,768	\$ 51,986	\$ 5,536	\$ 8,896	\$ -	\$ 21,049,107

The Notes to Consolidated Financial Statements are an integral part of these statements.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Consolidated Statement of Cash Flows
June 30, 2014**

Cash flows from operating activities	
Increase in net assets	\$ 4,025,001
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Net realized and unrealized (gain)/loss on investments	(337,291)
Depreciation and amortization	129,312
Net (gain) and loss on disposal of property and equipment	(4,766,599)
Increase in patient accounts receivable, net	(352,593)
Increase in contract receivable	(50,128)
Decrease in other receivables	721,271
Decrease in deferred tax asset	326,500
Increase in prepaid expenses	(24,584)
Increase in income tax refunds	(56,144)
Decrease in accounts payable	(96,818)
Increase in accrued payroll	71,747
Decrease in accrued professional development funds	(115,351)
Decrease in deferred income	(339,209)
Net cash (used) by operating activities	<u>(864,886)</u>
 Cash flows from investing activities	
Proceeds on sale of investments	593,238
Proceeds on certificates of deposit	919,078
Purchase of investments	(566,699)
Proceeds of land sale	7,672,605
Acquisition of property and equipment	(123,591)
Net cash provided investing activities	<u>8,494,631</u>
 Cash flows from financing activities	
Repayment on loan	(3,800,000)
Net cash (used) by financing activities	<u>(3,800,000)</u>
 Net increase in cash and cash equivalents	3,829,745
Cash and cash equivalents at beginning of year	<u>2,815,994</u>
Cash and cash equivalents at end of year	<u><u>\$ 6,645,739</u></u>
 Supplemental disclosure of cash flow information	
Cash paid for interest expense	<u><u>\$ 102,178</u></u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

1. Summary of Significant Accounting Policies

Nature of operations:

The University of Kansas School of Medicine-Wichita Medical Practice Association (the "Association") is organized as a not-for-profit corporation to conduct medical education, medical research and medical care, primarily in cooperation with the University of Kansas School of Medicine-Wichita. The Association has an agreement with the University of Kansas School of Medicine-Wichita to provide professional medical and health care services to the patient population. For the use and provision of the space, facilities, equipment and services furnished by the University, the Association pays certain fees as defined by the agreement (Note 7).

Principles of consolidation:

The consolidated financial statements include the accounts of the Association and its wholly owned subsidiaries. All material intercompany transactions have been eliminated in consolidation. Wholly owned subsidiaries consist of the following:

Clinical Research Institute

On October 15, 2003, Clinical Research Institute, (CRI) was organized as a for-profit corporation and is a wholly owned subsidiary of the Association. CRI was organized for the purpose of medical research.

Medical Practice Association Properties, LLC

On August 18, 2008, Medical Practice Association Properties, LLC (MPAP) was organized as a limited liability company and is a wholly owned subsidiary of the Association. MPAP was organized for the purpose of land acquisition.

Medical Practice Association Properties, LLC was capitalized with a \$1,963,158 capital contribution from the Association.

Clinical Research Institute, LLC

On January 6, 2010, Clinical Research Institute, LLC (CRL) was organized as a limited liability company and is a wholly owned subsidiary of the Association. CRL was organized for the purpose of medical research.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for credit loss and other adjustments on accounts receivable, including Supplemental Medicaid Education revenue, along with the fair value of investments. In connection with arriving at the estimate of uncollectible accounts receivable, management has utilized aged accounts receivable listings, historical experience and current information on collection and adjustment trends in arriving at an estimate of uncollectible accounts receivable. Estimated Supplemental Medicaid Education revenue and corresponding receivables are estimated based upon historical cost reports for prior periods in relation to current service levels and are subject to review and possible adjustment. Management relies on external market quotes in estimating the fair value of investments.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

Basis of presentation

Financial statement presentation follows the recommendations of Accounting Standards Codification (ASC), 954 Health Care Entities and ASC 958, Not-for-Profit Entities. Accordingly, the Association is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted assets, temporarily restricted net assets, and permanently restricted net assets.

The consolidated financial statements of the Association have been prepared on the accrual basis of accounting.

Income Tax Status:

The Association was reorganized on July 1, 1991, as a publicly supported not-for-profit corporation and is exempt, except for unrelated business income, from taxes under Section 501(c)(3) of the Internal Revenue Code. The Association files a Form 990T for unrelated business income related to the land acquisition and sale with Medical Practice Association Properties, LLC. The Association's wholly owned subsidiary, CRI, is a for profit corporation and files federal and state corporation income tax returns. The Association's single member LLC's (MPAP and CRL) are disregarded entities for tax purposes. The Association believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Association's Federal Forms 990-T, CRI's corporation income tax returns and Kansas income tax returns for periods ended June 30, 2014, 2013 and 2012 are subject to examination by the IRS, generally for three years after they were filed. It is the Association's policy that penalties and interest assessed by income taxing authorities, if any, are included in operating expenses.

Cash and cash equivalents:

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand and money market deposits in financial institutions and highly liquid investments with an original maturity of three months or less.

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in investment revenue within the change in net assets.

Property assets:

Property assets are carried at cost. Depreciation is calculated utilizing straight-line methods over the estimated useful lives of the respective assets. Depreciation expense for the year ended June 30, 2014, was \$129,312.

Premium, Contractual and Grant Revenue:

The Association contracts with various governmental and non-governmental agencies to provide services. Revenues are recognized upon performance of the contracted services and/or expenditure of the agreed-upon expenses. Proceeds from these contracts which have been received, but not earned, are deferred.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

During 2008, the Kansas State Plan Amendment (SPA) #08-02 re: Qualified Licensed Professional Services was approved for Supplemental Medicaid Education payments for certain licensed professional services including the qualified licensed professionals employed by the University of Kansas School of Medicine-Wichita Medical Practice Association. For the year ended June 30, 2014, the Association earned \$4,823,390 as a result of this program.

Charity care and other community benefits:

The Association is dedicated to providing services for the uninsured and under-insured. Total charity care and other community benefits based on charges, for the year ended June 30, 2014 are as follows:

Traditional charity care	\$ 490,242
Other community benefit	770,513
	\$ 1,260,755

Additionally, the Association provided unpaid services under the Kansas Medicaid Program of \$1,567,483 for the year ended June 30, 2014.

Net patient service revenue:

The Association has agreements with third-party payors that provide for payments to the Association 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.

The Association grants credit without collateral for patient services, primarily in the Wichita vicinity, and for services related to contracts and grants. Accounts receivable are primarily from private insurance companies, governmental entities and individuals.

Bad debts:

Allowances for potential credit losses are maintained based upon management's analysis of credit risk, a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the Association bills third-party providers directly, and bills the patient when the patient's liability is determined.

Bad debts are monitored by management and are determined to be delinquent based upon review of aging reports coupled with correspondence with patients and third-party payors. Bad debts are written off, and sent to a collection agency when all applicable discounts have been applied and reasonable attempts to collect the debt have been exhausted.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

1. Summary of Significant Accounting Policies (Continued)

Presentation of Patient Service Revenue and Bad Debts

The Financial Accounting Standards Board ASU 2011-07, *Health Care Entities Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* establishes accounting and disclosure requirements for healthcare entities who recognize significant amounts of patient service revenue at the time services are rendered even though they do not assess a patient's ability to pay. The update prescribes the presentation of the Statement of Operations and Changes in Net Assets and adds new disclosures. The provision for bad debts is required to be presented on a separate line as a deduction from patient service revenue in the Statement of Operations and Changes in Net Assets. The standard was adopted by the Association for the year ended June 30, 2013. Adoption of this standard did not result in any impact on beginning net assets.

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Association had no temporarily or permanently restricted net assets as of or during the year ended June 30, 2014.

Income (Loss) from Operations:

The Statement of Operations and Changes in Net Assets utilizes the term income (loss) from operations as the performance indicator for its operating activities, which excludes investment income.

2. Investments

Investments are carried at fair value. The following summarizes investments by type along with unrealized gains and losses as of June 30, 2014:

	Amortized Cost	Estimated Market Value	Unrealized Gains (Losses)
	<u> </u>	<u> </u>	<u> </u>
Corporate stock	\$ 878,889	\$ 1,058,031	\$ 179,142
Mutual funds:			
Equities	1,393,322	1,612,712	219,390
Debt Securities	813,056	812,679	(377)
Hedge Funds	97,031	85,345	(11,686)
Limited Partnership	237,576	277,629	40,053
Total investments	<u>\$ 3,419,874</u>	<u>\$ 3,846,396</u>	<u>\$ 426,522</u>

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

2. Investments (Continued)

Fair values were obtained from the financial institution which holds the investments and are based on quoted market values, with the exception of investments in hedge funds and limited partnerships.

Investment income of \$389,438 was recognized for the year ending June 30, 2014 and is comprised of the following:

Interest and dividend income	\$ 52,147
Realized net gain	4,610
Unrealized net gain	<u>332,681</u>
	<u><u>\$ 389,438</u></u>

3. Fair Value Measurements

Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Association uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Association measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs were used only when Level 1 or Level 2 inputs were not available.

Level 1 Fair Value Measurements are quoted prices (unadjusted) in active markets for identical assets that the reporting entity has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Fair Value Measurements are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset.

Level 3 Fair Value Measurements are unobservable inputs for the asset. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset. Therefore, unobservable inputs shall reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk). Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

3. Fair Value Measurements (continued)

Fair values of assets measured on a recurring basis are as follows:

<u>June 30, 2014</u>	<u>Fair Value</u>	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other Investments:				
Corporate Stock	\$ 1,058,031	\$ 1,058,031	\$ -	\$ -
Mutual Funds: Stock	1,612,712	1,612,712		
Mutual Funds: Bonds	812,679	812,679		
Hedge Funds	85,345			85,345
Limited Partnership	277,629			277,629
Total	<u>\$ 3,846,396</u>	<u>\$ 3,483,422</u>	<u>\$ -</u>	<u>\$ 362,974</u>

The following table sets forth a summary of changes in the fair value of the Association's Level 3 investments shown above for the year ended June 30, 2014:

July 1, 2013	\$ 448,011
Net realized losses	-
Unrealized losses on level three investments held at year end	(85,037)
Purchases, issuance and settlements	-
Transfers in and/or out of level 3	-
June 30, 2014	<u>\$ 362,974</u>

4. Real Estate

Medical Practice Association Properties, LLC, purchased approximately 105 acres on January 23, 2009, in Wichita, Kansas, as a potential future health care site and as a real estate investment. On December 13, 2013, approximately 60 acres were sold, resulting in the Association continuing to hold as an investment approximately 45 acres.

As part of the amended sale contract dated November 5, 2013, the buyer retains an option to purchase the additional forty-five acres, divided into three tracts of approximately 15 acres each. The buyer will have the option to purchase the additional tracts at a specified price with closing no sooner than three hundred seventy-five days following the closing on the sale of the initial sixty acres, and no later than four hundred five days following the closing on the sale of the initial sixty acres. In the event the buyer closes on some or all of the additional tracts, the contract provides that the buyer has an additional six months to purchase at least one of the remaining tracts and an additional six months to purchase the remaining tract.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

5. Income Tax

As discussed in Note 1, the Association files a 990-T on unrelated business taxable income related to the debt financed land acquisition and disposition by Medical Practice Association Properties, LLC, (see Note 4). The components of income tax expense at June 30, 2014 are as follows:

Current income tax expense	\$ 1,023,856
Deferred tax expense	<u>326,500</u>
Income tax expense	<u><u>\$ 1,350,356</u></u>

Deferred tax expense results from the utilization of prior year net operating loss carryforwards. During the year ended June 30, 2014, the Association utilized all available net operating loss carryforwards.

6. Retirement Plan

The Association currently sponsors a 403(b) retirement plan covering substantially all eligible employees of the Association. The Association matches each covered employee's contribution up to 5% of the covered employee's salary. The Association's contributions and costs had a combined total of \$194,102 for the year ended June 30, 2014.

7. Related Party Transactions

The Association pays fees to the Kansas University Endowment Association (KUEA). Fees of \$300,000 for medical education, research, and development, are comprised of a flat base, space usage, employment ratios, general use funding, and adjusted revenue. Fees of \$100,000 for medical department operating expenses were also paid to KUEA for the year ended June 30, 2014.

The Association paid \$6,950,000 to the University of Kansas School of Medicine – Wichita for funding faculty salaries and benefits, which are included in physician expenses.

8. Commitments and Contingencies

The Association has entered into various agreements to provide professional services to certain organizations. These agreements are typically renewed annually. The Association generally receives either a fixed fee or a fee based on a percentage of variable revenues.

The Association purchases professional and general liability insurance to cover potential medical malpractice claims. There are no known claims or incidents that may result in the assertion of claims. However, there may be claims from unknown incidents that may be asserted arising from services provided to patients.

9. Risks and Uncertainties

Managed fund balances and investments, which total \$3,846,396 at June 30, 2014, are not collateralized, which is typical for such investments. Such investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the fair value of investment securities could occur in the near term and that such changes could be material.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

10. Concentration of Credit Risk

The Association's financial instruments exposed to concentration of credit risk consist primarily of cash and cash equivalents. The Association maintains its cash balances in two financial institutions in Kansas. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2014, the Association's uninsured cash balances total \$6,434,179.

The Association grants credit without collateral for patient services, primarily in the Wichita vicinity, and for services related to contracts and grants. Accounts receivable are primarily from private insurance companies, governmental entities, including Medicare and Medicaid, and individuals. Allowances for potential credit losses are maintained based upon management's analysis of credit risk.

The mix of receivables from patients, third-parties and others as of June 30, 2014 is as follows:

Medicare and medicaid	\$ 573,669
Other third-party payors	607,914
Self-pay	816,406
Gross patient receivable	<u>1,997,989</u>
Less allowance for doubtful accounts	<u>(1,069,716)</u>
Net patient receivables	928,273
Supplemental Medical Education receivable	1,338,676
Contracts receivable	344,054
Grants receivable	64,799
Other receivables	58,765
Net accounts receivable	<u><u>\$ 2,734,566</u></u>

11. Notes Payable

At June 30, 2013 the Association had a mortgage note payable of \$3,800,000, requiring monthly payments of interest only, at the prime rate plus 1%, with a minimum of 5.5%. This note was repaid in January, 2014 with proceeds from the sale of real estate.

12. Operating Leases

The Association has entered into two leases for clinic space in Wichita, Kansas. The leases expire in November 2015 and June 2017.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2014**

12. Operating Leases (continued)

The future minimum annual rental commitments under these lease agreements as of June 30, 2014 are as follows:

Year Ended June 30	Amount
2015	\$ 218,812
2016	202,812
2017	202,812
	<u>\$ 624,436</u>

13. Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) will substantially reform the United States health care system. PPACA will significantly affect consumers as well as health care providers. In 2014, health care exchanges will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that the increase in the number of insured individuals will increase the demand for health care services. It is also anticipated that reimbursement rates paid by insurance carriers, Medicare and AHCCCS to providers will be impacted by PPACA.

While the PPACA is extremely complex and the overall impact on the Association cannot be predicted, it is possible that it will impact the Association's net patient revenue and provide operational challenges during the implementation period.

14. Subsequent Events

Subsequent events were evaluated through February 24, 2015, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**University of Kansas School of Medicine -
Wichita Medical Practice Association**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Number	Budget Period	Federal Expenditures
U.S. Department of Health and Human Services				
Public Health Service/Grants to :				
Pass-Through from Kansas Department of Health and Environment				
HIV Care Formula Grants	93.917		7/1/2013 To 12/31/13	\$ 205,516
Public Health Service/Grants to :				
Provide Outpatient Early Intervention Services with Respect to HIV Disease				
	93.918	H 76HA 00142-19-02	7/1/2013 To 12/31/13	479,333
	93.918	H 76HA 00142-20-00	1/1/2014 To 6/30/14	437,252
				<u>916,585</u>
Public Health Service/Grants to :				
Coordinated Services & Access to Research for Women, Infants, Children, and Youth				
	93.153	H 12HA 24827-01-00	7/1/2013 To 7/31/13	31,356
	93.153	H 12HA 24827-02-00	8/1/2013 To 6/30/14	328,329
				<u>359,685</u>
Total U.S. Department of Health and Human Services				<u>1,481,786</u>
U.S. Department of Housing and Urban Development				
Pass-through from Kansas Department of Health and Environment:				
Housing Opportunities for Persons with AIDS				
	14.241	Formula	7/1/2013 To 12/31/13	184,161
	14.241	Formula	1/1/2014 To 6/30/14	149,307
Total U.S. Department of Housing and Urban Development				<u>333,468</u>
Total federal expenditures				<u>\$ 1,815,254</u>

Note 1 Basis of Presentation:

The above schedule of expenditures of federal awards includes the federal grant activity of the University of Kansas School of Medicine-Wichita Medical Practice Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The federal awards were made exclusively to UKSM MPA Wichita. Accordingly, federal reporting includes only UKSM MPA Wichita.

**INDEPENDENT AUDITOR’S 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**

Board of Trustees
University of Kansas School of Medicine-
Wichita Medical Practice Association
Wichita, Kansas

We have audited, in accordance with the 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 consolidated financial statements of University of Kansas School of Medicine-Wichita Medical Practice Association, which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations and changes in net asset, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 24, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered University of Kansas School of Medicine-Wichita Medical Practice Association’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 University of Kansas School of Medicine-Wichita Medical Practice Association’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Association’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 entity’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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether University of Kansas School of Medicine-Wichita Medical Practice Association’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*.

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 Association'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 Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regis Cam & Monroe, L.L.P.

February 24, 2015
Wichita, Kansas

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
University of Kansas School of Medicine-
Wichita Medical Practice Association
Wichita, Kansas

Report on Compliance for Each Major Federal Program

We have audited University of Kansas School of Medicine-Wichita Medical Practice Association’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of University of Kansas School of Medicine-Wichita Medical Practice Association’s major federal programs for the year ended June 30, 2014. University of Kansas School of Medicine-Wichita Medical Practice Association’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of University of Kansas School of Medicine-Wichita Medical Practice Association’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about University of Kansas School of Medicine-Wichita Medical Practice Association’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of University of Kansas School of Medicine-Wichita Medical Practice Association’s compliance.

Opinion on Each Major Federal Program

In our opinion, University of Kansas School of Medicine-Wichita Medical Practice Association's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of University of Kansas School of Medicine-Wichita Medical Practice Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered University of Kansas School of Medicine-Wichita Medical Practice Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of University of Kansas School of Medicine-Wichita Medical Practice Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Regina Can & Monroe, L.L.P.

February 24, 2015
Wichita, Kansas

**University of Kansas School of Medicine -
Wichita Medical Practice Association**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

-Material weakness identified? _____ yes X no

-Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

-Material weakness identified? _____ yes X no

-Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with sections 510 (a) of Circular A-133? _____ yes X no

Identification of major program:

CFDA #	Name of Federal Program
93.918	U.S. Department of Health and Human Services Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.153	U.S. Department of Health and Human Services Coordinated Services and Access to Research for Women, Infants, Children, and Youth

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

**University of Kansas School of Medicine -
Wichita Medical Practice Association**

**Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2014**

Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

EL DORADO	112 EAST CENTRAL AVE.	EL DORADO, KS 67042-2151	316-321-1150
McALESTER	101 S. 2ND. STE. B	McALESTER, OK 74501-5345	918-426-1234
TUCSON	4801 E. BROADWAY BLVD., STE. 501	TUCSON, AZ 85711-3648	520-624-8229
TULSA	8023 E. 63RD PL. STE 500	TULSA, OK 74133-1209	918-494-8700
WAGONER	611-D W. CHEROKEE ST.	WAGONER, OK 74467-4618	918-485-5531
WICHITA	300 W. DOUGLAS AVE., STE. 900	WICHITA, KS 67202-2914	316-264-2335