

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

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

June 30, 2012



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Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position 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., as of June 30, 2012, and the related consolidated statements of operations, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the University of Kansas School of Medicine-Wichita Medical Practice Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November xx, 2012, on our consideration of the University of Kansas School of Medicine-Wichita Medical Practice Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of the University of Kansas School of Medicine-Wichita Medical Practice Association taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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.

Regis Cam & Monroe, L.L.P.

November 26, 2012
Wichita, Kansas

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Consolidated Statement of Financial Position
June 30, 2012**

ASSETS

Current assets

Cash and cash equivalents	\$ 1,546,518
Accounts receivable, net of allowances of \$751,284	3,861,450
Prepaid expenses	225,476
Total current assets	5,633,444

Property and equipment

Furniture and fixtures	283,074
Medical equipment	421,000
Computer equipment	895,917
Office equipment	167,540
Leasehold improvements	242,274
Buildings	463,173
Total cost	2,472,978
Less accumulated depreciation	1,775,850
Total property and equipment	697,128

Investments

Real estate	4,981,598
Certificates of deposit	973,671
Other investments	3,442,426
Total investments	9,397,695
Total assets	\$ 15,728,267

LIABILITIES AND NET ASSETS

Current liabilities

Accrued salaries	\$ 597,945
Accounts payable-other	199,065
Accrued professional development funds	124,551
Deferred income	67,830
Note payable	3,800,000
Total current liabilities	4,789,391

Net assets

Unrestricted	10,938,876
Total liabilities and net assets	\$ 15,728,267

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
June 30, 2012**

Revenue and support	
Gross patient service charges	\$ 11,702,463
Less adjustments	(5,711,032)
Net patient charges	<u>5,991,431</u>
Managed care contracts	11,790
Grant funds	1,926,486
Contractual revenue	4,558,934
Consultation revenue	76,182
Supplemental medical education revenue	4,354,907
Miscellaneous	503,101
Residency reimbursement	<u>252,292</u>
	<u>17,675,123</u>
Expenses	
Program services - UKSM MPA Wichita	
Physician expenses	9,442,285
Non-Physician expense	6,274,900
Other program expenses	464,522
Total program expense	<u>16,181,707</u>
Support services - UKSM MPA Wichita	
Non-Physician expense	1,234,764
Other support expenses	918,381
Total support services	<u>2,153,145</u>
Other expense	<u>261,868</u>
Total expenses	<u>18,596,720</u>
Net loss from operations	<u>(921,597)</u>
Nonoperating income (expense)	
Investment income (loss)	
Interest and dividend income	119,736
Realized net loss	(141,685)
Unrealized net loss	(175,353)
Net investment loss	<u>(197,302)</u>
Interest expense	<u>(212,484)</u>
Total nonoperating income (expense)	<u>(409,786)</u>
Decrease in net assets	(1,331,383)
Unrestricted net assets-beginning	<u>12,270,259</u>
Unrestricted net assets-ending	<u><u>\$ 10,938,876</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
Consolidated Statement of Functional Expenses
June 30, 2012**

	UKSM - W MPA		MPAP	CRI	CRL	Elimination	Total
	Program	Support	Other	Other	Other		
Physician expenses							
Salary expense	\$ 7,672,068	\$ -	\$ 9,559	\$ 16,306	\$ 10,576	\$ -	\$ 7,708,509
Benefit expense	1,078,705						1,078,705
Business expense	691,512						691,512
Total physician expenses	9,442,285		9,559	16,306	10,576		9,478,726
Non-Physician expense							
Mid-level salaries & benefits	1,644,415						1,644,415
Other non-physician salary & benefits	2,255,716	909,364	848	23,271	14,592		3,203,791
Supplies	1,046,204	14,906		1,160	223		1,062,493
Computer	112,079	72,242		185			184,506
Laboratory	400,167			53			400,220
Radiology	44,085						44,085
Occupancy	198,780	16,545	4,664	16,719			236,708
Furniture and equipment	126,627	7,108					133,735
Purchased services	194,878	204,180	6,533	91,896	27,075		524,562
Employee related expense	86,707	10,419		3,362	17		100,505
HOPWA client expenses	165,242						165,242
Participant fees				6,217	1,773		7,990
Total non-physician expenses	6,274,900	1,234,764	12,045	142,863	43,680		7,708,252
Total physician and non-physician expenses	15,717,185	1,234,764	21,604	159,169	54,256		17,186,978
Other expenses							
General & administrative	464,522	76,381	56	(4,799)	31,582		567,742
KUEA-Dean's fund		300,000					300,000
KUEA-Department development		542,000					542,000
Total other expenses	464,522	918,381	56	(4,799)	31,582		1,409,742
Total expenses	\$16,181,707	\$2,153,145	\$ 21,660	\$ 154,370	\$ 85,838	\$ -	\$ 18,596,720

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, 2012**

Cash flows from operating activities	
Decrease in net assets	\$(1,331,383)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Net realized and unrealized gain/(loss) on investments	(317,038)
Depreciation and amortization	211,442
Increase in patient accounts receivable, net	(155,948)
Decrease in contract receivable	222,151
Increase in other receivables	(730,924)
Decrease in income tax receivable	55,518
Decrease in prepaid expenses	98,304
Decrease in accounts payable	(73,540)
Increase in accrued payroll	104,906
Increase in accrued professional development funds	24,710
Increase in deferred income	57,741
Net cash (used) by operating activities	<u>(1,834,061)</u>
Cash flows from investing activities	
Proceeds on sale of investments	1,765,347
Interest reinvested	(13,350)
Purchase of investments	(588,340)
Purchase of land	(4,059)
Acquisition of property and equipment	(161,619)
Net cash provided by investing activities	<u>997,979</u>
Net decrease in cash and cash equivalents	(836,082)
Cash and cash equivalents at beginning of year	<u>2,382,600</u>
Cash and cash equivalents at end of year	<u>\$ 1,546,518</u>
Supplemental disclosure of cash flow information	
Cash paid for interest expense	<u>\$ 212,484</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, 2012**

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 6).

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 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. 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, 2012**

1. Summary of Significant Accounting Policies (Continued)

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 from income tax under Section 501(c)(3) of the Internal Revenue Code. 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 federal and Kansas income tax returns for periods ended June 30, 2012, 2011 and 2010 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 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, 2012, was \$211,442.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2012**

1. Summary of Significant Accounting Policies (Continued)

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.

The Association has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Association receives capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Association. In addition, the HMO's make fee-for-service payments to the Association for certain covered services based upon discounted fee schedules. With the decline in popularity of HMO plans, the current year revenue from this source is only \$11,790.

During 2008 State Plan Amendment (SPA) #08-02 re: Qualified Licensed Professional Services was approved for supplemental medical 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, 2012, the Association earned \$4,354,907 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, 2012 are as follows:

Traditional charity care	\$ 463,585
Other community benefit	568,315
	\$ 1,031,900

Additionally, the Association provided unpaid services under the Kansas Medicaid Program of \$960,726 for the year ended June 30, 2012.

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.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2012**

1. Summary of Significant Accounting Policies (Continued)

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.

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 year ended June 30, 2012.

Income from Operations:

The Statement of Operations 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 tabulation summarizes unrealized gains and losses by type of investment as of June 30, 2012:

	Amortized Cost	Estimated Market Value	Unrealized Gains (Losses)
Corporate stock	\$ 209,390	\$ 204,660	\$ (4,730)
Mutual funds:			
Stock	1,773,775	1,617,421	(156,354)
Bonds	1,164,260	1,180,954	16,694
Hedge Funds	903,301	246,547	(656,754)
Limited Partnership	180,000	192,844	12,844
Total investments	<u>\$ 4,230,726</u>	<u>\$ 3,442,426</u>	<u>\$ (788,300)</u>

Fair values were obtained from the financial institution which holds the investments and are based on quoted market values.

Investment loss of \$197,302 was recognized for the year ending June 30, 2012 and is comprised of the following:

	Investments	Total
Interest and dividend income	\$ 119,736	\$ 119,736
Realized net loss	(141,685)	\$ (141,685)
Unrealized net loss	(175,353)	(175,353)
	<u>\$ (197,302)</u>	<u>\$ (197,302)</u>

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2012**

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.

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

<u>June 30, 2012</u>	Fair Value	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	\$ 204,660	\$ 204,660	\$ -	\$ -
Mutual Funds: Stock	1,617,421	1,617,421		
Mutual Funds: Bonds	1,180,954	1,180,954		
Hedge Funds	246,547			246,547
Limited Partnership	192,844			192,844
Total	<u>\$ 3,442,426</u>	<u>\$ 3,003,035</u>	<u>\$ -</u>	<u>\$ 439,391</u>

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2012**

3. Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

July 1, 2011	\$ 264,056
Net realized losses	-
Unrealized losses on level three investments held at year end	(27,966)
Purchases, issuance and settlements	203,301
Transfers in and/or out of level 3	-
June 30, 2012	<u>\$ 439,391</u>

4. Real Estate

Medical Practice Association Properties, LLC, purchased 105 acres on January 23, 2009, in Wichita, Kansas, as a real estate investment for health care and commercial development. The MPA intends to build a residency education outpatient facility for Internal Medicine and Behavioral Sciences. The remaining acreage will be utilized for commercial development. See Note 12 for subsequent event.

5. 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 \$151,402 for the year ended June 30, 2012.

6. 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 \$542,000 for medical department operating expenses were also paid to KUEA for the year ended June 30, 2012.

The Association paid \$5,604,200 to the University of Kansas School of Medicine – Wichita for funding faculty salaries and benefits, which are included in physician expenses.

7. Concentration of Credit Risk

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 Association's financial instruments exposed to concentration of credit risk consist primarily of cash and cash equivalents. The Association places its funds into high credit quality financial institutions and at times the funds may be in excess of the federal depository insurance limit.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2012**

7. Concentration of Credit Risk continued)

The mix of receivables from patients, third-parties and others as of June 30, 2012 is as follows:

Medicare	\$ 245,078
Medicaid	206,539
Other third-party payors	555,636
Self-pay	264,215
FY 2012 charges billed July & August 2012	326,253
Total Patient AR 6/30/2012	<u>1,597,722</u>
AR Payments Unapplied at June 30, 2012	<u>(17,358)</u>
Patient AR before Bad Debt Allowance	1,580,364
Less allowance for doubtful accounts	<u>(751,284)</u>
Net AR, Patient Billings	829,079
Supplemental Medical Education receivable	2,460,795
Contracts receivable	81,117
Grants receivable	97,909
Other receivables	392,550
Net accounts receivable	<u><u>\$ 3,861,450</u></u>

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 \$3,442,426 at June 30, 2012, 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 at least reasonably possible, as represented by recent substantial market fluctuations, that changes in the values of investment securities will occur in the near term and that such changes could materially affect the fair value of investments.

**University of Kansas School of Medicine -
Wichita Medical Practice Association
Notes to Consolidated Financial Statements
June 30, 2012**

10. Notes Payable

At June 30, 2012 the Association has a secured note payable of \$3,800,000, requiring monthly payments of interest only at the prime rate plus 1%, with a minimum of 5.5%. The loan is payable in full by January 23, 2013. The note is secured by the real estate investment, (see Note 4), and a certificate of deposit with an original balance of \$750,000. Interest expense for the year ending June 30, 2012 was \$212,483.

Future payments are as follows:

Year Ended June 30	Amount
2013	\$ 3,800,000

11. Operating Lease

The Association has entered into two leases for clinic space in Wichita, Kansas. The leases expire in January 2013 and November 2013.

The future minimum annual rental commitments under these lease agreements subsequent to June 30, 2012 are as follows:

Year Ended June 30	Amount
2013	\$ 91,003
2014	16,000
	<u>\$ 107,003</u>

12. Subsequent Events

On October 1, 2012, Medical Practice Association Properties, LLC amended the original contract dated August 5, 2011, for the sale of eighty acres of real estate, (see Note 4). The amended contract calls for the sale of the first forty acres for a sales price in excess of carrying value and for closing on or before January 31, 2013, and no later than April 1, 2013. The Buyer will purchase the second forty acres at a determined price with the closing on or before June 30, 2013. The closing date for the second forty may be extended for additional periods of one month starting on July 1, 2013 to a date on or before December 28, 2013 by payment of a monthly extension fee. If the Buyer closes on the first forty and the second forty, Buyer has an option to purchase the remaining Twenty-Five acres at a determined price with a closing date no later than April 1, 2014.

Subsequent events were evaluated through November 26, 2012, 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, 2012**

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		7/1/2011 To 12/31/11	\$ 167,077
Public Health Service/Grants to :				
Provide Outpatient Early Intervention Services with Respect to HIV Disease				
	93.918	H 76HA 00142-17-00	7/1/2011 To 12/31/11	453,398
	93.918	H 76HA 00142-18-04	1/1/2012 To 6/30/12	456,718
				<u>910,116</u>
Public Health Service/Grants to :				
Coordinated Services & Access to Research for Women, Infants, Children, and Youth				
	93.153	H 12HA 16527-02-00	7/1/2011 To 7/30/11	27,401
	93.153	H 12HA 16527-03-01	8/1/2011 To 6/30/12	337,461
				<u>364,862</u>
Total U.S. Department of Health and Human Services				<u>\$ 1,442,055</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	7/1/2011 To 12/31/11	177,113
	14.241	Formula	1/1/2012 To 6/30/12	194,162
Total U.S. Department of Housing and Urban Development				<u>371,274</u>
Total federal expenditures				<u>\$ 1,813,329</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.

**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 the consolidated financial statements of University of Kansas School of Medicine-Wichita Medical Practice Association as of and for the year ended June 30, 2012, and have issued our report thereon dated November 26, 2012. 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.

Internal Control Over Financial Reporting

Management of University of Kansas School of Medicine-Wichita Medical Practice Association is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered University of Kansas School of Medicine-Wichita Medical Practice Association's internal control over financial reporting as a basis for designing our auditing procedures 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 University of Kansas School of Medicine-Wichita Medical Practice Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information of the Board of Trustees and related committees, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Regis Cam & Monroe, L.L.P.

November 26, 2012
Wichita, Kansas

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

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, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of University of Kansas School of Medicine-Wichita Medical Practice Association's management. Our responsibility is to express an opinion on University of Kansas School of Medicine-Wichita Medical Practice Association's compliance based on our audit.

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. Our audit does not provide a legal determination of University of Kansas School of Medicine-Wichita Medical Practice Association's compliance with those requirements.

In our opinion, University of Kansas School of Medicine-Wichita Medical Practice Association complied, in all material respects, with the 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, 2012.

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 requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered University of Kansas School of Medicine-Wichita Medical Practice Association's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Trustees and related committees, management, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Regina Carr & Monroe, L.L.P.

November 26, 2012
Wichita, Kansas

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

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: unqualified

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 Provide Outpatient Early Intervention Services with Respect to HIV Disease

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, 2012**

Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

WICHITA	300 W. DOUGLAS AVE., STE. 900	WICHITA, KS 67202-2914	316-264-2335
TULSA	8023 E. 63RD PL., STE. 500	TULSA, OK 74133-1209	918-494-8700
TUCSON	4801 E. BROADWAY BLVD., STE. 501	TUCSON, AZ 85711-3648	520-624-8229
McALESTER	321 S. 3RD ST., STE. 6	McALESTER, OK 74501-5410	918-426-3272