

**Stillwater Medical Center Authority**  
**d/b/a Stillwater Medical Center**  
**A Component Unit of the City of Stillwater, Oklahoma**  
Independent Auditor's Reports and Financial Statements  
December 31, 2020 and 2019



**Stillwater Medical Center Authority**  
**d/b/a Stillwater Medical Center**  
**A Component Unit of the City of Stillwater, Oklahoma**  
**December 31, 2020 and 2019**

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## Independent Auditor's Report

Board of Trustees  
Stillwater Medical Center Authority  
d/b/a Stillwater Medical Center  
Stillwater, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority), a component unit of the City of Stillwater, Oklahoma, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stillwater Medical Center Authority d/b/a Stillwater Medical Center as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated June 30, 2021, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

***BKD, LLP***

Tulsa, Oklahoma  
June 30, 2021

**Stillwater Medical Center Authority**  
**d/b/a Stillwater Medical Center**  
**A Component Unit of the City of Stillwater, Oklahoma**  
**Balance Sheets**  
**December 31, 2020 and 2019**

**Assets and Deferred Outflows of Resources**

|  | <u>2020</u>           | <u>2019</u>           |
|--|-----------------------|-----------------------|
| <b>Current Assets</b>  |                       |                       |
| Cash and cash equivalents  | \$ 23,653,955         | \$ 32,634,755         |
| Short-term investments   | 71,894,296            | 27,500,962            |
| Restricted cash and investments – current  | 247,971               | 78,871                |
| Patient accounts receivable, net of allowance;<br>2020 – \$6,833,000, 2019 – \$3,989,000 | 37,440,872            | 29,064,036            |
| Supplies   | 6,401,956             | 6,519,998             |
| Prepaid expenses and other   | <u>6,537,163</u>      | <u>6,996,078</u>      |
| Total current assets   | <u>146,176,213</u>    | <u>102,794,700</u>    |
| <b>Noncurrent Cash and Investments</b>   |                       |                       |
| Held by trustee for specific operating activities  | 300,000               | 300,000               |
| Held by trustee for specific capital acquisition   | <u>20,693,660</u>     | <u>28,524,797</u>     |
|  | 20,993,660            | 28,824,797            |
| Less amount required to meet current obligations   | <u>247,818</u>        | <u>78,871</u>         |
|  | 20,745,842            | 28,745,926            |
| Other long-term investments  | <u>45,744,940</u>     | <u>36,777,028</u>     |
| Noncurrent cash and investments, net   | <u>66,490,782</u>     | <u>65,522,954</u>     |
| <b>Capital Assets, Net</b>   | <u>152,090,399</u>    | <u>135,607,465</u>    |
| <b>Other Assets</b>  |                       |                       |
| Investments in joint ventures  | 9,176,636             | 9,082,433             |
| Other  | <u>33,370,605</u>     | <u>33,913,035</u>     |
| Total other assets   | <u>42,547,241</u>     | <u>42,995,468</u>     |
| <b>Deferred Outflows of Resources</b>  | <u>5,274,353</u>      | <u>6,656,630</u>      |
| Total assets and deferred outflows of resources  | <u>\$ 412,578,988</u> | <u>\$ 353,577,217</u> |

## Liabilities and Net Position

|   | <u>2020</u>           | <u>2019</u>           |
|---|-----------------------|-----------------------|
| <b>Current Liabilities</b>                                      |                       |                       |
| Current maturities of long-term debt                            | \$ 11,147,654         | \$ 9,333,599          |
| Accounts payable  | 6,584,395             | 11,207,720            |
| Accrued expenses  | 18,023,436            | 12,465,641            |
| Estimated amounts due to third-party payors                     | <u>9,298,172</u>      | <u>655,000</u>        |
| Total current liabilities                                       | 45,053,657            | 33,661,960            |
| <b>Estimated Amounts Due to Third-Party Payors – Noncurrent</b> | 18,085,000            | -                     |
| <b>Other Liabilities</b>  | 1,888,141             | -                     |
| <b>Long-Term Debt</b>   | <u>74,784,408</u>     | <u>75,180,655</u>     |
| Total liabilities   | <u>139,811,206</u>    | <u>108,842,615</u>    |
| <b>Net Position</b>   |                       |                       |
| Net investment in capital assets                                | 82,767,457            | 78,163,805            |
| Restricted – expendable for                                     |                       |                       |
| Specific operating activities                                   | 300,000               | 300,000               |
| Restricted – nonexpendable                                      | 7,466,019             | 7,769,383             |
| Unrestricted  | <u>182,234,306</u>    | <u>158,501,414</u>    |
| Total net position  | <u>272,767,782</u>    | <u>244,734,602</u>    |
| Total liabilities and net position                              | <u>\$ 412,578,988</u> | <u>\$ 353,577,217</u> |

**Stillwater Medical Center Authority**  
**d/b/a Stillwater Medical Center**  
**A Component Unit of the City of Stillwater, Oklahoma**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2020 and 2019**

|  | <b>2020</b>    | <b>2019</b>    |
|--|----------------|----------------|
| <b>Operating Revenues</b>  |                |                |
| Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$28,202,279, 2019 – \$23,909,551 | \$ 246,235,544 | \$ 230,697,313 |
| Other  | 5,276,846      | 4,250,203      |
| Total operating revenues   | 251,512,390    | 234,947,516    |
| <b>Operating Expenses</b>  |                |                |
| Salaries and wages   | 109,907,383    | 94,273,722     |
| Employee benefits  | 27,492,832     | 24,298,596     |
| Purchased services and professional fees   | 29,726,017     | 24,221,776     |
| Supplies and other expenses  | 70,965,920     | 61,612,036     |
| Depreciation and amortization  | 13,011,776     | 11,640,524     |
| Total operating expenses   | 251,103,928    | 216,046,654    |
| <b>Operating Income</b>  | 408,462        | 18,900,862     |
| <b>Nonoperating Revenues (Expenses)</b>  |                |                |
| Noncapital grants and gifts  | 416,323        | 20,903         |
| Government grants  | 16,287,077     | -              |
| Gain on investments in joint ventures  | 1,136,953      | 3,663,704      |
| Investment return  | 8,389,990      | 9,095,240      |
| Interest expense and financing costs   | (2,908,418)    | (1,172,793)    |
| Total nonoperating revenues (expenses)   | 23,321,925     | 11,607,054     |
| <b>Income Before Capital Gifts and Distributions</b>   | 23,730,387     | 30,507,916     |
| <b>Capital Gifts</b>   | 1,250,000      | 24,119         |
| <b>Distributions from Minority Owners, Net</b>   | 3,052,793      | 7,556,451      |
| <b>Increase in Net Position</b>  | 28,033,180     | 38,088,486     |
| <b>Net Position, Beginning of Year</b>   | 244,734,602    | 206,646,116    |
| <b>Net Position, End of Year</b>   | \$ 272,767,782 | \$ 244,734,602 |

**Stillwater Medical Center Authority**  
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**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

|  | <b>2020</b>         | <b>2019</b>         |
|--|---------------------|---------------------|
| <b>Operating Activities</b>  |                     |                     |
| Receipts from and on behalf of patients  | \$ 264,586,880      | \$ 228,585,743      |
| Payments to suppliers and contractors  | (105,381,587)       | (86,691,076)        |
| Payments to employees  | (126,341,230)       | (116,438,084)       |
| Other receipts and payments, net   | 5,915,950           | 5,039,431           |
| Net cash provided by operating activities  | <u>38,780,013</u>   | <u>30,496,014</u>   |
| <b>Noncapital Financing Activities</b>   |                     |                     |
| Government grants  | 16,287,077          | -                   |
| Noncapital grants and gifts  | 416,323             | 20,903              |
| Net cash provided by noncapital financing activities   | <u>16,703,400</u>   | <u>20,903</u>       |
| <b>Capital and Related Financing Activities</b>  |                     |                     |
| Capital gifts  | 1,250,000           | 24,119              |
| Proceeds from issuance of long-term debt   | 10,000,000          | 79,245,000          |
| Payment of debt issuance costs   | -                   | (1,125,304)         |
| Proceeds from disposal of capital assets   | 950,229             | -                   |
| Principal paid on long-term debt   | (10,439,671)        | (44,566,507)        |
| Interest paid on long-term debt  | (1,589,270)         | (1,200,628)         |
| Purchase of capital assets   | (27,300,641)        | (39,273,454)        |
| Issuance of note receivable  | -                   | (21,189,000)        |
| Net cash used in capital and related financing activities                                    | <u>(27,129,353)</u> | <u>(28,085,774)</u> |
| <b>Investing Activities</b>  |                     |                     |
| Purchases of restricted assets whose use is limited under bond agreements                    | -                   | (3,024,509)         |
| Proceeds from disposition of restricted assets whose use is limited under bond agreements    | -                   | 4,648,735           |
| Purchases of restricted assets whose use is limited for capital acquisitions                 | -                   | (48,541,585)        |
| Proceeds from disposition of restricted assets whose use is limited for capital acquisitions | 7,830,984           | 51,490,020          |
| Purchases of investments   | (72,970,008)        | (51,025,153)        |
| Proceeds from disposition of investments   | 25,763,791          | 41,158,145          |
| Distributions from joint ventures  | 998,983             | 8,209,614           |
| Acquisition of Pipeline Crossroads Clinic, net of cash acquired                              | -                   | (3,209,663)         |
| Investment and joint venture income received   | 2,234,961           | 7,074,907           |
| Investments in joint ventures  | -                   | (250,000)           |
| Distributions to minority owners   | (1,193,571)         | (300,893)           |
| Net cash provided by (used in) investing activities  | <u>(37,334,860)</u> | <u>6,229,618</u>    |

See Notes to Financial Statements

|  | <b>2020</b>                 | <b>2019</b>                 |
|--|-----------------------------|-----------------------------|
| <b>Increase (Decrease) in Cash and Cash Equivalents</b>                                | \$ (8,980,800)              | \$ 8,660,761                |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                                    | <u>32,634,755</u>           | <u>23,973,994</u>           |
| <b>Cash and Cash Equivalents, End of Year</b>  | <u><u>\$ 23,653,955</u></u> | <u><u>\$ 32,634,755</u></u> |
| <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b> |                             |                             |
| Operating income   | \$ 408,462                  | \$ 18,900,862               |
| Depreciation and amortization  | 13,011,776                  | 11,640,524                  |
| Accrued self-insurance costs   | 1,214,131                   | 22,962                      |
| Provision for uncollectible accounts   | 28,202,279                  | 23,909,551                  |
| Changes in operating assets and liabilities  |                             |                             |
| Patient accounts receivable  | (36,579,115)                | (26,961,121)                |
| Supplies, prepaid expenses, and other assets   | (11,418,186)                | (5,037,137)                 |
| Estimated amounts due to/from third-party payors                                       | 26,728,172                  | 940,000                     |
| Accounts payable and accrued expenses  | <u>17,212,494</u>           | <u>7,080,373</u>            |
| Net cash provided by operating activities  | <u><u>\$ 38,780,013</u></u> | <u><u>\$ 30,496,014</u></u> |
| <b>Noncash Investing, Capital, and Financing Activities</b>                            |                             |                             |
| Capital asset purchases in accounts payable  | \$ 423,198                  | \$ 1,454,203                |
| Capital lease obligations incurred for equipment                                       | \$ 1,857,479                | \$ 2,296,190                |
| Capital asset contribution to SMC Development, Inc.                                    | \$ -                        | \$ 15,445,649               |
| Capital asset contribution to SMC RE, LLC  | \$ -                        | \$ 16,140,000               |

**Stillwater Medical Center Authority**  
**d/b/a Stillwater Medical Center**  
**A Component Unit of the City of Stillwater, Oklahoma**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

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

***Nature of Operations***

Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority) is a public trust and an agency of the state of Oklahoma. The Authority is a component unit of the City of Stillwater, Oklahoma (the City) as the Board of Commissioners of the City appoints the majority of the members of the Board of Trustees of the Authority. The Authority operates, as its sole activity, Stillwater Medical Center under the terms of a trust indenture originally dated December 14, 1971.

The Authority primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Stillwater, Oklahoma, and surrounding communities. The Authority also operates physician clinics and a rehabilitation unit and provides home health and hospice services in the same geographic area.

Effective April 1, 2018, the Authority entered into a lease agreement with Perry Memorial Hospital Authority (Perry Authority) to assume all operations of Perry Memorial Hospital (Perry), a 26-bed hospital located in Perry, Oklahoma. The initial lease term covers a period of five years. The lease also includes four additional five-year extension periods. Perry primarily earns revenues by providing inpatient, outpatient, emergency, and home health services to patients in Perry, Oklahoma.

Effective January 1, 2020, the Authority entered into a lease agreement with Blackwell Hospital Trust Authority (Blackwell Authority) to assume all operations of Blackwell Regional Hospital (Blackwell), a 40-bed hospital located in Blackwell, Oklahoma. The initial lease term covers a period of seven years. Blackwell primarily earns revenues by providing inpatient, outpatient, emergency, and home health services to patients in Blackwell, Oklahoma.

***Reporting Entity***

The accompanying financial statements include the accounts of the Authority and its blended component units, SMC Equipment, Inc. (SMC Equipment), SMC Development, Inc. (SMC Development), and SMC RE, LLC (SMC RE). All three entities are blended component units as they are entities for which the Authority is considered to be financially accountable.

SMC Equipment is a corporation organized in 2018 to lease various medical and facility equipment to the Authority. The Authority is the sole corporate member of SMC Equipment. Separate financial statements for SMC Equipment can be obtained by contacting the Authority's administrative office.

SMC Development is a corporation organized in 2019 to own, hold, and manage real and personal property. The Authority is the sole corporate member of SMC Development. Separate financial statements for SMC Development can be obtained by contacting the Authority's administrative office.

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SMC RE is a limited liability company organized in 2019 to lease various medical facilities to the Authority. The Authority owned approximately 54% and 53% of SMC RE as of December 31, 2020 and 2019, respectively. Separate financial statements for SMC RE can be obtained by contacting the Authority's administrative office.

Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities; thus, the Authority's blended component units are appropriately presented as funds of the primary government.

***Basis of Accounting and Presentation***

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

***Use of Estimates***

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

***Cash and Cash Equivalents***

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers.

Included in restricted cash and investments – current on the accompanying balance sheets are money market mutual funds with brokers the Authority does not consider cash equivalents.

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***Risk Management***

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Authority is self-insured for a portion of its exposure to the risk of loss from workers' compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

***Investments and Investment Return***

Investments in U.S. Treasury, agency, and instrumentality obligations with a remaining maturity of one year or less at the time of acquisition and non-negotiable certificates of deposit are carried at amortized cost. The investments in joint ventures are reported on the cost and equity methods of accounting (see *Note 5* for additional information on the joint ventures). All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment return includes dividend and interest income, realized gains and losses on investments carried at other than fair value, and the net change for the year in the fair value of investments carried at fair value.

***Patient Accounts Receivable***

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold

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improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

|                                      |             |
|--------------------------------------|-------------|
| Land improvements                    | 8–20 years  |
| Buildings and leasehold improvements | 10–40 years |
| Equipment                            | 3–20 years  |

***Capital Asset Impairment***

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

***Deferred Outflows of Resources***

The Authority reports the consumption of net position that is applicable to a future period as deferred outflows of resources in a separate section of its balance sheets.

***Compensated Absences***

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

***Net Position***

Net position of the Authority is classified in four components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position is made up of the minority interest in SMC RE. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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***Net Patient Service Revenue***

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

***Income Taxes***

As an essential government function of the City, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

***Supplemental Hospital Offset Payment Program***

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

During the years ended December 31, the Authority had the following activity related to the SHOPP:

|                            | <b>2020</b>  | <b>2019</b>  |
|----------------------------|--------------|--------------|
| SHOPP funds received       | \$ 4,283,000 | \$ 5,096,000 |
| SHOPP assessment fees paid | 4,169,000    | 4,324,000    |
| Net benefit under SHOPP    | \$ 114,000   | \$ 772,000   |

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The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the remaining term of the SHOPP is expected to be consistent over the remaining term. SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses, and changes in net position.

***Reclassifications***

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation. The reclassifications had no effect on the changes in financial position.

**Note 2: Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through December 31, 2017.
- **Medicaid** – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Approximately 43% and 44% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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**Note 3: Deposits, Investments, and Investment Return**

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At December 31, 2020 and 2019, approximately \$3,368,000 and \$1,391,000 of the Authority's bank balances of approximately \$9,946,000 and \$8,601,000, respectively, were uninsured and uncollateralized.

The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$47,000 and \$1,450,000 and carrying values of approximately \$47,000 and \$1,450,000 at December 31, 2020 and 2019, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At December 31, 2020 and 2019, the blended component units' cash accounts exceeded federally insured limits by approximately \$0 and \$950,000, respectively.

***Investments***

The Authority may invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest in corporate bonds and equity securities.

At December 31, the Authority had the following investments and maturities:

| Type                                  | Fair Value            | Maturities in Years  |                      |                      |                  |
|---------------------------------------|-----------------------|----------------------|----------------------|----------------------|------------------|
|                                       |                       | Less than 1          | 1-5                  | 6-10                 | More than 10     |
| <b>2020</b>                           |                       |                      |                      |                      |                  |
| Money market mutual funds             | \$ 22,740,028         | \$ 22,740,028        | \$ -                 | \$ -                 | \$ -             |
| Mutual funds – fixed income           | 74,027,125            | 31,734,184           | 25,748,609           | 16,476,982           | 67,350           |
| Mutual funds – domestic equities      | 30,250,392            | 30,250,392           | -                    | -                    | -                |
| Mutual funds – international equities | 8,878,711             | 8,878,711            | -                    | -                    | -                |
| Total investments                     | <u>\$ 135,896,256</u> | <u>\$ 93,603,315</u> | <u>\$ 25,748,609</u> | <u>\$ 16,476,982</u> | <u>\$ 67,350</u> |

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| Type                                  | Fair Value            | Maturities in Years  |                      |                     |              |
|---------------------------------------|-----------------------|----------------------|----------------------|---------------------|--------------|
|                                       |                       | Less than 1          | 1-5                  | 6-10                | More than 10 |
| <b>2019</b>                           |                       |                      |                      |                     |              |
| Money market mutual funds             | \$ 51,341,308         | \$ 51,341,308        | \$ -                 | \$ -                | \$ -         |
| Mutual funds – fixed income           | 32,535,028            | -                    | 25,101,764           | 7,433,264           | -            |
| Mutual funds – domestic equities      | 21,547,255            | 21,547,255           | -                    | -                   | -            |
| Mutual funds – international equities | 5,641,277             | 5,641,277            | -                    | -                   | -            |
| Total investments                     | <u>\$ 111,064,868</u> | <u>\$ 78,529,840</u> | <u>\$ 25,101,764</u> | <u>\$ 7,433,264</u> | <u>\$ -</u>  |

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority’s investment policy limits its fixed income investment portfolio to an average overall portfolio duration no greater than 7.5 years. The money market mutual funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year. Maturities of mutual funds – fixed income are presented based on the average maturity of the underlying securities in the fund.

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority’s policy to limit its domestic fixed income investments to a credit rating of no less than investment grade and an overall weighted-average rating of A by Standard & Poor’s (S & P), Moody’s, or Fitch.

At December 31, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

| Investments               | Moody’s   | S & P     |
|---------------------------|-----------|-----------|
| <b>2020</b>               |           |           |
| Money market mutual funds | Aaa-mf    | AAAm      |
| Mutual funds              | Not Rated | Not Rated |
| <b>2019</b>               |           |           |
| Money market mutual funds | Aaa-mf    | AAAm      |
| Mutual funds              | Not Rated | Not Rated |

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investment policy does not address custodial credit risk.

**Concentration of Credit Risk** – The Authority limits exposure of the portfolio to any one issuer, other than the U.S. government or its agencies, to 10% of the market value of the fixed income portfolio and 5% of the market value of the equity portfolio.

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At December 31, 2020 and 2019, no investments exceeded 5% of the total fair value of all investments.

***Summary of Carrying Values***

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

|  | <u>2020</u>           | <u>2019</u>           |
|--|-----------------------|-----------------------|
| Carrying value                                   |                       |                       |
| Deposits   | \$ 26,390,748         | \$ 14,672,674         |
| Investments                                      | <u>135,896,256</u>    | <u>111,064,868</u>    |
|  | <u>\$ 162,287,004</u> | <u>\$ 125,737,542</u> |
| <br>   |                       |                       |
| Included in the following balance sheet captions |                       |                       |
| Cash and cash equivalents                        | \$ 23,653,955         | \$ 32,634,755         |
| Short-term investments                           | 71,894,296            | 27,500,962            |
| Restricted cash and investments – current        | 247,971               | 78,871                |
| Noncurrent cash and investments, net             | <u>66,490,782</u>     | <u>65,522,954</u>     |
|  | <u>\$ 162,287,004</u> | <u>\$ 125,737,542</u> |

***Investment Return***

Investment return for the years ended December 31 consisted of:

|  | <u>2020</u>         | <u>2019</u>         |
|--|---------------------|---------------------|
| Interest, dividends, and realized gain on sales of investments | \$ 2,234,961        | \$ 3,927,622        |
| Net increase in fair value of investments                      | <u>6,155,029</u>    | <u>5,167,618</u>    |
|  | <u>\$ 8,389,990</u> | <u>\$ 9,095,240</u> |

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**Note 4: Patient Accounts Receivable**

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at December 31 consisted of:

|   | <u>2020</u>          | <u>2019</u>          |
|---|----------------------|----------------------|
| Medicare                                  | \$ 9,774,902         | \$ 7,502,574         |
| Medicaid                                  | 1,412,259            | 714,298              |
| Other third-party payors                  | 19,015,534           | 15,838,226           |
| Patients                                  | <u>14,071,177</u>    | <u>8,997,938</u>     |
|   | 44,273,872           | 33,053,036           |
| Less allowance for uncollectible accounts | <u>6,833,000</u>     | <u>3,989,000</u>     |
|   | <u>\$ 37,440,872</u> | <u>\$ 29,064,036</u> |

**Note 5: Investments in Joint Ventures**

The investments in joint ventures at December 31 relate to the following:

|   | <u>2020</u> | <u>2019</u> |
|---|-------------|-------------|
| Fresenius Medical Care – Stillwater, LLC        | 9%          | 9%          |
| LifeCare Health Services, LLC                   | 10%         | 10%         |
| Tecumseh Health Reciprocal Risk Retention Group | 4%          | 4%          |
| Upper Midwest Consolidated Services Center      | 1%          | 1%          |
| Bushwood, LLC                                   | 50%         | 50%         |

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The financial position and results of operations from the unaudited financial statements of the significant joint ventures for the fiscal years ended December 31 are summarized below:

|  | <b>2020</b>          |                     |                     |
|--|----------------------|---------------------|---------------------|
|  | <b>Tecumseh</b>      | <b>Bushwood</b>     | <b>LifeCare</b>     |
| Current assets                           | \$ 68,085,704        | \$ 129,444          | \$ 8,924,042        |
| Property and other long-term assets, net | <u>-</u>             | <u>8,181,913</u>    | <u>307,212</u>      |
| Total assets                             | <u>\$ 68,085,704</u> | <u>\$ 8,311,357</u> | <u>\$ 9,231,254</u> |
| Total liabilities                        | \$ 19,617,298        | \$ -                | \$ 649,914          |
| Partners' equity                         | <u>48,468,406</u>    | <u>8,311,357</u>    | <u>8,581,340</u>    |
| Total liabilities and partners' equity   | <u>\$ 68,085,704</u> | <u>\$ 8,311,357</u> | <u>\$ 9,231,254</u> |
| Revenues                                 | <u>\$ 11,042,745</u> | <u>\$ 763,751</u>   | <u>\$ 3,436,246</u> |
| Excess of revenues over expenses         | <u>\$ 3,091,751</u>  | <u>\$ 520,696</u>   | <u>\$ 511,747</u>   |
|  | <b>2019</b>          |                     |                     |
|  | <b>Tecumseh</b>      | <b>Bushwood</b>     | <b>LifeCare</b>     |
| Current assets                           | \$ 60,979,392        | \$ 126,826          | \$ 7,843,059        |
| Property and other long-term assets, net | <u>-</u>             | <u>8,470,035</u>    | <u>313,161</u>      |
| Total assets                             | <u>\$ 60,979,392</u> | <u>\$ 8,596,861</u> | <u>\$ 8,156,220</u> |
| Total liabilities                        | \$ 18,157,605        | \$ -                | \$ 530,681          |
| Partners' equity                         | <u>42,821,787</u>    | <u>8,596,861</u>    | <u>7,625,539</u>    |
| Total liabilities and partners' equity   | <u>\$ 60,979,392</u> | <u>\$ 8,596,861</u> | <u>\$ 8,156,220</u> |
| Revenues                                 | <u>\$ 10,611,789</u> | <u>\$ 750,683</u>   | <u>\$ 2,324,039</u> |
| Excess of revenues over expenses         | <u>\$ 5,891,131</u>  | <u>\$ 503,460</u>   | <u>\$ 357,507</u>   |

Complete financial statements of the joint venture entities may be obtained by contacting the Authority's management.

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The Authority purchases its professional liability (medical malpractice) and general liability insurance coverage from Tecumseh Health Reciprocal Risk Retention Group (Tecumseh) (see *Note 7*). For the years ended December 31, 2020 and 2019, the Authority paid approximately \$280,000 and \$269,000, respectively, to Tecumseh for the coverage. The Authority's investment in Tecumseh was \$1,648,563 and \$1,545,601 at December 31, 2020 and 2019, respectively.

LifeCare Health Services, LLC (LifeCare) is a joint venture between certain hospitals in Oklahoma organized to collaborate and share expenses and expertise to expand or enhance health care services in the communities served by each participating hospital in furtherance of their independent missions. The Authority's investment in LifeCare was approximately \$644,000 at December 31, 2020 and 2019.

Effective August 15, 2018, the Authority acquired a 50% equity interest in Bushwood, LLC (Bushwood) for \$6,285,000. Bushwood owns two buildings in Stillwater, Oklahoma, an ambulatory surgery center and a medical office building, that are 100% leased by the Authority. For the years ended December 31, 2020 and 2019, the Authority paid approximately \$715,000 and \$702,000, respectively, in rent for the right to utilize the building space. The Authority's investment in Bushwood was \$6,532,742 and \$6,305,394 at December 31, 2020 and 2019, respectively. The Authority received distributions of \$33,000 and \$286,000 from Bushwood during the years ended December 31, 2020 and 2019, respectively.

Fresenius Medical Care – Stillwater, LLC (Fresenius) provides dialysis services to residents of Stillwater and the surrounding area. The Authority's investment in Fresenius was approximately \$277,000 and \$262,000 at December 31, 2020 and 2019, respectively.

Upper Midwest Consolidated Services Center (UMCSC) is a health care supply purchasing and management organization. The Authority's investment in UMCSC was \$75,000 at December 31, 2020 and 2019.



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**Note 7: Medical Malpractice Claims**

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, an accrual of approximately \$60,000 has been made as of December 31, 2020 and 2019. It is reasonably possible that this estimate could change materially in the near term.

The Authority is a subscriber (member) of Tecumseh, an entity approved by the state of Vermont to provide hospital professional and general liability coverage to its subscribers. Tecumseh was formed in order to stabilize the cost and availability of hospital professional and general liability insurance by taking advantage of the self-funding capabilities of a homogenous group of health care providers. Tecumseh members are provided hospital professional and general liability insurance under claims-made policies on a fixed premium basis. See *Note 5* for additional information about Tecumseh.

**Note 8: Self-Insured Claims**

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's employee health insurance plan. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of approximately \$300,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of \$350,000.

The Authority is self-insured for risks related to workers' compensation claims up to \$550,000 per occurrence with an annual liability limit of \$1,000,000 in the aggregate. In connection with the self-insured workers' compensation policy, the Authority had a \$300,000 certificate of deposit held in escrow at a local bank during the years ended December 31, 2020 and 2019. No draws were made on the certificate of deposit held in escrow through 2020.

A provision is accrued for self-insured employee health claims and workers' compensation claims, including both claims reported and claims incurred but not yet reported. The accruals are estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Authority's estimates will change by a material amount in the near term.

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Activity in the Authority's accrued employee health and workers' compensation claims liability during 2020 and 2019 is summarized as follows:

|  | <b>Employee<br/>Health</b> | <b>Workers'<br/>Compensation</b> |
|--|----------------------------|----------------------------------|
| <b>2020</b>  |                            |                                  |
| Balance, beginning of year   | \$ 1,198,665               | \$ 78,871                        |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 12,640,865                 | 344,096                          |
| Claims and expenses paid   | (11,595,681)               | (175,149)                        |
| Balance, end of year   | \$ 2,243,849               | \$ 247,818                       |
| <b>2019</b>  |                            |                                  |
| Balance, beginning of year   | \$ 1,171,289               | \$ 83,285                        |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 11,439,916                 | 114,997                          |
| Claims and expenses paid   | (11,412,540)               | (119,411)                        |
| Balance, end of year   | \$ 1,198,665               | \$ 78,871                        |

**Note 9: Long-Term Debt**

The following is a summary of long-term debt obligation transactions for the Authority for the years ended December 31:

|                           | <b>2020</b>                  |                  |                   |                           |                            |
|---------------------------|------------------------------|------------------|-------------------|---------------------------|----------------------------|
|                           | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Deductions</b> | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
| Revenue bonds payable     |                              |                  |                   |                           |                            |
| Series 2019A              | \$ 3,250,000                 | \$ -             | \$ 1,500,000      | \$ 1,750,000              | \$ 1,500,000               |
| Series 2019C              | 20,890,378                   | -                | 4,948,913         | 15,941,465                | 5,028,010                  |
| Series 2019D              | 11,352,956                   | -                | 1,502,505         | 9,850,451                 | 1,547,878                  |
| Note payable              | -                            | 10,000,000       | 966,410           | 9,033,590                 | 1,955,139                  |
| Promissory notes          |                              |                  |                   |                           |                            |
| SMC Equipment             | 16,000,000                   | -                | -                 | 16,000,000                | -                          |
| SMC Development           | 30,000,000                   | -                | -                 | 30,000,000                | -                          |
| Capital lease obligations | 3,020,920                    | 1,857,479        | 1,521,843         | 3,356,556                 | 1,116,627                  |
| Total long-term debt      | \$ 84,514,254                | \$ 11,857,479    | \$ 10,439,671     | \$ 85,932,062             | \$ 11,147,654              |

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|                           | <b>2019</b>                  |                      |                      |                           |                            |
|---------------------------|------------------------------|----------------------|----------------------|---------------------------|----------------------------|
|                           | <b>Beginning<br/>Balance</b> | <b>Additions</b>     | <b>Deductions</b>    | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
| Revenue bonds payable     |                              |                      |                      |                           |                            |
| Series 2014               | \$ 3,205,000                 | \$ -                 | \$ 3,205,000         | \$ -                      | \$ -                       |
| Series 2017               | 25,833,334                   | -                    | 25,833,334           | -                         | -                          |
| Series 2019A              | -                            | 4,500,000            | 1,250,000            | 3,250,000                 | 1,500,000                  |
| Series 2019B              | -                            | 12,000,000           | 12,000,000           | -                         | -                          |
| Series 2019C              | -                            | 21,250,000           | 359,622              | 20,890,378                | 4,895,000                  |
| Series 2019D              | -                            | 11,495,000           | 142,044              | 11,352,956                | 1,505,000                  |
| Promissory notes          |                              |                      |                      |                           |                            |
| SMC Equipment             | 16,000,000                   | -                    | -                    | 16,000,000                | -                          |
| SMC Development           | -                            | 30,000,000           | -                    | 30,000,000                | -                          |
| Capital lease obligations | 2,501,237                    | 2,296,190            | 1,776,507            | 3,020,920                 | 1,433,599                  |
|                           | <u>\$ 47,539,571</u>         | <u>\$ 81,541,190</u> | <u>\$ 44,566,507</u> | <u>\$ 84,514,254</u>      | <u>\$ 9,333,599</u>        |
| Total long-term debt      | <u>\$ 47,539,571</u>         | <u>\$ 81,541,190</u> | <u>\$ 44,566,507</u> | <u>\$ 84,514,254</u>      | <u>\$ 9,333,599</u>        |

**Revenue Bonds Payable – Series 2014**

The Series 2014 revenue bonds payable consisted of Hospital Revenue Bonds (the 2014 Bonds) in the original amount of \$15,570,000 dated March 28, 2014, which bear interest at 1.69%. The 2014 Bonds were payable in annual installments through May 15, 2019, with interest payable semiannually. The 2014 Bonds outstanding were able to be redeemed at the Authority’s option after May 16, 2017, at 100%. The 2014 Bonds were secured by the gross revenues of the Authority, certain property, and the trustee-held assets restricted under the bond indenture agreement. The 2014 Bonds were paid off during the year ended December 31, 2019.

**Revenue Bond Payable – Series 2017**

The Series 2017 revenue bond payable consisted of a Hospital Revenue Bond (the Series 2017 Bond) in the original amount of \$35,000,000 dated January 26, 2017, which bears interest annually at 2.16%. The Series 2017 Bond was payable in monthly principal and interest installments through February 15, 2024. The Series 2017 Bond outstanding was able to be redeemed at the Authority’s option at a premium. The Series 2017 Bond was secured by the gross revenues of the Authority and the assets held by trustee and was to be used for capital asset acquisitions. The Series 2017 Bond was paid off during the year ended December 31, 2019, with proceeds from the Series 2019C Bond.

**Revenue Bonds Payable – Series 2019**

The Authority issued the Series 2019A Bond (the Series 2019A Bond) as a \$4,500,000 loan payable dated February 14, 2019. The loan payable bears interest at 3.5% and is payable in monthly principal and interest installments through February 1, 2022. The Series 2019A Bond is secured by the gross revenues of the Authority.

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The Authority issued the Hospital Revenue Bond, Series 2019B (the Series 2019B Bond) in the original amount of \$12,000,000 dated April 2, 2019, which bears interest annually at 3.18%. The Series 2019B Bond was payable in monthly principal and interest installments through May 1, 2029. The Series 2019B Bond was secured by the gross revenues of the Authority and the assets held by trustee and was to be used for capital asset acquisitions. The Series 2019B Bond was paid off during the year ended December 31, 2019, with the proceeds from the Series 2019D Bond.

The Authority issued the Hospital Revenue Bond, Series 2019C (the Series 2019C Bond) in the original amount of \$21,250,000 dated November 22, 2019. The Series 2019C Bond bears interest at 2.62% and is payable in monthly principal and interest installments through February 15, 2024. The Series 2019C Bond is secured by the gross revenues of the Authority. The proceeds of the Series 2019C Bond were primarily used to refund the outstanding amounts due under the Series 2017 Bond.

The Authority issued the Hospital Revenue Bond, Series 2019D (the Series 2019D Bond) in the original amount of \$11,495,000 dated November 22, 2019. The Series 2019D Bond bears interest at 2.88% and is payable in monthly principal and interest installments through November 2, 2026. The Series 2019D Bond is secured by the gross revenues of the Authority. The proceeds of the Series 2019D Bond were primarily used to refund the outstanding amounts due under the Series 2019B Bond.

The Authority's outstanding revenue bonds above contain a provision that in an event of default, outstanding amounts become immediately due if the Authority is unable to make payment.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for specific capital acquisition in the accompanying balance sheets. The indenture agreements also require the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio of at least 1.2 to 1.0, maintaining at least 75 days cash on hand, and restrictions on incurrence of additional debt.

The indenture agreements contain a provision that, in the event of default, outstanding amounts become immediately due if the Authority is unable to make payment.

In April 2021, the Authority refinanced the Series 2019 A,C, and D Bonds with the Series 2021A Note. The refinancing extended the final maturity date to April 2028 and lowered the interest rate to 2.2%.

**Note Payable – Series 2020 Hospital Revenue Note**

The Authority entered into a Series 2020 Hospital Revenue Note in the original amount of \$10,000,000 dated June 30, 2020, which bears interest annually at 1.48%. The Series 2020 Hospital Revenue Note is payable in monthly principal and interest installments through June 30, 2025. The Series 2020 Hospital Revenue Note is secured by the gross revenues of the Authority and the assets held by trustee.

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***SMC Equipment Promissory Notes***

SMC Equipment entered into two promissory notes payable to MMOK Sub VII (the Lender) with principal balances of \$10,758,400 and \$5,241,600, combined in the long-term debt schedule above. These notes financed the acquisition of certain major equipment, which is to be leased back to the Authority upon acquisition. The notes are secured by all of the assets of SMC Equipment. These notes payable were effective August 3, 2018, will mature on August 3, 2030, and bear interest annually at 1.67%. These promissory notes are payable in quarterly interest installments through September 1, 2025. Commencing December 1, 2025, SMC Equipment will pay equal installments of principal and interest in amounts sufficient to fully amortize the principal balance of the loans as of the maturity date. SMC Equipment is not permitted to prepay any portion of the principal of the loans until September 25, 2025.

Concurrently, the Authority loaned \$10,758,400 to Stillwater NMTC, LLC. This note receivable is included with other assets on the accompanying balance sheets. The note receivable is effective August 3, 2018, will mature August 3, 2030, and bears interest at 1.0%. This note receivable is payable in quarterly interest installments through September 1, 2025.

At the end of the seven-year term, a put/call agreement may be exercised whereby Simmons NMTC Holding, LLC's interest in Stillwater NMTC, LLC (member of the Lender) is sold to the Authority under terms defined in the put/call agreement.

***SMC Development Promissory Notes***

SMC Development entered into two promissory notes payable to REI Subsidiary CDE 19, LLC (the Lender) with principal balances of \$21,189,000 and \$8,811,000, combined in the long-term debt schedule above. These notes financed the acquisition of certain building improvements, which are to be leased back to the Authority upon acquisition. The notes are secured by all of the assets of SMC Development. These notes payable were effective December 19, 2019, will mature on December 18, 2049, and bear interest annually at 1.206%. These promissory notes are payable in quarterly interest installments through December 19, 2026, plus a \$300,000 principal payment on December 19, 2026, for the \$8,811,000 note payable. Commencing March 5, 2027, SMC Development will pay equal installments of principal and interest in amounts sufficient to fully amortize the principal balance of the loans as of the maturity date. SMC Development is not permitted to prepay any portion of the principal of the loans until after October 2026.

Concurrently, the Authority loaned \$21,189,000 to BF SMC Investment Fund, LLC. This note receivable is included with other assets on the accompanying balance sheets. The note receivable is effective December 19, 2019, will mature December 18, 2043, and bears interest at 1.0% through December 19, 2026, then 1.4% through maturity. This note receivable is payable in quarterly interest installments through September 15, 2026.

At the end of the seven-year term, a put/call agreement may be exercised whereby BancFirst's interest in BF SMC Investment Fund, LLC is sold to the Authority under terms defined in the put/call agreement.

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The debt service requirements for the Series 2019 Revenue Bonds, note payable, SMC Equipment promissory notes, and SMC Development promissory notes are as follows:

| <b>Year Ending December 31,</b> | <b>Total to<br/>be Paid</b> | <b>Principal</b>     | <b>Interest</b>      |
|---------------------------------|-----------------------------|----------------------|----------------------|
| 2021                            | \$ 11,449,915               | \$ 10,031,027        | \$ 1,418,888         |
| 2022                            | 9,990,221                   | 8,825,179            | 1,165,042            |
| 2023                            | 9,912,167                   | 8,954,999            | 957,168              |
| 2024                            | 5,144,004                   | 4,351,160            | 792,844              |
| 2025                            | 4,251,759                   | 3,542,188            | 709,571              |
| 2026–2030                       | 24,074,567                  | 21,763,410           | 2,311,157            |
| 2031–2035                       | 7,403,291                   | 6,060,656            | 1,342,635            |
| 2036–2040                       | 7,403,291                   | 6,436,892            | 966,399              |
| 2041–2045                       | 7,403,291                   | 6,836,484            | 566,807              |
| 2046–2049                       | 5,922,483                   | 5,773,511            | 148,972              |
|                                 | <u>\$ 92,954,989</u>        | <u>\$ 82,575,506</u> | <u>\$ 10,379,483</u> |

**Capital Lease Obligations**

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2020 and 2019, totaled approximately \$10,785,000 and \$8,928,000, respectively, net of accumulated depreciation of approximately \$6,876,000 and \$4,949,000, respectively.

The following is a schedule by year of future minimum lease payments under capital leases, including interest rates between 1.50% and 2.16%, together with the present value of the future minimum lease payments:

| <b>Year Ending December 31,</b>                |                     |
|--|---------------------|
| 2021   | \$ 1,144,486        |
| 2022   | 1,144,486           |
| 2023   | <u>1,117,382</u>    |
| Total minimum lease payments                   | 3,406,354           |
| Less amount representing interest              | <u>49,798</u>       |
| Present value of future minimum lease payments | <u>\$ 3,356,556</u> |

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**Note 10: Community Support**

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

At December 31, 2020 and 2019, the estimated uncompensated costs associated with charity care services were approximately \$3,717,000 and \$3,537,000, respectively. The cost of uncompensated care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

In addition to uncompensated costs, the Authority also commits significant time and resources to endeavors and critical services that meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, prenatal education and care, community educational services, and various support groups.

**Note 11: Operating Leases**

Noncancelable operating leases for equipment and building space expire in various years through December 2027. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the Authority to pay all executory costs (property taxes, maintenance, and insurance).

Future minimum lease payments at December 31, 2020, were approximately:

|           |                            |
|-----------|----------------------------|
| 2021      | \$ 759,000                 |
| 2022      | 773,000                    |
| 2023      | 378,000                    |
| 2024      | 384,000                    |
| 2025      | 389,000                    |
| 2026–2027 | <u>796,000</u>             |
|           | <u><u>\$ 3,479,000</u></u> |

Rental expense for the years ended December 31, 2020 and 2019, was approximately \$1,697,000 and \$1,426,000, respectively.

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**Note 12: Pension Plan**

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 3% for both 2020 and 2019. Contributions actually made by plan members and the Authority aggregated approximately \$2,267,000 and \$4,432,000, respectively, during 2020 and \$1,987,000 and \$3,857,000, respectively, during 2019.

**Note 13: Acquisitions**

The Authority has acquired multiple service lines since 2009 for which the consideration provided exceeded the net position acquired as of the date of acquisition. These service lines were acquired as they were considered strategic additions to the services already provided by the Authority.

***Amortization of Deferred Outflows of Resources***

Acquisitions resulting in deferred outflows of resources include:

- The 2009 acquisition of Stillwater Surgery Center, L.L.C., which is being amortized over 15 years. Amortization expense is approximately \$388,000 annually through 2024.
- The 2016 acquisition of assets and the oncology practice of Oklahoma Oncology and Hematology, Inc., and Oklahoma Cancer Specialists, which is being amortized over 10 years. Amortization expense is approximately \$300,000 annually through 2026.
- The 2017 acquisition of Bristol Hospice and Homecare – Stillwater, LLC, which is being amortized over five years. Amortization expense is approximately \$90,000 annually through 2022.
- The 2019 acquisition of Pipeline Crossroads Clinic, which is being amortized over five years. Amortization expense is approximately \$603,000 annually through 2024.

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The carrying basis and accumulated amortization of recognized deferred outflows of resources related to government acquisitions at December 31 were:

|                                | <u>2020</u>         | <u>2019</u>         |
|--------------------------------|---------------------|---------------------|
| Deferred outflows of resources | \$ 16,221,821       | \$ 16,221,821       |
| Accumulated amortization       | <u>10,947,468</u>   | <u>9,565,191</u>    |
|                                | <u>\$ 5,274,353</u> | <u>\$ 6,656,630</u> |

The changes in the carrying amount of deferred outflows of resources for the years ended December 31 were:

|                              | <u>2020</u>          | <u>2019</u>          |
|------------------------------|----------------------|----------------------|
| Balance as of January 1      | \$ 16,221,821        | \$ 13,204,573        |
| Acquisitions during the year | <u>-</u>             | <u>3,017,248</u>     |
| Balance as of December 31    | <u>\$ 16,221,821</u> | <u>\$ 16,221,821</u> |

**Note 14: Contingencies**

***Litigation***

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Note 15: Disclosures About Fair Value of Assets**

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets

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- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

***Recurring Measurements***

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

|                                       | Fair Value    | Fair Value Measurements Using   |   |  |
|---------------------------------------|---------------|---|---|--|
|                                       |               | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>2020</b>                           |               |   |   |  |
| Money market mutual funds             | \$ 22,740,028 | \$ 22,740,028   | \$ -  | \$ -   |
| Mutual funds – fixed income           | \$ 74,027,125 | \$ 74,027,125   | \$ -  | \$ -   |
| Mutual funds – domestic equities      | \$ 30,250,392 | \$ 30,250,392   | \$ -  | \$ -   |
| Mutual funds – international equities | \$ 8,878,711  | \$ 8,878,711  | \$ -  | \$ -   |
| <b>2019</b>                           |               |   |   |  |
| Money market mutual funds             | \$ 51,341,308 | \$ 51,341,308   | \$ -  | \$ -   |
| Mutual funds – fixed income           | \$ 32,535,028 | \$ 32,535,028   | \$ -  | \$ -   |
| Mutual funds – domestic equities      | \$ 21,547,255 | \$ 21,547,255   | \$ -  | \$ -   |
| Mutual funds – international equities | \$ 5,641,277  | \$ 5,641,277  | \$ -  | \$ -   |

***Investments***

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs

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are not available, investments are classified within Level 3 of the hierarchy. The Authority had no Level 2 or Level 3 investments at December 31, 2020 and 2019.

**Note 16: Combining Component Unit Information**

The following tables include combining balance sheet information for the Authority and its component units as of December 31, 2020:

|   | <b>Authority</b>      | <b>SMC<br/>Equipment</b> | <b>SMC<br/>Development</b> | <b>SMC RE</b>        | <b>Eliminations</b>    | <b>Combined<br/>Balance</b> |
|---|-----------------------|--------------------------|----------------------------|----------------------|------------------------|-----------------------------|
| <b>Assets</b>                                     |                       |                          |                            |                      |                        |                             |
| <b>Current Assets</b>                             |                       |                          |                            |                      |                        |                             |
| Cash and cash equivalents                         | \$ 23,606,481         | 30,539                   | 5,442                      | \$ 11,493            | \$ -                   | \$ 23,653,955               |
| Short-term investments                            | 71,894,296            | -                        | -                          | -                    | -                      | 71,894,296                  |
| Restricted cash and investments – current         | 247,818               | 153                      | -                          | -                    | -                      | 247,971                     |
| Patient accounts receivable, net                  | 37,440,872            | -                        | -                          | -                    | -                      | 37,440,872                  |
| Supplies  | 6,401,956             | -                        | -                          | -                    | -                      | 6,401,956                   |
| Prepaid expenses and other                        | 17,417,509            | -                        | 79,614                     | 306,911              | (11,266,871)           | 6,537,163                   |
| Total current assets                              | <u>157,008,932</u>    | <u>30,692</u>            | <u>85,056</u>              | <u>318,404</u>       | <u>(11,266,871)</u>    | <u>146,176,213</u>          |
| <b>Noncurrent Cash and Investments</b>            |                       |                          |                            |                      |                        |                             |
| Held by trustee for specific operating activities | 300,000               | -                        | -                          | -                    | -                      | 300,000                     |
| Held by trustee for specific capital acquisition  | -                     | -                        | 20,693,660                 | -                    | -                      | 20,693,660                  |
|   | <u>300,000</u>        | <u>-</u>                 | <u>20,693,660</u>          | <u>-</u>             | <u>-</u>               | <u>20,993,660</u>           |
| Less amount required to meet current obligations  | 247,818               | -                        | -                          | -                    | -                      | 247,818                     |
|   | <u>52,182</u>         | <u>-</u>                 | <u>20,693,660</u>          | <u>-</u>             | <u>-</u>               | <u>20,745,842</u>           |
| Other long-term investments                       | 45,744,940            | -                        | -                          | -                    | -                      | 45,744,940                  |
| Noncurrent cash and investments, net              | <u>45,797,122</u>     | <u>-</u>                 | <u>20,693,660</u>          | <u>-</u>             | <u>-</u>               | <u>66,490,782</u>           |
| <b>Capital Assets, Net</b>                        | <u>95,535,041</u>     | <u>14,925,451</u>        | <u>26,059,165</u>          | <u>15,570,742</u>    | <u>-</u>               | <u>152,090,399</u>          |
| <b>Other Assets</b>                               |                       |                          |                            |                      |                        |                             |
| Investments in joint ventures                     | 33,263,098            | -                        | -                          | -                    | (24,086,462)           | 9,176,636                   |
| Other   | 32,912,421            | -                        | 458,184                    | -                    | -                      | 33,370,605                  |
| Total other assets                                | <u>66,175,519</u>     | <u>-</u>                 | <u>458,184</u>             | <u>-</u>             | <u>(24,086,462)</u>    | <u>42,547,241</u>           |
| <b>Deferred Outflows of Resources</b>             | <u>5,274,353</u>      | <u>-</u>                 | <u>-</u>                   | <u>-</u>             | <u>-</u>               | <u>5,274,353</u>            |
| Total assets and deferred outflows of resources   | <u>\$ 369,790,967</u> | <u>\$ 14,956,143</u>     | <u>\$ 47,296,065</u>       | <u>\$ 15,889,146</u> | <u>\$ (35,353,333)</u> | <u>\$ 412,578,988</u>       |

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|   | <u>Authority</u>      | <u>SMC<br/>Equipment</u> | <u>SMC<br/>Development</u> | <u>SMC RE</u>        | <u>Eliminations</u>    | <u>Combined<br/>Balance</u> |
|---|-----------------------|--------------------------|----------------------------|----------------------|------------------------|-----------------------------|
| <b>Liabilities and Net Position</b>                                 |                       |                          |                            |                      |                        |                             |
| <b>Current Liabilities</b>  |                       |                          |                            |                      |                        |                             |
| Current maturities of long-term debt                                | \$ 11,147,654         | \$ -                     | \$ -                       | \$ -                 | \$ -                   | \$ 11,147,654               |
| Accounts payable  | 17,531,855            | -                        | 12,500                     | -                    | (10,959,960)           | 6,584,395                   |
| Accrued expenses  | 17,970,990            | 22,308                   | 26,138                     | 4,000                | -                      | 18,023,436                  |
| Amounts due to related parties                                      | -                     | -                        | 3,661,495                  | -                    | (3,661,495)            | -                           |
| Estimated amounts due to third-party payors                         | <u>9,298,172</u>      | <u>-</u>                 | <u>-</u>                   | <u>-</u>             | <u>-</u>               | <u>9,298,172</u>            |
| Total current liabilities   | 55,948,671            | 22,308                   | 3,700,133                  | 4,000                | (14,621,455)           | 45,053,657                  |
| <b>Estimated Amounts Due to Third-Party Payors –<br/>Noncurrent</b> | 18,085,000            | -                        | -                          | -                    | -                      | 18,085,000                  |
| <b>Other Liabilities</b>  | 1,888,141             | -                        | -                          | -                    | -                      | 1,888,141                   |
| <b>Long-Term Debt</b>   | <u>28,784,408</u>     | <u>16,000,000</u>        | <u>30,000,000</u>          | <u>-</u>             | <u>-</u>               | <u>74,784,408</u>           |
| Total liabilities   | <u>104,706,220</u>    | <u>16,022,308</u>        | <u>33,700,133</u>          | <u>4,000</u>         | <u>(14,621,455)</u>    | <u>139,811,206</u>          |
| <b>Net Position</b>   |                       |                          |                            |                      |                        |                             |
| Net investment in capital assets                                    | 55,179,781            | (1,074,396)              | 13,091,330                 | 15,570,742           | -                      | 82,767,457                  |
| Restricted – expendable for<br>Specific operating activities        | 300,000               | -                        | -                          | -                    | -                      | 300,000                     |
| Restricted – nonexpendable  | -                     | -                        | -                          | -                    | 7,466,019              | 7,466,019                   |
| Unrestricted  | <u>209,604,966</u>    | <u>8,231</u>             | <u>504,602</u>             | <u>314,404</u>       | <u>(28,197,897)</u>    | <u>182,234,306</u>          |
| Total net position  | <u>265,084,747</u>    | <u>(1,066,165)</u>       | <u>13,595,932</u>          | <u>15,885,146</u>    | <u>(20,731,878)</u>    | <u>272,767,782</u>          |
| Total liabilities and net position                                  | <u>\$ 369,790,967</u> | <u>\$ 14,956,143</u>     | <u>\$ 47,296,065</u>       | <u>\$ 15,889,146</u> | <u>\$ (35,353,333)</u> | <u>\$ 412,578,988</u>       |

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The following tables include combining balance sheet information for the Authority and its component units as of December 31, 2019:

|   | Authority             | SMC<br>Equipment     | SMC<br>Development   | SMC RE               | Eliminations           | Combined<br>Balance   |
|---|-----------------------|----------------------|----------------------|----------------------|------------------------|-----------------------|
| <b>Assets</b>                                     |                       |                      |                      |                      |                        |                       |
| <b>Current Assets</b>                             |                       |                      |                      |                      |                        |                       |
| Cash and cash equivalents                         | \$ 31,184,518         | \$ 1,145,375         | \$ -                 | \$ 304,862           | \$ -                   | \$ 32,634,755         |
| Short-term investments                            | 27,500,962            | -                    | -                    | -                    | -                      | 27,500,962            |
| Restricted cash and investments – current         | 78,871                | -                    | -                    | -                    | -                      | 78,871                |
| Patient accounts receivable, net                  | 29,064,036            | -                    | -                    | -                    | -                      | 29,064,036            |
| Supplies  | 6,519,998             | -                    | -                    | -                    | -                      | 6,519,998             |
| Prepaid expenses and other                        | 6,996,078             | -                    | -                    | -                    | -                      | 6,996,078             |
| Total current assets                              | <u>101,344,463</u>    | <u>1,145,375</u>     | <u>-</u>             | <u>304,862</u>       | <u>-</u>               | <u>102,794,700</u>    |
| <b>Noncurrent Cash and Investments</b>            |                       |                      |                      |                      |                        |                       |
| Held by trustee for specific operating activities | 300,000               | -                    | -                    | -                    | -                      | 300,000               |
| Held by trustee for specific capital acquisition  | 72,373                | -                    | 28,452,424           | -                    | -                      | 28,524,797            |
|   | <u>372,373</u>        | <u>-</u>             | <u>28,452,424</u>    | <u>-</u>             | <u>-</u>               | <u>28,824,797</u>     |
| Less amount required to meet current obligations  | 78,871                | -                    | -                    | -                    | -                      | 78,871                |
|   | <u>293,502</u>        | <u>-</u>             | <u>28,452,424</u>    | <u>-</u>             | <u>-</u>               | <u>28,745,926</u>     |
| Other long-term investments                       | 36,777,028            | -                    | -                    | -                    | -                      | 36,777,028            |
| Noncurrent cash and investments, net              | <u>37,070,530</u>     | <u>-</u>             | <u>28,452,424</u>    | <u>-</u>             | <u>-</u>               | <u>65,522,954</u>     |
| <b>Capital Assets, Net</b>                        | <u>88,748,367</u>     | <u>14,925,610</u>    | <u>15,948,916</u>    | <u>15,984,572</u>    | <u>-</u>               | <u>135,607,465</u>    |
| <b>Other Assets</b>                               |                       |                      |                      |                      |                        |                       |
| Investments in joint ventures                     | 33,125,128            | -                    | -                    | -                    | (24,042,695)           | 9,082,433             |
| Other   | 32,642,333            | 145,398              | 1,125,304            | -                    | -                      | 33,913,035            |
| Total other assets                                | <u>65,767,461</u>     | <u>145,398</u>       | <u>1,125,304</u>     | <u>-</u>             | <u>(24,042,695)</u>    | <u>42,995,468</u>     |
| <b>Deferred Outflows of Resources</b>             | <u>6,656,630</u>      | <u>-</u>             | <u>-</u>             | <u>-</u>             | <u>-</u>               | <u>6,656,630</u>      |
| Total assets and deferred outflows of resources   | <u>\$ 299,587,451</u> | <u>\$ 16,216,383</u> | <u>\$ 45,526,644</u> | <u>\$ 16,289,434</u> | <u>\$ (24,042,695)</u> | <u>\$ 353,577,217</u> |

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|   | Authority             | SMC<br>Equipment     | SMC<br>Development   | SMC RE               | Eliminations           | Combined<br>Balance   |
|---|-----------------------|----------------------|----------------------|----------------------|------------------------|-----------------------|
| <b>Liabilities and Net Position</b>         |                       |                      |                      |                      |                        |                       |
| <b>Current Liabilities</b>                  |                       |                      |                      |                      |                        |                       |
| Current maturities of long-term debt        | \$ 9,333,599          | \$ -                 | \$ -                 | \$ -                 | \$ -                   | \$ 9,333,599          |
| Accounts payable                            | 11,207,720            | -                    | -                    | -                    | -                      | 11,207,720            |
| Accrued expenses                            | 12,461,641            | -                    | -                    | 4,000                | -                      | 12,465,641            |
| Estimated amounts due to third-party payors | 655,000               | -                    | -                    | -                    | -                      | 655,000               |
| Total current liabilities                   | 33,657,960            | -                    | -                    | 4,000                | -                      | 33,661,960            |
| <b>Long-Term Debt</b>                       | 29,180,655            | 16,000,000           | 30,000,000           | -                    | -                      | 75,180,655            |
| Total liabilities                           | 62,838,615            | 16,000,000           | 30,000,000           | 4,000                | -                      | 108,842,615           |
| <b>Net Position</b>                         |                       |                      |                      |                      |                        |                       |
| Net investment in capital assets            | 48,852,283            | (1,074,390)          | 14,401,340           | 15,984,572           | -                      | 78,163,805            |
| Restricted – expendable for                 |                       |                      |                      |                      |                        |                       |
| Specific operating activities               | 300,000               | -                    | -                    | -                    | -                      | 300,000               |
| Restricted – nonexpendable                  | -                     | -                    | -                    | -                    | 7,769,383              | 7,769,383             |
| Unrestricted                                | 187,596,553           | 1,290,773            | 1,125,304            | 300,862              | (31,812,078)           | 158,501,414           |
| Total net position                          | 236,748,836           | 216,383              | 15,526,644           | 16,285,434           | (24,042,695)           | 244,734,602           |
| Total liabilities and net position          | <u>\$ 299,587,451</u> | <u>\$ 16,216,383</u> | <u>\$ 45,526,644</u> | <u>\$ 16,289,434</u> | <u>\$ (24,042,695)</u> | <u>\$ 353,577,217</u> |

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The following table includes combining statement of revenues, expenses, and changes in net position information for the Authority and its component units for the year ended December 31, 2020:

|  | <b>Authority</b>      | <b>SMC<br/>Equipment</b> | <b>SMC<br/>Development</b> | <b>SMC RE</b>        | <b>Eliminations</b>    | <b>Combined<br/>Balance</b> |
|--|-----------------------|--------------------------|----------------------------|----------------------|------------------------|-----------------------------|
| <b>Operating Revenues</b>  |                       |                          |                            |                      |                        |                             |
| Net patient service revenue, net of provision for uncollectible accounts; \$28,202,279 | \$ 246,235,544        | \$ -                     | \$ -                       | \$ -                 | \$ -                   | \$ 246,235,544              |
| Other  | 4,413,916             | 317,696                  | 862,930                    | 1,209,589            | (1,527,285)            | 5,276,846                   |
| Total operating revenues   | <u>250,649,460</u>    | <u>317,696</u>           | <u>862,930</u>             | <u>1,209,589</u>     | <u>(1,527,285)</u>     | <u>251,512,390</u>          |
| <b>Operating Expenses</b>  |                       |                          |                            |                      |                        |                             |
| Salaries and wages   | 109,907,383           | -                        | -                          | -                    | -                      | 109,907,383                 |
| Employee benefits  | 27,492,832            | -                        | -                          | -                    | -                      | 27,492,832                  |
| Purchased services and professional fees   | 29,681,017            | 22,500                   | 22,500                     | -                    | -                      | 29,726,017                  |
| Supplies and other expenses  | 72,472,016            | 18,496                   | 217                        | 2,476                | (1,527,285)            | 70,965,920                  |
| Depreciation and amortization  | 9,757,516             | 1,417,225                | 1,423,205                  | 413,830              | -                      | 13,011,776                  |
| Total operating expenses   | <u>249,310,764</u>    | <u>1,458,221</u>         | <u>1,445,922</u>           | <u>416,306</u>       | <u>(1,527,285)</u>     | <u>251,103,928</u>          |
| <b>Operating Income (Loss)</b>   | <u>1,338,696</u>      | <u>(1,140,525)</u>       | <u>(582,992)</u>           | <u>793,283</u>       | <u>-</u>               | <u>408,462</u>              |
| <b>Nonoperating Revenues (Expenses)</b>  |                       |                          |                            |                      |                        |                             |
| Noncapital grants and gifts  | 3,599                 | 363,497                  | 49,227                     | -                    | -                      | 416,323                     |
| Government grants  | 16,287,077            | -                        | -                          | -                    | -                      | 16,287,077                  |
| Gain on investments in joint ventures  | 1,136,953             | -                        | -                          | -                    | -                      | 1,136,953                   |
| Investment return  | 8,269,495             | 4,092                    | 116,403                    | -                    | -                      | 8,389,990                   |
| Interest expense and financing costs   | (885,456)             | (509,612)                | (1,513,350)                | -                    | -                      | (2,908,418)                 |
| Total nonoperating revenues (expenses)   | <u>24,811,668</u>     | <u>(142,023)</u>         | <u>(1,347,720)</u>         | <u>-</u>             | <u>-</u>               | <u>23,321,925</u>           |
| <b>Income (Loss) Before Transfers, Capital Gifts, and Distributions</b>                | <u>26,150,364</u>     | <u>(1,282,548)</u>       | <u>(1,930,712)</u>         | <u>793,283</u>       | <u>-</u>               | <u>23,730,387</u>           |
| <b>Transfers</b>   | 935,547               | -                        | -                          | -                    | (935,547)              | -                           |
| <b>Capital Gifts</b>   | 1,250,000             | -                        | -                          | -                    | -                      | 1,250,000                   |
| <b>Distributions from (to) Minority Owners, Net</b>                                    | <u>-</u>              | <u>-</u>                 | <u>-</u>                   | <u>(1,193,571)</u>   | <u>4,246,364</u>       | <u>3,052,793</u>            |
| <b>Increase (Decrease) in Net Position</b>   | <u>28,335,911</u>     | <u>(1,282,548)</u>       | <u>(1,930,712)</u>         | <u>(400,288)</u>     | <u>3,310,817</u>       | <u>28,033,180</u>           |
| <b>Net Position, Beginning of Year</b>   | <u>236,748,836</u>    | <u>216,383</u>           | <u>15,526,644</u>          | <u>16,285,434</u>    | <u>(24,042,695)</u>    | <u>244,734,602</u>          |
| <b>Net Position, End of Year</b>   | <u>\$ 265,084,747</u> | <u>\$ (1,066,165)</u>    | <u>\$ 13,595,932</u>       | <u>\$ 15,885,146</u> | <u>\$ (20,731,878)</u> | <u>\$ 272,767,782</u>       |

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The following table includes combining statement of revenues, expenses, and changes in net position information for the Authority and its component units for the year ended December 31, 2019:

|  | <b>Authority</b>      | <b>SMC<br/>Equipment</b> | <b>SMC<br/>Development</b> | <b>SMC RE</b>        | <b>Eliminations</b>    | <b>Combined<br/>Balance</b> |
|--|-----------------------|--------------------------|----------------------------|----------------------|------------------------|-----------------------------|
| <b>Operating Revenues</b>  |                       |                          |                            |                      |                        |                             |
| Net patient service revenue, net of provision for uncollectible accounts; \$23,909,551 | \$ 230,697,313        | \$ -                     | \$ -                       | \$ -                 | \$ -                   | \$ 230,697,313              |
| Other  | 4,250,203             | 183,847                  | -                          | 601,785              | (785,632)              | 4,250,203                   |
| Total operating revenues   | <u>234,947,516</u>    | <u>183,847</u>           | <u>-</u>                   | <u>601,785</u>       | <u>(785,632)</u>       | <u>234,947,516</u>          |
| <b>Operating Expenses</b>  |                       |                          |                            |                      |                        |                             |
| Salaries and wages   | 94,273,722            | -                        | -                          | -                    | -                      | 94,273,722                  |
| Employee benefits  | 24,298,596            | -                        | -                          | -                    | -                      | 24,298,596                  |
| Purchased services and professional fees   | 24,203,276            | 18,500                   | -                          | -                    | -                      | 24,221,776                  |
| Supplies and other expenses  | 62,395,355            | 2,151                    | 132                        | 30                   | (785,632)              | 61,612,036                  |
| Depreciation and amortization  | 11,449,766            | 35,330                   | -                          | 155,428              | -                      | 11,640,524                  |
| Total operating expenses   | <u>216,620,715</u>    | <u>55,981</u>            | <u>132</u>                 | <u>155,458</u>       | <u>(785,632)</u>       | <u>216,046,654</u>          |
| <b>Operating Income (Loss)</b>   | <u>18,326,801</u>     | <u>127,866</u>           | <u>(132)</u>               | <u>446,327</u>       | <u>-</u>               | <u>18,900,862</u>           |
| <b>Nonoperating Revenues (Expenses)</b>  |                       |                          |                            |                      |                        |                             |
| Noncapital grants and gifts  | 20,903                | -                        | -                          | -                    | -                      | 20,903                      |
| Gain on investments in joint ventures  | 3,911,824             | -                        | -                          | -                    | (248,120)              | 3,663,704                   |
| Investment return  | 8,961,016             | 119,367                  | 14,857                     | -                    | -                      | 9,095,240                   |
| Interest expense and financing costs   | (891,357)             | (281,436)                | -                          | -                    | -                      | (1,172,793)                 |
| Total nonoperating revenues (expenses)   | <u>12,002,386</u>     | <u>(162,069)</u>         | <u>14,857</u>              | <u>-</u>             | <u>(248,120)</u>       | <u>11,607,054</u>           |
| <b>Income (Loss) Before Transfers, Capital Gifts, and Distributions</b>                | 30,329,187            | (34,203)                 | 14,725                     | 446,327              | (248,120)              | 30,507,916                  |
| <b>Transfers</b>   | -                     | -                        | 15,511,919                 | 16,140,000           | (31,651,919)           | -                           |
| <b>Capital Gifts</b>   | 24,119                | -                        | -                          | -                    | -                      | 24,119                      |
| <b>Distributions from (to) Minority Owners, Net</b>                                    | -                     | -                        | -                          | (300,893)            | 7,857,344              | 7,556,451                   |
| <b>Increase (Decrease) in Net Position</b>   | 30,353,306            | (34,203)                 | 15,526,644                 | 16,285,434           | (24,042,695)           | 38,088,486                  |
| <b>Net Position, Beginning of Year</b>   | 206,395,530           | 250,586                  | -                          | -                    | -                      | 206,646,116                 |
| <b>Net Position, End of Year</b>   | <u>\$ 236,748,836</u> | <u>\$ 216,383</u>        | <u>\$ 15,526,644</u>       | <u>\$ 16,285,434</u> | <u>\$ (24,042,695)</u> | <u>\$ 244,734,602</u>       |

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The following table includes condensed combining statement of cash flows information for the Authority and its component units for the year ended December 31, 2020:

|   | <b>Authority</b>     | <b>SMC<br/>Equipment</b> | <b>SMC<br/>Development</b> | <b>SMC RE</b>      | <b>Eliminations</b> | <b>Combined<br/>Balance</b> |
|---|----------------------|--------------------------|----------------------------|--------------------|---------------------|-----------------------------|
| Net Cash Provided by Operating Activities                 | \$ 33,626,701        | \$ 276,700               | \$ 3,976,410               | \$ 900,202         | \$ -                | \$ 38,780,013               |
| Net Cash Provided by Noncapital Financing Activities      | 16,290,676           | 363,497                  | 49,227                     | -                  | -                   | 16,703,400                  |
| Net Cash Used in Capital and Related Financing Activities | (13,475,019)         | (1,758,972)              | (11,895,362)               | -                  | -                   | (27,129,353)                |
| Net Cash Provided by (Used in) Investing Activities       | <u>(44,020,395)</u>  | <u>3,939</u>             | <u>7,875,167</u>           | <u>(1,193,571)</u> | <u>-</u>            | <u>(37,334,860)</u>         |
| Increase (Decrease) in Cash and Cash Equivalents          | (7,578,037)          | (1,114,836)              | 5,442                      | (293,369)          | -                   | (8,980,800)                 |
| Cash and Cash Equivalents, Beginning of Year              | <u>31,184,518</u>    | <u>1,145,375</u>         | <u>-</u>                   | <u>304,862</u>     | <u>-</u>            | <u>32,634,755</u>           |
| Cash and Cash Equivalents, End of Year                    | <u>\$ 23,606,481</u> | <u>\$ 30,539</u>         | <u>\$ 5,442</u>            | <u>\$ 11,493</u>   | <u>\$ -</u>         | <u>\$ 23,653,955</u>        |

The following table includes condensed combining statement of cash flows information for the Authority and its component units for the year ended December 31, 2019:

|   | <b>Authority</b>     | <b>SMC<br/>Equipment</b> | <b>SMC<br/>Development</b> | <b>SMC RE</b>     | <b>Eliminations</b> | <b>Combined<br/>Balance</b> |
|---|----------------------|--------------------------|----------------------------|-------------------|---------------------|-----------------------------|
| Net Cash Provided by (Used in) Operating Activities                     | \$ 29,779,374        | \$ 111,017               | \$ (132)                   | \$ 605,755        | \$ -                | \$ 30,496,014               |
| Net Cash Provided by Noncapital Financing Activities                    | 20,903               | -                        | -                          | -                 | -                   | 20,903                      |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | (42,289,424)         | (14,167,779)             | 28,371,429                 | -                 | -                   | (28,085,774)                |
| Net Cash Provided by (Used in) Investing Activities                     | <u>19,741,098</u>    | <u>15,160,710</u>        | <u>(28,371,297)</u>        | <u>(300,893)</u>  | <u>-</u>            | <u>6,229,618</u>            |
| Increase in Cash and Cash Equivalents                                   | 7,251,951            | 1,103,948                | -                          | 304,862           | -                   | 8,660,761                   |
| Cash and Cash Equivalents, Beginning of Year                            | <u>23,932,567</u>    | <u>41,427</u>            | <u>-</u>                   | <u>-</u>          | <u>-</u>            | <u>23,973,994</u>           |
| Cash and Cash Equivalents, End of Year                                  | <u>\$ 31,184,518</u> | <u>\$ 1,145,375</u>      | <u>\$ -</u>                | <u>\$ 304,862</u> | <u>\$ -</u>         | <u>\$ 32,634,755</u>        |

**Note 17: Future Change in Accounting Principle**

With the issuance of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, GASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both an intangible asset and a liability. GASB 87 removes the classification of leases between two categories, and all leases will be recorded the same on the statement of revenues, expenses, and changes in net position. GASB 87 also contains amended guidance regarding the identification of lease and non-lease components in an arrangement. GASB 87 is effective for the Authority's fiscal year ending December 31, 2022. The Authority is evaluating the impact GASB 87 will have on the

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financial statements; however, GASB 87 is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

**Note 18: COVID-19 Pandemic and CARES Act Funding**

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine. Specifically, the Oklahoma governor issued an executive order on March 27, 2020, postponing all elective surgeries and minor medical procedures. Effective April 24, 2020, certain elective surgeries were allowed to resume, and all minor medical procedures were allowed to resume effective May 1, 2020.

The Authority's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Authority has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to its business, including the implementation of targeted cost reduction initiatives.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act).

The Authority received approximately \$24,558,000 from Medicare under the Accelerated and Advance Payments Program and approximately \$16,287,000 in Provider Relief Fund distributions, both as provided for under the CARES Act.

The extent of the COVID-19 pandemic's adverse effect on the Authority's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Authority's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Authority cannot estimate the length or severity of the effect of the pandemic on the Authority's business. Decreases in cash flows and results of operations may have an effect on the inputs and assumptions used in significant accounting

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estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

***Provider Relief Fund***

During the year ended December 31, 2020, the Authority received approximately \$16,287,000 of distributions from the CARES Act Provider Relief Fund and COVID-19 grants. These distributions from the Provider Relief Fund are not subject to repayment, provided the Authority is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the U.S. Department of Health and Human Services (HHS).

The Authority is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Authority's operating revenues and expenses through December 31, 2020, the Authority recognized approximately \$16,287,000 related to the Provider Relief Fund distributions and these payments are recorded as nonoperating revenue – government grants in the accompanying statements of revenues, expenses, and changes in net position.

The Authority will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Authority's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Authority is unable to attest to or comply with current or future terms and conditions, the Authority's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Authority's Provider Relief Fund reporting could differ. The Provider Relief Fund is subject to government oversight, including potential audits.

***Medicare Accelerated and Advance Payments Program***

During the year ended December 31, 2020, the Authority requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and the payback period was extended to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4%.

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During the year ended December 31, 2020, the Authority received approximately \$24,558,000 from these accelerated Medicare payment requests. The unapplied amount of accelerated Medicare payment requests is recorded in estimated amounts due to third-party payors in the accompanying balance sheets.

***Payroll Tax Credits***

The CARES Act provides for a deferral of payments of the employer portion of the payroll tax incurred during the pandemic, allowing half of such payroll taxes be deferred until December 2021 and the remaining half until December 2022. At December 31, 2020, the Authority had deferred approximately \$3,776,000 of payroll taxes recorded as a part of accrued expenses and other liabilities in the accompanying balance sheets.

**Note 19: Subsequent Events**

The Authority invests in various investment securities. Investment securities 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 that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets. There has been significant volatility in the investment markets both nationally and globally since December 31, 2020, resulting in an overall market decline in certain market segments.

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

**Independent Auditor's Report**

Board of Trustees  
Stillwater Medical Center Authority  
d/b/a Stillwater Medical Center  
Stillwater, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority), a component unit of the City of Stillwater, Oklahoma, which comprise the balance sheet as of December 31, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2021, which contained an *Other Matter* paragraph regarding omission of required supplementary information.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

Board of Trustees  
Stillwater Medical Center Authority  
d/b/a Stillwater Medical Center

### ***Compliance and Other Matters***

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

### ***Purpose of This Report***

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

**BKD, LLP**

Tulsa, Oklahoma  
June 30, 2021

**Stillwater Medical Center Authority  
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Schedule of Findings and Responses  
Year Ended December 31, 2020**

**Reference  
Number**

**Finding**

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No matters are reportable.