

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Independent Auditor's Reports and Financial Statements
June 30, 2020 and 2019



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June 30, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
Oklahoma State University Medical Authority
Tulsa, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Oklahoma State University Medical Authority (the Authority), a component unit of the State of Oklahoma, as of and for the years ended June 30, 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 Oklahoma State University Medical Authority as of June 30, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2020, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
October 22, 2020

Oklahoma State University Medical Authority

A Component Unit of the State of Oklahoma

Management’s Discussion and Analysis

Years Ended June 30, 2020 and 2019

Introduction

This management’s discussion and analysis of the financial performance of Oklahoma State University Medical Authority (the Authority) provides an overview of the Authority’s financial activities for the years ended June 30, 2020 and 2019. This management’s discussion and analysis should be read in conjunction with the accompanying financial statements of the Authority. The Authority is considered a nonmajor component unit of the State of Oklahoma.

Major Impact on Fiscal Year 2020 Operations

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues were significantly impacted 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.

Beginning in late March, the Authority deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the final quarter of the fiscal year.

The Authority’s pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. More information on the pandemic and the impact to the Authority can be found in *Note 9*.

Using This Annual Report

The Authority’s financial statements consist of three statements—a balance sheet; a statement of revenues, expenses, and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about any authority’s finances is, “Is the authority as a whole better or worse off as a result of the year’s activities?” The balance sheet and the statement of revenues, expenses, and changes in net position report information about the Authority’s resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority’s net position and changes in it. The Authority’s total net position—the difference between assets and liabilities—is one measure of the Authority’s financial health or financial position. Over time, increases or decreases in the Authority’s net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in

the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased by \$32,344,558 or 44% in 2020 over 2019 and increased by \$7,769,335 or 12% in 2019 over 2018 as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

	2020	2019	2018
Assets			
Cash and cash equivalents	\$ 21,062,070	\$ 32,147,054	\$ 47,627,433
Short-term investments	-	10,082,114	-
Patient accounts receivable, net	9,270,001	11,443,032	10,363,280
Other receivables	29,876,181	939,113	1,067,733
Other current assets	6,693,151	6,506,841	6,158,958
Capital assets, net	55,204,049	39,500,561	32,032,248
Other assets	297,620	283,226	353,699
	<u>\$ 122,403,072</u>	<u>\$ 100,901,941</u>	<u>\$ 97,603,351</u>
Liabilities			
Long-term debt (including current portion)	\$ 4,785,863	\$ 7,077,273	\$ 9,293,373
Other current and noncurrent liabilities	11,017,696	19,569,713	21,824,358
	<u>15,803,559</u>	<u>26,646,986</u>	<u>31,117,731</u>
Net Position			
Net investment in capital assets	49,472,705	29,746,024	21,711,466
Unrestricted	57,126,808	44,508,931	44,774,154
	<u>106,599,513</u>	<u>74,254,955</u>	<u>66,485,620</u>
	<u>\$ 122,403,072</u>	<u>\$ 100,901,941</u>	<u>\$ 97,603,351</u>

Significant changes in the Authority's assets in 2020 are the decrease in cash and cash equivalents and short-term investments and increase in other receivables. Short-term investments decreased from \$10,082,114 to \$0 in 2020. Days cash on hand at June 30, 2020, was 59 days compared to 118 days at June 30, 2019, due to a decrease in operating activity and the use of cash to purchase capital assets. Other receivables increased primarily due to amounts related to the sublease agreement with the Oklahoma State Department of Health (see Note 9).

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

Operating Results and Changes in the Authority's Net Position

In 2020, the Authority's net position increased by \$32,344,558 or 44% as shown in Table 2. This increase is made up of several different components and represents an improvement of 316% compared with the increase in net position for 2019 of \$7,769,335.

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

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 120,727,407	\$ 130,548,633	\$ 134,964,551
Other operating revenues	31,569,239	3,298,120	2,628,793
Total operating revenues	<u>152,296,646</u>	<u>133,846,753</u>	<u>137,593,344</u>
Operating Expenses			
Salaries, wages, and employee benefits	76,320,123	72,016,371	71,480,661
Purchased services and professional fees	20,918,483	25,615,038	23,432,489
Supplies and other	32,425,082	33,320,467	34,773,911
Depreciation	7,396,616	4,621,936	4,850,174
Total operating expenses	<u>137,060,304</u>	<u>135,573,812</u>	<u>134,537,235</u>
Operating Income (Loss)	<u>15,236,342</u>	<u>(1,727,059)</u>	<u>3,056,109</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	2,500,000	2,634,327	2,927,360
State contract and grant revenue	42,203,628	14,342,432	12,819,451
CARES Act funding	2,245,315	-	-
Contribution expense	(35,875,527)	(7,743,881)	(8,144,192)
Investment income	398,931	575,929	38,418
Interest expense	(382,438)	(312,413)	(364,012)
Total nonoperating revenues (expenses)	<u>11,089,909</u>	<u>9,496,394</u>	<u>7,277,025</u>
Excess of Revenues over Expenses Before Capital Gifts and Grants	26,326,251	7,769,335	10,333,134
Capital Gifts and Grants	<u>6,018,307</u>	<u>-</u>	<u>-</u>
Increase in Net Position	<u>\$ 32,344,558</u>	<u>\$ 7,769,335</u>	<u>\$ 10,333,134</u>

Operating Income (Loss)

The first component of the overall change in the Authority's net position is its operating income or loss. The operating income or loss is the difference between total operating revenue (patient-driven and other) and total operating expenses. The Authority reported income from operations in 2020 and 2018. In 2019, the Authority reported an operating loss, primarily as a result of a decrease in patient volumes.

The operating results for 2020 increased by \$16,963,401 or 982% as compared to the operating results in 2019. The primary component of the change from operating loss to operating income is an increase in other operating revenues by \$28,271,119 or 857%. This increase is primarily related to the sublease agreement with the Oklahoma State Department of Health (see *Note 9*).

Operating expenses changed in 2020 due primarily to:

- An increase in salaries and wages of \$4,602,474 or 8% compared to 2019
- A decrease in purchased services and professional fees of \$4,696,555 or 18% compared to 2019
- An increase in depreciation of \$2,774,680 or 60% as compared to 2019

While patient volumes decreased significantly in the last quarter of fiscal year 2020 as a result of the COVID-19 pandemic, the Authority continued to maintain certain staffing levels in order to sustain quality care, ensure proper staffing and preparation for any pandemic-related outbreaks in the community, and maintain health care delivery capacity.

The operating results for 2019 decreased by \$4,783,168 or 157% as compared to the operating results in 2018. The primary component of the change from operating income to operating loss is a decrease in net patient service revenue of \$4,415,918 or 3%.

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

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of state contract and grant revenue received by the Authority, noncapital grants and gifts, contribution expense associated with state contract and grant revenue, CARES Act funding, and interest income and expense. Nonoperating revenues and expenses increased in 2020 by \$1,593,515 or 17%. In 2020, state contract and grant revenue increased by \$27,861,196 or 194%, and contribution expense increased by \$28,131,646 or 363%. These increases were primarily related to changes in state funding and appropriations. In addition, in 2020, the Authority received approximately \$2,245,000 in CARES Act funding. Nonoperating revenues and expenses increased in 2019 by \$2,219,369 or 30%. In 2019, there was an increase in state contract and grant revenue of \$1,522,981 or 12%, which is primarily due to an increase in state funding.

Capital Gifts and Grants

The Authority receives capital gifts and grants from various sources. The Authority received contributed capital assets from the United States Army Corps of Engineers in the amount of \$6,018,307 (see *Note 9*). The Authority did not receive any capital gifts or grants during 2019.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating performance and nonoperating revenues and expenses for 2020 and 2019, discussed earlier, except for cash flows from capital and related financing activities and investing activities.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2020 and 2019, the Authority had \$55,204,049 and \$39,500,561, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2020, the Authority purchased new capital assets costing approximately \$23,100,000, of which \$107,300 were financed through capital lease obligations. In 2019, the Authority purchased new capital assets costing approximately \$12,142,000, none of which were financed through capital lease obligations.

Debt

At June 30, 2020 and 2019, the Authority had \$4,785,863 and \$7,077,273, respectively, in notes payable and capital lease obligations outstanding as detailed in *Note 6* to the financial statements. The Authority issued no debt in 2020 or 2019 other than the capital lease of \$107,300 in 2020.

Contacting the Authority's Financial Management

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

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Balance Sheets
June 30, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 21,062,070	\$ 32,147,054
Short-term investments	-	10,082,114
Patient accounts receivable, net of allowance; 2020 – \$19,889,000, 2019 – \$20,242,000	9,270,001	11,443,032
Other receivables	29,876,181	939,113
Supplies	3,400,004	3,306,065
Estimated amounts due from third-party payors	1,102,011	-
Prepaid expenses and other	2,191,136	3,200,776
Total current assets	66,901,403	61,118,154
Capital Assets, Net	55,204,049	39,500,561
Other Assets	297,620	283,226
Total assets	\$ 122,403,072	\$ 100,901,941

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 2,333,202	\$ 2,394,308
Accounts payable	6,698,922	14,636,746
Accrued expenses	4,206,489	4,475,501
Accrued interest payable	112,285	157,466
Estimated amounts due to third-party payors	-	300,000
Total current liabilities	13,350,898	21,964,021
Long-Term Debt	2,452,661	4,682,965
Total liabilities	15,803,559	26,646,986
Net Position		
Net investment in capital assets	49,472,705	29,746,024
Unrestricted	57,126,808	44,508,931
Total net position	106,599,513	74,254,955
Total liabilities and net position	\$ 122,403,072	\$ 100,901,941

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$45,479,530, 2019 – \$40,283,137	\$ 120,727,407	\$ 130,548,633
Other	31,569,239	3,298,120
Total operating revenues	152,296,646	133,846,753
Operating Expenses		
Salaries and wages	64,948,389	60,345,915
Employee benefits	11,371,734	11,670,456
Purchased services and professional fees	20,918,483	25,615,038
Supplies and other	32,425,082	33,320,467
Depreciation	7,396,616	4,621,936
Total operating expenses	137,060,304	135,573,812
Operating Income (Loss)	15,236,342	(1,727,059)
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	2,500,000	2,634,327
CARES Act funding	2,245,315	-
State contract and grant revenue	42,203,628	14,342,432
Contribution expense	(35,875,527)	(7,743,881)
Investment income	398,931	575,929
Interest expense	(382,438)	(312,413)
Total nonoperating revenues (expenses)	11,089,909	9,496,394
Excess of Revenues over Expenses Before Capital Gifts and Grants	26,326,251	7,769,335
Capital Gifts and Grants	6,018,307	-
Increase in Net Position	32,344,558	7,769,335
Net Position, Beginning of Year	74,254,955	66,485,620
Net Position, End of Year	\$ 106,599,513	\$ 74,254,955

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 121,498,427	\$ 128,012,477
Payments to suppliers and contractors	(59,228,081)	(60,738,216)
Payments to and on behalf of employees	(76,054,534)	(73,103,049)
Other receipts and payments, net	2,632,171	3,349,148
Net cash used in operating activities	(11,152,017)	(2,479,640)
Noncapital Financing Activities		
CARES Act funding	2,245,315	-
Noncapital grants and gifts	2,500,000	2,634,327
State contract and grant revenue	42,203,628	14,461,411
Contribution expense	(35,875,527)	(7,743,881)
Net cash provided by noncapital financing activities	11,073,416	9,351,857
Capital and Related Financing Activities		
Principal paid on long-term debt	(2,398,710)	(2,216,100)
Interest paid on long-term debt	(427,619)	(362,083)
Purchase of capital assets	(18,661,099)	(10,268,228)
Net cash used in capital and related financing activities	(21,487,428)	(12,846,411)
Investing Activities		
Purchases of short-term investments	-	(35,000,000)
Sale of short-term investments	10,000,000	25,000,000
Investment income	481,045	493,815
Net cash provided by (used in) investing activities	10,481,045	(9,506,185)
Decrease in Cash and Cash Equivalents	(11,084,984)	(15,480,379)
Cash and Cash Equivalents, Beginning of Year	32,147,054	47,627,433
Cash and Cash Equivalents, End of Year	\$ 21,062,070	\$ 32,147,054

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities		
Operating income (loss)	\$ 15,236,342	\$ (1,727,059)
Loss on disposition of property and equipment	-	51,697
Depreciation	7,396,616	4,621,936
Provision for uncollectible accounts	45,479,530	40,283,137
Changes in operating assets and liabilities		
Patient accounts receivable	(43,306,499)	(41,362,889)
Other accounts receivable	(28,937,068)	9,641
Supplies and prepaid expenses	223,583	(277,410)
Estimated amounts due to/from third-party payors	(1,402,011)	(1,466,714)
Accounts payable and accrued expenses	(5,842,510)	(2,611,979)
	<u>\$ (11,152,017)</u>	<u>\$ (2,479,640)</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 107,300	\$ -
Capital grants and gifts	\$ 6,018,307	\$ -
Capital assets in accounts payable	\$ 833,196	\$ 2,519,798

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

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

Nature of Operations and Reporting Entity

Oklahoma State University Medical Authority

The Oklahoma State University Medical Authority (the Authority) is a state agency created by an act of the Oklahoma legislature in May 2006. The Authority is empowered to engage in activities to: 1) ensure a dependable source of funding for the graduate medical program associated with the Oklahoma State University Center for Health Sciences (the OSU Center for Health Sciences); 2) provide for stable teaching and training facilities for students enrolled at the OSU Center for Health Sciences; 3) upon a Declaration of Necessity, serve as training and teaching facilities for students at the OSU Center for Health Sciences; 4) serve as a site for conducting medical and biomedical research by faculty members of the OSU Center for Health Sciences; and 5) provide care for the patients of OSU Center for Health Sciences physician trainers. The Authority is a nonmajor component unit of the State of Oklahoma.

Oklahoma State University Medical Center Trust

In fiscal year 2009, the leadership of the executive and legislative branches of the State of Oklahoma (the State); Ardent Medical Services, Inc.; Oklahoma State University (the University); St. John Health System; and members of the Tulsa philanthropic community undertook an effort to pass the ownership of the Oklahoma State University Medical Center (the Medical Center) to a public entity. This effort culminated in the creation of a municipal public trust, the Oklahoma State University Medical Center Trust (the Trust), and the purchase of the teaching hospital by the Trust from Ardent Medical Services, Inc.

The Trust was formed in January 2009 to acquire, own, and operate the Medical Center with the general purposes of promoting and supporting the teaching and training of physicians in Tulsa and the delivery of health care services to medically indigent persons.

OSUMC Professional Services LLC (OPS) employs physicians and other health care providers. The Trust is the sole corporate member of OPS, and OPS is included as a blended component unit of the Trust.

The Medical Center primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the Tulsa, Oklahoma, area.

The Authority entered into an interlocal agreement with the Trust to provide funding in accordance with the enabling legislation of the Authority. The Authority entered into two related interagency agreements with the Oklahoma Health Care Authority, the State's Medicaid agency, and subsequently the Trust to provide certain state matching funds allowing the Medical Center to receive payments at the Upper Payment Limit (UPL), as defined in the State's Medicaid plan.

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

Oklahoma State University Medical Trust

In October 2013, the Trust entered into a Tripartite Agreement and Plan of Merger (Merger Agreement) with the Authority and the Oklahoma State University Medical Trust (OSUMT).

Under the terms of the Merger Agreement, effective December 6, 2013, the Trust agreed to the following:

- Transfer and convey substantially all assets and liabilities of the Trust to the Authority
- Amend the Trust's Declaration of Trust to designate the State as its sole beneficiary and authorize the merger of the Trust with OSUMT
- Merge OSUMT into the Trust and designate OSUMT as the surviving entity
- Enter into a lease agreement for the Medical Center's real property between the Authority and OSUMT
- Merge the operations of the Trust with OSUMT

Through December 6, 2013, operating the Medical Center was the primary operation of the Trust.

OSUMT is deemed to be a component unit of the Authority due to the common governance and the Authority's ability to impose its will on OSUMT. The Authority and OSUMT can be contacted by telephoning 918.599.5900.

Basis of Accounting and Presentation

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

Use of Estimates

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

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2020 and 2019, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Risk Management

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

Investments and Investment Income

Investments in non-negotiable certificates of deposit are carried at amortized cost. Investment income consists of interest income.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the Authority bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

Supply inventories consist of medical supplies and pharmaceuticals and are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

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

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

The following estimated useful lives are being used by the Authority:

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

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

Capital Asset Impairment

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss. No asset impairment was recognized during the years ended June 30, 2020 and 2019.

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 two 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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

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.

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Charity Care

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

State Contract and Grant Revenue and Matching Funds

The Authority receives state contract revenue for the support of the teaching mission at the Medical Center, funding for the OSU Center for Health Sciences, and various other health-related programs. In an effort to multiply the appropriated contract dollars, the Authority may send funds to the Oklahoma Health Care Authority or University Hospitals Authority to be matched, with the majority of the funds being paid to OSUMT and a portion being paid to the Authority. Below is a recap of the state contract and grant revenue and the related contribution expenses for the years ended June 30:

	<u>2020</u>	<u>2019</u>
State contract and grant revenue	<u>\$ 42,203,628</u>	<u>\$ 14,342,432</u>
Payments to OSU Center for Health Sciences		
Dean's GME Program	\$ 8,927,141	\$ -
Other	20,000,000	-
Payment to Oklahoma Health Care Authority	6,748,027	7,243,118
Other	<u>200,359</u>	<u>500,763</u>
	<u>\$ 35,875,527</u>	<u>\$ 7,743,881</u>

Laws and regulations governing the programs supporting residency programs with federal matching funds are complex and subject to interpretation and change. As a result, it is reasonably possible that revenue received under these programs will change materially in the near term.

As discussed in *Note 1*, in relation to the Medical Center being acquired by the Trust effective May 1, 2009, from Ardent Medical Services, Inc., the Trust (now OSUMT) entered into an interlocal agreement with the Authority. The Authority has appropriated approximately \$6,262,000 and \$6,242,000 to OSUMT in accordance with the interlocal agreement for the years ended June 30, 2020 and 2019, respectively.

The Authority has designated the University to act as its fiscal agent for the purposes of providing fiscal, purchasing, and accounting services.

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Income Taxes

As a state agency created by an act of the State’s legislature, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Supplemental Hospital Offset Payment Program

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

SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses, and changes in net position and are summarized below for the years ended June 30:

	2020	2019
SHOPP funds recorded and received	\$ 10,243,994	\$ 11,274,064
SHOPP assessment fees recorded and paid	(2,628,975)	(3,281,748)
Net SHOPP benefit	\$ 7,615,019	\$ 7,992,316

The annual amounts to be received and paid by the Authority over the remaining term of the SHOPP are subject to several factors, including the Federal Medical Assistance Percentages (FMAP) and state funding. Based on information currently available, the annual net benefit received by the Authority under the SHOPP could be materially different from the amounts received in 2020.

Revisions

Certain immaterial revisions have been made to the 2019 financial statements and disclosures to properly classify prior year accrued expenses and other disclosure items. These revisions did not have a significant impact on the disclosures or financial statement line items impacted.

Note 2: Net Patient Service Revenue

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

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These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Defined medical education costs are paid based on a cost reimbursement methodology. The Authority is reimbursed for medical education, eligible Medicare bad debts, and disproportionate share at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority’s Medicare cost reports have been final settled by the Medicare administrative contractor through June 30, 2017.
- **Medicaid** – Inpatient services provided to the state’s Medicaid program beneficiaries are reimbursed on a prospective per discharge method with no retroactive adjustments. Outpatient services are reimbursed on a prospective fee schedule basis with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Approximately 40% and 42% of gross patient service revenue is from participation in the Medicare program for the years ended June 30, 2020 and 2019, respectively. Approximately 18% and 20% of gross patient service revenue is from participation in the state-sponsored Medicaid program for the years ended June 30, 2020 and 2019, respectively.

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

The Authority’s 2020 and 2019 net patient service revenue increased approximately \$560,000 and \$1,406,000, respectively, due to removal of previously estimated amounts that are no longer necessary as a result of administrative contractor audits or final settlements.

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

The Authority received approximately \$0 and \$4,600,000 in 2020 and 2019, respectively, from the State’s Medicaid UPL program, also known as the Dean’s GME Program. UPL programs are often an area considered for cost reductions by both federal and state legislators and there is no guarantee that UPL payments will continue in future years.

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Note 3: Deposits

Deposits

Custodial credit risk is the risk that in the event of a bank failure an organization’s deposits may not be returned to it. The state treasurer requires that all state funds are either insured by the Federal Deposit Insurance Corporation (FDIC), collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations.

At June 30, 2020 and 2019, none of the Authority’s bank balances of approximately \$10,356,000 and \$45,005,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. These amounts include approximately \$6,931,000 and \$6,947,000 at June 30, 2020 and 2019, respectively, of funds that are pooled with funds of other state agencies.

In the event of future cash deposits, the Authority’s deposits with the state treasurer will be pooled with funds of other state agencies and then, in accordance with statutory limitations, placed in financial institutions or invested as the state treasurer may determine in the State’s name.

Summary of Carrying Values

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

	2020	2019
Carrying value		
Deposits	\$ 21,056,920	\$ 42,224,418
Cash on hand	5,150	4,750
	\$ 21,062,070	\$ 42,229,168
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 21,062,070	\$ 32,147,054
Short-term investments	-	10,082,114
	\$ 21,062,070	\$ 42,229,168

Investment Income

Investment income for the years ended June 30, 2020 and 2019, consisted of interest income on cash balances and certificates of deposit of \$398,931 and \$575,929, respectively.

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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 June 30 consisted of:

	2020	2019
Medicare	\$ 3,503,634	\$ 3,011,887
Medicaid	843,861	1,672,626
Other third-party payors and patients	24,811,506	27,000,519
	29,159,001	31,685,032
Less allowance for uncollectible accounts	19,889,000	20,242,000
	\$ 9,270,001	\$ 11,443,032

Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	2,824,669	-	-	-	2,824,669
Buildings and leasehold improvements	29,756,021	5,914,346	-	1,022,091	36,692,458
Equipment	50,273,242	1,490,577	(9,450)	1,168,464	52,922,833
Construction in progress	4,139,236	15,695,571	-	(2,190,555)	17,644,252
	86,993,268	23,100,494	(9,450)	-	110,084,312
Less accumulated depreciation					
Land improvements	569,495	176,565	-	-	746,060
Buildings and leasehold improvements	9,100,438	3,768,447	-	-	12,868,885
Equipment	37,822,774	3,451,604	(9,060)	-	41,265,318
	47,492,707	7,396,616	(9,060)	-	54,880,263
Capital assets, net	\$ 39,500,561	\$ 15,703,878	\$ (390)	\$ -	\$ 55,204,049

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

Note 6: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30:

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	\$ 6,762,197	\$ -	\$ (2,128,167)	\$ 4,634,030	\$ 2,233,640
Capital lease obligations	315,076	107,300	(270,543)	151,833	99,562
Total long-term debt	7,077,273	107,300	(2,398,710)	4,785,863	2,333,202
Other long-term obligations	939,279	-	(534,601)	404,678	404,678
Total long-term obligations	<u>\$ 8,016,552</u>	<u>\$ 107,300</u>	<u>\$ (2,933,311)</u>	<u>\$ 5,190,541</u>	<u>\$ 2,737,880</u>

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	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	\$ 8,738,371	\$ -	\$ (1,976,174)	\$ 6,762,197	\$ 2,143,635
Capital lease obligations	<u>555,002</u>		<u>(239,926)</u>	<u>315,076</u>	<u>250,673</u>
Total long-term debt	9,293,373	-	(2,216,100)	7,077,273	2,394,308
Other long-term obligations	<u>2,812,000</u>	<u>-</u>	<u>(1,872,721)</u>	<u>939,279</u>	<u>939,279</u>
Total long-term obligations	<u>\$ 12,105,373</u>	<u>\$ -</u>	<u>\$ (4,088,821)</u>	<u>\$ 8,016,552</u>	<u>\$ 3,333,587</u>

- (A) Due December 18, 2021, principal and interest at 4.12% payable annually, principal payments to be funded in accordance with provisions of a certain Academic Affiliation Agreement between the University and the Authority and guaranteed by a certain lease agreement with the University (see *Note 14*). The note contains provisions that in the event of default outstanding amounts become immediately due and payable and the interest rate increases to 8.12%.

The debt service requirements as of June 30, 2020, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2021	\$ 2,428,473	\$ 2,233,640	\$ 194,833
2022	<u>2,498,111</u>	<u>2,400,390</u>	<u>97,721</u>
	<u>\$ 4,926,584</u>	<u>\$ 4,634,030</u>	<u>\$ 292,554</u>

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital lease at June 30, 2020 and 2019, totaled approximately \$1,270,000 and \$1,163,000, net of accumulated depreciation of approximately \$465,000 and \$362,000, respectively.

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The following is a schedule by year of future minimum lease payments under the capital leases, including interest from 1.87% to 4.0%, together with the present value of the future minimum lease payments as of June 30, 2020:

Year Ending June 30,		
2021	\$	102,890
2022		38,015
2023		15,838
Total minimum lease payments		156,743
Less amount representing interest		4,910
Present value of future minimum lease payments	\$	151,833

Other Long-Term Liabilities

Other long-term liabilities represent OSUMT’s estimated liabilities related to litigation, including incurred but not reported claims, and an obligation to a third party determined based on future payments to be received under a State of Oklahoma reimbursement program. The liability associated with the obligation to make payments to a third party was satisfied subsequent to year-end and was discounted at OSUMT’s average borrowing rate of 4.12%.

Note 7: Accounts Payable and Accrued Expenses

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

	2020	2019
Payable to suppliers and contractors	\$ 6,379,312	\$ 14,217,893
Payable to employees (including payroll taxes and benefits)	3,801,811	3,536,222
Payable to former owner	404,678	939,279
Payable to patients (including third-party payors)	319,610	418,853
	\$ 10,905,411	\$ 19,112,247

Note 8: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. The Authority has accrued an estimated liability at June 30, 2020 and 2019, for incurred but not reported claims, which is

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included in accrued expenses in the accompanying balance sheets. It is reasonably possible that this estimate could change materially in the near term.

Note 9: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues were significantly impacted 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.

Beginning in late March, the Authority deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the final quarter of the fiscal year.

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 following:

- Implementation of targeted cost reduction initiatives
- Execution of a lease agreement with the Oklahoma Department of Health for bed capacity to address the potential surge due to COVID-19

In addition, the Authority received approximately \$2,245,000 in general Provider Relief Fund distributions, as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (the CARES Act).

The extent of the COVID-19 pandemic's adverse impact 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 impact of the pandemic on the Authority's business. Decreases in cash flows and results of operations may have an impact on debt covenant compliance and on the inputs and assumptions

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

Sublease Agreement with Oklahoma State Department of Health

In April 2020, the Authority entered into a sublease agreement with the Oklahoma State Department of Health (OSDOH) in response to the COVID-19 pandemic in Oklahoma. The agreement allows the OSDOH to have access to 125 hospital beds to ensure the Secretary of Health and Mental Health is able to exercise a surge option at the Authority's location if needed. The term of the agreement was initially from April 15, 2020 to June 30, 2020, but was extended through September 19, 2020. The Authority recognized revenue during fiscal year 2020 of approximately \$28,875,000 related to the sublease agreement. This revenue is included in other operating income on the accompanying statements of revenues, expenses, and changes in net position.

In connection with the sublease agreement, the United States Army Corps of Engineers contributed building and leasehold improvements of approximately \$6,000,000 to ready the Authority's space to treat COVID-19 patients. This revenue is included in capital gifts and grants on the accompanying statements of revenues, expenses, and changes in net position.

Provider Relief Funds

During the year ended June 30, 2020, the Authority received approximately \$2,245,000 from the Provider Relief Fund. 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 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 impact of the pandemic on the Authority's operating revenues and expenses through June 30, 2020, the Authority recognized \$2,245,000 related to the Provider Relief Funds, and these payments are recorded as nonoperating revenue – CARES Act funding in the accompanying statements of revenues, expenses, and changes in net position. There is no unrecognized amount of Provider Relief Fund distributions as of June 30, 2020.

Subsequent to year-end, HHS issued Post Payment Notice of the Reporting Requirements on September 19, 2020. The guidance outlines a two-step approach to support the funds received and expands the definition of health care-related expenses and also limits the amount of lost revenue claimed to the difference in operating income from calendar year 2020 to 2019. Additional clarification is expected and guidance may change. As a result, the amounts recorded in the accompanying financial statements compared to the Authority's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

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The Authority will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on the Authority's revenues and expenses. The terms and conditions governing the Provider Relief Funds 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 impacted. The Provider Relief Funds are subject to government oversight, including potential audits.

Note 10: Services to the Community

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

The Authority provides a discount to uninsured patients. This discount is considered charity care under the Authority's policy.

The Authority has estimated the cost associated with uncompensated care to uninsured and charity care patients for the years ended June 30, 2020 and 2019, to be approximately \$6,955,000 and \$6,893,000, respectively.

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

Note 11: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 6.0% and 2.8% for 2020 and 5.7% and 2.8% for 2019, respectively. Contributions actually made by plan members and the Authority aggregated approximately \$1,455,000 and \$691,000 during 2020 and approximately \$1,409,000 and \$679,000 during 2019, respectively.

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Note 12: Contingencies

Litigation

The Authority is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets or the statements of revenues, expenses, and changes in net position and cash flows of the Authority. Events could occur that would change this estimate materially in the near term.

Note 13: Contract Management Services

Effective October 1, 2016, OSUMT began to be operated by Saint Francis Health System, Inc. (SFHS) under a management contract. The contract is for a period of 10 years unless terminated by either party with at least 12 months of notice prior to termination. As part of the management contract, SFHS provides three executives serving the Authority on a dedicated, full-time basis who are responsible for operations, finance, and nursing. The Authority reimburses SFHS for these three executives' salaries as well as any costs associated with any supplemental personnel and their expenses associated with the management contract. The management contract also includes a revenue-sharing calculation as part of the management fees to SFHS. Fees earned by SFHS for management services, including reimbursement of executive salaries, were approximately \$1,584,000 and \$8,038,000 for the years ended June 30, 2020 and 2019, respectively. At June 30, 2020 and 2019, the Authority owed SFHS approximately \$409,000 and \$7,045,000, respectively.

Note 14: Community Support

In connection with the creation of the Trust (now OSUMT), several entities made commitments to the Trust to assist in providing support and funds for the Trust to keep operating the Medical Center. These commitments ranged from direct financial support to indirect community support. Below is a recap of community support received by the Authority in fiscal years 2020 and 2019.

State of Oklahoma

The State provided the Authority with approximately \$42,204,000 and \$14,342,000 in funds during the years ended June 30, 2020 and 2019, respectively, related to the UPL, funding for OSU Center for Health Sciences, and other programs (see *Note 1*). These state-operated programs include direct allocation of funds to the Authority in addition to statewide fund allocations.

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The State also committed to provide the Trust up to \$25,000,000 in funding for capital needs during the first year of operations. The funding was provided by a commercial bank loan (see *Note 6*) secured by a lease agreement with the OSU Center for Health Sciences.

Oklahoma State University

The University has operational control over the OSU Center for Health Sciences in Tulsa. The OSU Center for Health Sciences provides interns and residents in the Tulsa area. The University has entered into an Academic Affiliation Agreement and a lease agreement with the Authority that provides for annual funding to the Authority of \$2,500,000 if certain events occur. This annual funding will continue until the retiring of the note payable to bank discussed in *Note 6*.

Note 15: Transactions with OSU Center for Health Sciences

The Authority has engaged the OSU Center for Health Sciences, an agency of the University, to perform accounting functions, including the receipt, deposit, and recording of revenues and the payment and recording of expenses approved by the Authority. Additionally, purchasing actions are also performed by the OSU Center for Health Sciences on behalf of the Authority. The OSU Center for Health Sciences also provides legal consultation as a part of the administrative services agreement and has the right to receive payment for these services based upon the allocation of time spent by its employees for these functions. At June 30, 2020 and 2019, the Authority owed the OSU Center for Health Sciences approximately \$855,000 and \$942,000, respectively.

During the year ended June 30, 2020, the Authority made contributions to the OSU Center for Health Sciences of approximately \$28,927,000 that were funded by the State of Oklahoma, as discussed in *Notes 1 and 14*.

Note 16: Combining Unit Information

The following tables include combining balance sheet information for the Authority and its component unit, OSUMT, as of June 30, 2020 and 2019.

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	2020			Combined Balance
	Authority	OSUMT	Eliminations	
Assets				
Current Assets				
Cash and cash equivalents	\$ 6,930,652	\$ 14,131,418	\$ -	\$ 21,062,070
Patient accounts receivable, net	-	9,270,001	-	9,270,001
Other receivables	-	29,876,181	-	29,876,181
Supplies	-	3,400,004	-	3,400,004
Estimated amounts due from third-party payors	-	1,102,011	-	1,102,011
Prepaid expenses and other	-	2,191,136	-	2,191,136
Total current assets	6,930,652	59,970,751	-	66,901,403
Capital Assets, Net	-	55,204,049	-	55,204,049
Other Assets	-	297,620	-	297,620
Total assets	<u>\$ 6,930,652</u>	<u>\$ 115,472,420</u>	<u>\$ -</u>	<u>\$ 122,403,072</u>
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ -	\$ 2,333,202	\$ -	\$ 2,333,202
Accounts payable	-	6,698,922	-	6,698,922
Accrued expenses	-	4,206,489	-	4,206,489
Accrued interest payable	-	112,285	-	112,285
Total current liabilities	-	13,350,898	-	13,350,898
Long-Term Debt	-	2,452,661	-	2,452,661
Total liabilities	-	15,803,559	-	15,803,559
Net Position				
Net investment in capital assets	-	49,472,705	-	49,472,705
Unrestricted	6,930,652	50,196,156	-	57,126,808
Total net position	6,930,652	99,668,861	-	106,599,513
Total liabilities and net position	<u>\$ 6,930,652</u>	<u>\$ 115,472,420</u>	<u>\$ -</u>	<u>\$ 122,403,072</u>

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

	2019			Combined Balance
	Authority	OSUMT	Eliminations	
Assets				
Current Assets				
Cash and cash equivalents	\$ 6,947,213	\$ 25,199,841	\$ -	\$ 32,147,054
Short-term investments	-	10,082,114	-	10,082,114
Patient accounts receivable, net	-	11,443,032	-	11,443,032
Other receivables	-	939,113	-	939,113
Supplies	-	3,306,065	-	3,306,065
Prepaid expenses and other	-	3,200,776	-	3,200,776
	6,947,213	54,170,941	-	61,118,154
Total current assets	6,947,213	54,170,941	-	61,118,154
Capital Assets, Net	-	39,500,561	-	39,500,561
Other Assets	-	283,226	-	283,226
	-	283,226	-	283,226
Total assets	\$ 6,947,213	\$ 93,954,728	\$ -	\$ 100,901,941
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	\$ -	\$ 2,394,308	\$ -	\$ 2,394,308
Accounts payable	37,683	14,599,063	-	14,636,746
Accrued expenses	-	4,475,501	-	4,475,501
Accrued interest payable	-	157,466	-	157,466
Estimated amounts due to third-party payors	-	300,000	-	300,000
	37,683	21,926,338	-	21,964,021
Total current liabilities	37,683	21,926,338	-	21,964,021
Long-Term Debt	-	4,682,965	-	4,682,965
	-	4,682,965	-	4,682,965
Total liabilities	37,683	26,609,303	-	26,646,986
Net Position				
Net investment in capital assets	-	29,746,024	-	29,746,024
Unrestricted	6,909,530	37,599,401	-	44,508,931
	6,909,530	67,345,425	-	74,254,955
Total net position	6,909,530	67,345,425	-	74,254,955
Total liabilities and net position	\$ 6,947,213	\$ 93,954,728	\$ -	\$ 100,901,941

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

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

	2020			Combined Balance
	Authority	OSUMT	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ -	\$ 124,489,866	\$ (3,762,459)	\$ 120,727,407
Other	-	31,569,239	-	31,569,239
Total operating revenues	-	156,059,105	(3,762,459)	152,296,646
Operating Expenses				
Salaries and wages	-	64,948,389	-	64,948,389
Employee benefits	-	11,371,734	-	11,371,734
Purchased services and professional fees	-	20,918,483	-	20,918,483
Supplies and other	44,520	32,380,562	-	32,425,082
Depreciation	-	7,396,616	-	7,396,616
Total operating expenses	44,520	137,015,784	-	137,060,304
Operating Income (Loss)	(44,520)	19,043,321	(3,762,459)	15,236,342
Nonoperating Revenues (Expenses)				
Noncapital grants and gifts	-	5,000,000	(2,500,000)	2,500,000
CARES Act funding	-	2,245,315	-	2,245,315
State contract and grant revenue	42,203,628	-	-	42,203,628
Contribution expense	(35,875,527)	-	-	(35,875,527)
Support to OSUMT	(6,262,459)	-	6,262,459	-
Investment income	-	398,931	-	398,931
Interest expense	-	(382,438)	-	(382,438)
Total nonoperating revenues (expenses)	65,642	7,261,808	3,762,459	11,089,909
Capital Gifts and Grants	-	6,018,307	-	6,018,307
Increase in Net Position	\$ 21,122	\$ 32,323,436	\$ -	\$ 32,344,558

Oklahoma State University Medical Authority
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Notes to Financial Statements
June 30, 2020 and 2019

	2019			Combined Balance
	Authority	OSUMT	Eliminations	
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts	\$ -	\$ 136,790,775	\$ (6,242,142)	\$ 130,548,633
Other	-	3,298,120	-	3,298,120
Total operating revenues	-	140,088,895	(6,242,142)	133,846,753
Operating Expenses				
Salaries and wages	-	60,345,915	-	60,345,915
Employee benefits	-	11,670,456	-	11,670,456
Purchased services and professional fees	-	25,615,038	-	25,615,038
Supplies and other	57,735	33,262,732	-	33,320,467
Depreciation	-	4,621,936	-	4,621,936
Total operating expenses	57,735	135,516,077	-	135,573,812
Operating Income (Loss)	(57,735)	4,572,818	(6,242,142)	(1,727,059)
Nonoperating Revenues (Expenses)				
Noncapital grants and gifts	-	2,634,327	-	2,634,327
State contract and grant revenue	14,342,432	-	-	14,342,432
Contribution expense	(7,743,881)	-	-	(7,743,881)
Support to OSUMT	(6,242,142)	-	6,242,142	-
Investment income	-	575,929	-	575,929
Interest expense	-	(312,413)	-	(312,413)
Total nonoperating revenues (expenses)	356,409	2,897,843	6,242,142	9,496,394
Increase in Net Position	\$ 298,674	\$ 7,470,661	\$ -	\$ 7,769,335

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

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

	2020			Combined Balance
	Authority	OSUMT	Eliminations	
Net Cash Used in Operating Activities	\$ (16,561)	\$ (11,135,456)	\$ -	\$ (11,152,017)
Net Cash Provided by Noncapital Financing Activities	-	11,073,416	-	11,073,416
Net Cash Used in Capital and Related Financing Activities	-	(21,487,428)	-	(21,487,428)
Net Cash Provided by Investing Activities	-	10,481,045	-	10,481,045
Decrease in Cash and Cash Equivalents	(16,561)	(11,068,423)	-	(11,084,984)
Cash and Cash Equivalents, Beginning of Year	6,947,213	25,199,841	-	32,147,054
Cash and Cash Equivalents, End of Year	<u>\$ 6,930,652</u>	<u>\$ 14,131,418</u>	<u>\$ -</u>	<u>\$ 21,062,070</u>

Oklahoma State University Medical Authority
A Component Unit of the State of Oklahoma
Notes to Financial Statements
June 30, 2020 and 2019

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

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

Independent Auditor's Report

Board of Trustees
Oklahoma State University Medical Authority
Tulsa, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Oklahoma State University Medical Authority (the Authority), a component unit of the State of Oklahoma, which comprise the balance sheet as of June 30, 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 October 22, 2020.

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 Authority's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board of Trustees
Oklahoma State University Medical Authority

Compliance and Other Matters

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

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
October 22, 2020