

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, 2021 and 2020

Stillwater Medical Center Authority
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A Component Unit of the City of Stillwater, Oklahoma
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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 Audit of the Financial Statements

Opinion

We have audited 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, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Board of Trustees
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated May 27, 2022, 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
May 27, 2022

Stillwater Medical Center Authority
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A Component Unit of the City of Stillwater, Oklahoma
Balance Sheets
December 31, 2021 and 2020

Assets and Deferred Outflows of Resources

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 20,533,671	\$ 22,317,149
Short-term investments	87,508,384	73,231,102
Restricted cash and investments – current	300,000	247,971
Patient accounts receivable, net of allowance; 2021 – \$8,412,000, 2020 – \$6,833,000	47,814,319	37,440,872
Supplies	8,089,518	6,401,956
Prepaid expenses and other	<u>6,443,731</u>	<u>4,479,430</u>
Total current assets	<u>170,689,623</u>	<u>144,118,480</u>
Noncurrent Cash and Investments		
Held by trustee for specific operating activities	300,000	300,000
Held by trustee for specific capital acquisition	<u>4,883,645</u>	<u>20,693,660</u>
	5,183,645	20,993,660
Less amount required to meet current obligations	<u>300,000</u>	<u>247,818</u>
	4,883,645	20,745,842
Other long-term investments	<u>44,192,534</u>	<u>45,744,940</u>
Noncurrent cash and investments, net	<u>49,076,179</u>	<u>66,490,782</u>
Capital Assets, Net	<u>169,177,449</u>	<u>152,090,399</u>
Other Assets		
Investments in joint ventures	9,589,313	9,176,636
Other	<u>33,366,661</u>	<u>33,370,605</u>
Total other assets	<u>42,955,974</u>	<u>42,547,241</u>
Deferred Outflows of Resources	<u>3,892,076</u>	<u>5,274,353</u>
Total assets and deferred outflows of resources	<u>\$ 435,791,301</u>	<u>\$ 410,521,255</u>

Liabilities and Net Position

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Current maturities of long-term debt	\$ 5,709,539	\$ 11,147,654
Accounts payable	11,753,052	6,584,395
Accrued expenses	21,034,618	19,320,287
Estimated amounts due to third-party payors	<u>14,267,928</u>	<u>9,298,172</u>
Total current liabilities	52,765,137	46,350,508
Estimated Amounts Due to Third-Party Payors – Noncurrent	-	18,085,000
Other Liabilities	-	1,888,141
Long-Term Debt	<u>78,795,148</u>	<u>74,784,408</u>
Total liabilities	<u>131,560,285</u>	<u>141,108,057</u>
Net Position		
Net investment in capital assets	88,187,006	82,767,457
Restricted – expendable for		
Specific operating activities	300,000	300,000
Restricted – nonexpendable	7,224,309	7,466,019
Unrestricted	<u>208,519,701</u>	<u>178,879,722</u>
Total net position	<u>304,231,016</u>	<u>269,413,198</u>
Total liabilities and net position	<u>\$ 435,791,301</u>	<u>\$ 410,521,255</u>

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A Component Unit of the City of Stillwater, Oklahoma
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 – \$26,806,218, 2020 – \$28,202,279	\$ 296,698,981	\$ 246,235,544
Other	4,448,616	4,413,916
	<u>301,147,597</u>	<u>250,649,460</u>
Operating Expenses		
Salaries and wages	120,891,158	109,907,383
Employee benefits	30,856,061	27,492,832
Purchased services and professional fees	35,822,993	29,726,017
Supplies and other expenses	83,853,979	70,103,122
Depreciation and amortization	13,378,101	13,011,776
	<u>284,802,292</u>	<u>250,241,130</u>
	<u>16,345,305</u>	<u>408,330</u>
Operating Income		
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	-	416,323
Government grants	10,859,424	16,287,077
Gain on investments in joint ventures	1,288,876	1,136,953
Investment return	9,272,239	8,389,990
Interest expense and financing costs	(1,885,508)	(2,908,286)
	<u>19,535,031</u>	<u>23,322,057</u>
	<u>35,880,336</u>	<u>23,730,387</u>
Income Before Capital Gifts and Distributions		
Capital Gifts	-	1,250,000
Distributions to Minority Owners, Net	<u>(1,062,518)</u>	<u>(301,791)</u>
Increase in Net Position	34,817,818	24,678,596
Net Position, Beginning of Year	<u>269,413,198</u>	<u>244,734,602</u>
Net Position, End of Year	<u>\$ 304,231,016</u>	<u>\$ 269,413,198</u>

Stillwater Medical Center Authority
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Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 274,115,484	\$ 264,586,880
Payments to suppliers and contractors	(118,798,582)	(105,381,587)
Payments to employees	(153,894,016)	(126,341,230)
Other receipts and payments, net	<u>6,501,032</u>	<u>5,915,950</u>
Net cash provided by operating activities	<u>7,923,918</u>	<u>38,780,013</u>
Noncapital Financing Activities		
Government grants	10,859,424	16,287,077
Noncapital grants and gifts	<u>-</u>	<u>416,323</u>
Net cash provided by noncapital financing activities	<u>10,859,424</u>	<u>16,703,400</u>
Capital and Related Financing Activities		
Capital gifts	-	1,250,000
Proceeds from issuance of long-term debt	4,000,000	10,000,000
Proceeds from disposal of capital assets	485,165	950,229
Principal paid on long-term debt	(6,520,144)	(10,439,671)
Interest paid on long-term debt	(2,644,561)	(1,589,270)
Purchase of capital assets	<u>(28,058,492)</u>	<u>(27,300,641)</u>
Net cash used in capital and related financing activities	<u>(32,738,032)</u>	<u>(27,129,353)</u>
Investing Activities		
Proceeds from disposition of restricted assets whose use is limited for capital acquisitions	15,810,168	7,830,984
Purchases of investments	(33,465,093)	(74,306,814)
Proceeds from disposition of investments	24,087,737	25,763,791
Distributions from joint ventures	1,326,199	998,983
Investment and joint venture income received	5,924,719	2,234,961
Distributions to minority owners	<u>(1,512,518)</u>	<u>(1,193,571)</u>
Net cash provided by (used in) investing activities	<u>12,171,212</u>	<u>(38,671,666)</u>
Decrease in Cash and Cash Equivalents	(1,783,478)	(10,317,606)
Cash and Cash Equivalents, Beginning of Year	<u>22,317,149</u>	<u>32,634,755</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 20,533,671</u></u>	<u><u>\$ 22,317,149</u></u>

See Notes to Financial Statements

	<u>2021</u>	<u>2020</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 16,345,305	\$ 408,330
Depreciation and amortization	13,378,101	13,011,776
Accrued self-insurance costs	(114,499)	1,214,131
Provision for uncollectible accounts	26,806,218	28,202,279
Changes in operating assets and liabilities		
Patient accounts receivable	(37,179,665)	(36,579,115)
Supplies, prepaid expenses, and other assets	(16,380,633)	(11,418,186)
Estimated amounts due to/from third-party payors	(13,115,244)	26,728,172
Accounts payable and accrued expenses	18,184,335	17,212,626
	<u>\$ 7,923,918</u>	<u>\$ 38,780,013</u>
Noncash Investing, Capital, and Financing Activities		
Capital asset purchases in accounts payable	\$ 690,459	\$ 423,198
Capital lease obligations incurred for equipment	\$ 1,092,769	\$ 1,857,479
Proceeds from issuance of refinancing debt paid directly to refinancing agent	\$ 26,041,096	\$ -
Principal and fiscal charges paid on refinancing debt	\$ (26,041,096)	\$ -

Stillwater Medical Center Authority
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Notes to Financial Statements
December 31, 2021 and 2020

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.

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.

SMC RE is a limited liability company organized in 2019 to lease various medical facilities to the Authority. The Authority owned approximately 52% and 54% of SMC RE as of December 31, 2021 and 2020, respectively. Separate financial statements for SMC RE can be obtained by contacting the Authority's administrative office.

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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, 2021 and 2020, cash equivalents consisted primarily of money market accounts with brokers.

Included in short-term investments, restricted cash and investments – current, and held by trustee for specific capital acquisition on the accompanying balance sheets are money market mutual funds with brokers the Authority does not consider cash equivalents.

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

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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 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, fixed equipment, and leasehold improvements	10–40 years
Major moveable equipment	3–20 years

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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, 2021 and 2020.

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.

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

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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:

	2021	2020
SHOPP funds received	\$ 7,282,000	\$ 4,283,000
SHOPP assessment fees paid	3,781,000	4,169,000
Net benefit under SHOPP	\$ 3,501,000	\$ 114,000

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.

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Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation. The reclassifications had no effect on the changes in financial position.

Revision

Immaterial revisions have been made to the 2020 disclosures related to capital assets activity in *Note 6* and elimination entries in the balance sheet and statement of revenues, expenses, and changes in net position. These revisions decreased the reported 2020 increase in net position by \$3,354,584.

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 41% and 43% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, approximately \$3,613,000 and \$3,368,000 of the Authority's bank balances of approximately \$5,630,000 and \$9,946,000, respectively, were uninsured and uncollateralized.

The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$438,000 and \$47,000 and carrying values of approximately \$438,000 and \$47,000 at December 31, 2021 and 2020, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At December 31, 2021 and 2020, the blended component units' cash accounts exceeded federally insured limits by approximately \$138,000 and \$0, 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.

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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
2021					
U.S. Treasury obligations	\$ 395,263	\$ -	\$ 247,084	\$ 148,179	\$ -
Money market mutual funds	22,843,316	22,843,316	-	-	-
Mutual funds – fixed income	75,643,177	31,845,907	29,019,099	14,242,172	535,999
Mutual funds – domestic equities	39,624,110	39,624,110	-	-	-
Mutual funds – international equities	13,926,923	13,926,923	-	-	-
Total investments	<u>\$ 152,432,789</u>	<u>\$ 108,240,256</u>	<u>\$ 29,266,183</u>	<u>\$ 14,390,351</u>	<u>\$ 535,999</u>
2020					
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>

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.

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

Investments	Moody's	S & P
2021		
Money market mutual funds	Aaa-mf	AAAm
Mutual funds	Not Rated	Not Rated
2020		
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.

At December 31, 2021 and 2020, 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:

	2021	2020
Carrying value		
Deposits	\$ 4,985,445	\$ 26,390,748
Investments	152,432,789	135,896,256
	<u>\$ 157,418,234</u>	<u>\$ 162,287,004</u>

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	<u>2021</u>	<u>2020</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 20,533,671	\$ 22,317,149
Short-term investments	87,508,384	73,231,102
Restricted cash and investments – current	300,000	247,971
Noncurrent cash and investments, net	<u>49,076,179</u>	<u>66,490,782</u>
	<u>\$ 157,418,234</u>	<u>\$ 162,287,004</u>

Investment Return

Investment return for the years ended December 31 consisted of:

	<u>2021</u>	<u>2020</u>
Interest, dividends, and realized gain on sales of investments	\$ 5,924,719	\$ 2,234,961
Net increase in fair value of investments	<u>3,347,520</u>	<u>6,155,029</u>
	<u>\$ 9,272,239</u>	<u>\$ 8,389,990</u>

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>2021</u>	<u>2020</u>
Medicare	\$ 12,593,103	\$ 9,774,902
Medicaid	2,775,872	1,412,259
Other third-party payors	26,672,774	19,015,534
Patients	<u>14,184,570</u>	<u>14,071,177</u>
	56,226,319	44,273,872
Less allowance for uncollectible accounts	<u>8,412,000</u>	<u>6,833,000</u>
	<u>\$ 47,814,319</u>	<u>\$ 37,440,872</u>

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Note 5: Investments in Joint Ventures

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

	<u>2021</u>	<u>2020</u>
Fresenius Medical Care – Stillwater, LLC	9%	9%
LifeCare Health Services, LLC	10%	10%
Tecumseh Health Reciprocal Risk Retention Group	4%	4%
LifeCare Association Insurance Exchange	13%	-
Upper Midwest Consolidated Services Center	1%	1%
Bushwood, LLC	50%	50%

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:

	<u>2021</u>			
	<u>Tecumseh</u>	<u>Bushwood</u>	<u>LifeCare</u>	<u>LAIE</u>
Current assets	\$ 64,153,891	\$ 251,774	\$ 10,221,930	\$ 4,422,399
Property and other long-term assets, net	<u>-</u>	<u>8,037,973</u>	<u>245,543</u>	<u>-</u>
Total assets	<u>\$ 64,153,891</u>	<u>\$ 8,289,747</u>	<u>\$ 10,467,473</u>	<u>\$ 4,422,399</u>
Total liabilities	\$ 22,494,081	\$ -	\$ 628,769	\$ 45,020
Partners' equity	<u>41,659,810</u>	<u>8,289,747</u>	<u>9,838,704</u>	<u>4,377,379</u>
Total liabilities and partners' equity	<u>\$ 64,153,891</u>	<u>\$ 8,289,747</u>	<u>\$ 10,467,473</u>	<u>\$ 4,422,399</u>
Revenues	<u>\$ 14,456,940</u>	<u>\$ 881,751</u>	<u>\$ 3,728,197</u>	<u>\$ 651,977</u>
Excess of revenues over expenses	<u>\$ 5,698,527</u>	<u>\$ 640,856</u>	<u>\$ 1,137,269</u>	<u>\$ 489,459</u>

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	2020		
	Tecumseh	Bushwood	LifeCare
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>

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, 2021 and 2020, the Authority paid approximately \$306,000 and \$280,000, respectively, to Tecumseh for the coverage. The Authority's investment in Tecumseh was approximately \$1,180,000 and \$1,649,000 at December 31, 2021 and 2020, 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 \$793,000 and \$644,000 at December 31, 2021 and 2020, respectively.

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, 2021 and 2020, the Authority paid approximately \$822,000 and \$715,000, respectively, in rent for the right to utilize the building space. The Authority's investment in Bushwood was approximately \$6,474,000 and \$6,533,000 at December 31, 2021 and 2020, respectively. The Authority received distributions of \$42,000 and \$33,000 from Bushwood during the years ended December 31, 2021 and 2020, 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 \$313,000 and \$277,000 at December 31, 2021 and 2020, respectively.

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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, 2021 and 2020.

Lifecare Association Insurance Exchange (LAIE) is a joint venture between certain hospitals in Oklahoma, organized to collaborate and share expenses to create a captive insurance company for property insurance coverage. The Authority's investment in LAIE was approximately \$755,000 as of December 31, 2021. Effective July 1, 2021, the Authority purchased its property insurance coverage from LAIE. For the year ended December 31, 2021, the Authority paid approximately \$148,000 to LAIE for the coverage.

Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	2021				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 4,470,073	\$ 770,619	\$ -	\$ -	\$ 5,240,692
Land improvements	4,074,672	-	-	-	4,074,672
Buildings, fixed equipment, and leasehold improvements	119,505,563	3,507,223	(166,509)	23,133,830	145,980,107
Major moveable equipment	113,406,750	4,943,351	(318,656)	-	118,031,445
Construction in progress	42,004,405	20,197,329	-	(23,133,830)	39,067,904
	<u>283,461,463</u>	<u>29,418,522</u>	<u>(485,165)</u>	<u>-</u>	<u>312,394,820</u>
Less accumulated depreciation					
Land improvements	1,799,243	114,411	-	-	1,913,654
Buildings, fixed equipment, and leasehold improvements	50,194,607	3,823,286	(116,402)	-	53,901,491
Major moveable equipment	79,377,214	8,142,897	(117,885)	-	87,402,226
	<u>131,371,064</u>	<u>12,080,594</u>	<u>(234,287)</u>	<u>-</u>	<u>143,217,371</u>
Capital assets, net	<u>\$ 152,090,399</u>	<u>\$ 17,337,928</u>	<u>\$ (250,878)</u>	<u>\$ -</u>	<u>\$ 169,177,449</u>

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	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 4,470,073	\$ -	\$ -	\$ -	\$ 4,470,073
Land improvements	4,074,672	-	-	-	4,074,672
Buildings, fixed equipment, and leasehold improvements	110,079,405	3,558,566	(113,533)	5,981,125	119,505,563
Major moveable equipment	107,814,207	5,735,678	(143,135)	-	113,406,750
Construction in progress	29,152,659	18,832,871	-	(5,981,125)	42,004,405
	<u>255,591,016</u>	<u>28,127,115</u>	<u>(256,668)</u>	<u>-</u>	<u>283,461,463</u>
Less accumulated depreciation					
Land improvements	1,681,659	117,584	-	-	1,799,243
Buildings, fixed equipment, and leasehold improvements	46,673,442	3,634,698	(113,533)	-	50,194,607
Major moveable equipment	71,628,450	7,877,216	(128,452)	-	79,377,214
	<u>119,983,551</u>	<u>11,629,498</u>	<u>(241,985)</u>	<u>-</u>	<u>131,371,064</u>
Capital assets, net	<u>\$ 135,607,465</u>	<u>\$ 16,497,617</u>	<u>\$ (14,683)</u>	<u>\$ -</u>	<u>\$ 152,090,399</u>

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, 2021 and 2020. 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.

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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, 2021 and 2020. No draws were made on the certificate of deposit held in escrow through 2021.

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.

Activity in the Authority’s accrued employee health and workers’ compensation claims liability during 2021 and 2020 is summarized as follows:

	Employee Health	Workers’ Compensation
2021		
Balance, beginning of year	\$ 2,243,849	\$ 247,818
Current year claims incurred and changes in estimates for claims incurred in prior years	14,782,459	445,270
Claims and expenses paid	(15,026,308)	(315,920)
Balance, end of year	\$ 2,000,000	\$ 377,168
2020		
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

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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:

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable					
Series 2019A	\$ 1,750,000	\$ -	\$ 1,750,000	\$ -	\$ -
Series 2019C	15,941,465	-	15,941,465	-	-
Series 2019D	9,850,451	-	9,850,451	-	-
Note payable (A)	9,033,590	-	1,955,146	7,078,444	1,818,282
Note payable (B)	-	26,041,096	1,302,055	24,739,041	1,736,073
Note payable (C)	-	4,000,000	383,573	3,616,427	779,619
Promissory notes					
SMC Equipment	16,000,000	-	-	16,000,000	-
SMC Development	30,000,000	-	-	30,000,000	-
Capital lease obligations	<u>3,356,556</u>	<u>1,092,769</u>	<u>1,378,550</u>	<u>3,070,775</u>	<u>1,375,565</u>
Total long-term debt	<u>\$ 85,932,062</u>	<u>\$ 31,133,865</u>	<u>\$ 32,561,240</u>	<u>\$ 84,504,687</u>	<u>\$ 5,709,539</u>
	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
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 (A)	-	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	<u>3,020,920</u>	<u>1,857,479</u>	<u>1,521,843</u>	<u>3,356,556</u>	<u>1,116,627</u>
Total long-term debt	<u>\$ 84,514,254</u>	<u>\$ 11,857,479</u>	<u>\$ 10,439,671</u>	<u>\$ 85,932,062</u>	<u>\$ 11,147,654</u>

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.

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

Note Payable (A) – 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.

The Series 2020 Hospital Revenue Note contains a provision that in an event of default, outstanding amounts become immediately due if the Authority is unable to make payment.

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The Series 2020 Hospital Revenue Note requires the Authority to comply with certain restrictive covenants, including maintaining a historical debt service coverage ratio of at least 1.2 to 1.0.

Note Payable (B) – Series 2021A Hospital Revenue Note

The Authority entered into a Series 2021A Hospital Revenue Note in the original amount of \$26,041,096 dated April 13, 2021. The loan payable bears interest at 2.2% and is payable in monthly principal and interest installments through April 13, 2028. The Series 2021A Bond is secured by the gross revenues of the Authority.

The Series 2021A Hospital Revenue Note contains a provision that in an event of default, outstanding amounts become immediately due if the Authority is unable to make payment.

The Series 2021A Hospital Revenue Note requires the Authority to comply with certain restrictive covenants, including maintaining a historical debt service coverage ratio of at least 1.2 to 1.0.

Note Payable (C) – Series 2021B Hospital Revenue Note

The Authority entered into a Series 2021B Hospital Revenue Note in the original amount of \$4,000,000 dated June 25, 2021, which bears interest annually at 1.70%. The Series 2021B Hospital Revenue Note is payable in monthly principal and interest installments through June 25, 2026. The Series 2021B Hospital Revenue Note is secured by the gross revenues of the Authority and the assets held by trustee.

The Series 2021B Hospital Revenue Note contains a provision that in an event of default, outstanding amounts become immediately due if the Authority is unable to make payment.

The Series 2021B Hospital Revenue Note requires the Authority to comply with certain restrictive covenants, including maintaining a historical debt service coverage ratio of at least 1.2 to 1.0 and maintaining at least \$50,000,000 of unrestricted cash and investments.

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.

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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 notes payable, SMC Equipment promissory notes, and SMC Development promissory notes are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2022	\$ 5,639,561	\$ 4,333,974	\$ 1,305,587
2023	5,773,937	4,541,338	1,232,599
2024	5,909,605	4,756,868	1,152,737
2025	5,426,551	4,359,827	1,066,724
2026	6,537,361	5,558,898	978,463
2027–2031	36,376,195	33,958,568	2,417,627
2032–2036	7,403,290	6,134,101	1,269,189
2037–2041	7,403,291	6,514,897	888,394
2042–2046	7,403,290	6,919,331	483,959
2047–2049	4,441,828	4,356,110	85,718
	<u>\$ 92,314,909</u>	<u>\$ 81,433,912</u>	<u>\$ 10,880,997</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, 2021 and 2020, totaled approximately \$11,993,000 and \$10,785,000, respectively, net of accumulated depreciation of approximately \$9,272,000 and \$6,876,000, respectively.

The following is a schedule by year of future minimum lease payments under capital leases, including interest rates between 0% and 1.69%, together with the present value of the future minimum lease payments:

Year Ending December 31,	
2022	\$ 1,401,153
2023	1,344,050
2024	256,667
2025	90,844
Total minimum lease payments	<u>3,092,714</u>
Less amount representing interest	<u>21,939</u>
Present value of future minimum lease payments	<u>\$ 3,070,775</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, 2021 and 2020, the estimated uncompensated costs associated with charity care services were approximately \$4,350,000 and \$3,717,000, 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, 2021, were approximately:

2022	\$ 1,523,000
2023	1,128,000
2024	1,134,000
2025	1,139,000
2026	1,895,000
2027	<u>401,000</u>
	<u>\$ 7,220,000</u>

Rental expense for the years ended December 31, 2021 and 2020, was approximately \$1,618,000 and \$1,697,000, 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 2021 and 2020. Contributions actually made by plan members and the Authority aggregated approximately \$2,558,000 and \$4,865,000, respectively, during 2021 and \$2,267,000 and \$4,432,000, respectively, during 2020.

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:

	2021	2020
Deferred outflows of resources	\$ 16,221,821	\$ 16,221,821
Accumulated amortization	12,329,745	10,947,468
	\$ 3,892,076	\$ 5,274,353

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.

Investments

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.

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
- 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

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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 in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2021				
U.S. Treasury obligations	\$ 395,263	\$ 395,263	\$ -	\$ -
Money market mutual funds	\$ 22,843,316	\$ 22,843,316	\$ -	\$ -
Mutual funds – fixed income	\$ 75,643,177	\$ 75,643,177	\$ -	\$ -
Mutual funds – domestic equities	\$ 39,624,110	\$ 39,624,110	\$ -	\$ -
Mutual funds – international equities	\$ 13,926,923	\$ 13,926,923	\$ -	\$ -
2020				
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	\$ -	\$ -

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, 2021 and 2020.

Note 16: Combining Component Unit Information

The following tables include combining balance sheet information for the Authority (including Perry and Blackwell) and its component units as of December 31, 2021:

	Authority	SMC Equipment	SMC Development	SMC RE	Eliminations	Combined Balance
Assets						
Current Assets						
Cash and cash equivalents	\$ 20,095,346	60,170	360,322	\$ 17,833	\$ -	\$ 20,533,671
Short-term investments	87,508,384	-	-	-	-	87,508,384
Restricted cash and investments – current	300,000	-	-	-	-	300,000
Patient accounts receivable, net	47,814,319	-	-	-	-	47,814,319
Supplies	8,089,518	-	-	-	-	8,089,518
Prepaid expenses and other	31,734,120	-	79,614	-	(25,370,003)	6,443,731
Total current assets	<u>195,541,687</u>	<u>60,170</u>	<u>439,936</u>	<u>17,833</u>	<u>(25,370,003)</u>	<u>170,689,623</u>
Noncurrent Cash and Investments						
Held by trustee for specific operating activities	300,000	-	-	-	-	300,000
Held by trustee for specific capital acquisition	-	-	4,883,645	-	-	4,883,645
	<u>300,000</u>	<u>-</u>	<u>4,883,645</u>	<u>-</u>	<u>-</u>	<u>5,183,645</u>
Less amount required to meet current obligations	<u>300,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
	<u>-</u>	<u>-</u>	<u>4,883,645</u>	<u>-</u>	<u>-</u>	<u>4,883,645</u>
Other long-term investments	44,192,534	-	-	-	-	44,192,534
Noncurrent cash and investments, net	<u>44,192,534</u>	<u>-</u>	<u>4,883,645</u>	<u>-</u>	<u>-</u>	<u>49,076,179</u>
Capital Assets, Net	<u>102,213,957</u>	<u>13,168,419</u>	<u>38,638,161</u>	<u>15,156,912</u>	<u>-</u>	<u>169,177,449</u>
Other Assets						
Investments in joint ventures	33,225,775	-	-	-	(23,636,462)	9,589,313
Other	32,908,477	-	458,184	-	-	33,366,661
Total other assets	<u>66,134,252</u>	<u>-</u>	<u>458,184</u>	<u>-</u>	<u>(23,636,462)</u>	<u>42,955,974</u>
Deferred Outflows of Resources	<u>3,892,076</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,892,076</u>
Total assets and deferred outflows of resources	<u>\$ 411,974,506</u>	<u>\$ 13,228,589</u>	<u>\$ 44,419,926</u>	<u>\$ 15,174,745</u>	<u>\$ (49,006,465)</u>	<u>\$ 435,791,301</u>

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	Authority	SMC Equipment	SMC Development	SMC RE	Eliminations	Combined Balance
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 5,709,539	\$ -	\$ -	\$ -	\$ -	\$ 5,709,539
Accounts payable	35,475,437	-	1,647,618	-	(25,370,003)	11,753,052
Accrued expenses	20,982,172	22,308	26,138	4,000	-	21,034,618
Estimated amounts due to third-party payors	<u>14,267,928</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,267,928</u>
Total current liabilities	76,435,076	22,308	1,673,756	4,000	(25,370,003)	52,765,137
Long-Term Debt	<u>32,795,148</u>	<u>16,000,000</u>	<u>30,000,000</u>	<u>-</u>	<u>-</u>	<u>78,795,148</u>
Total liabilities	<u>109,230,224</u>	<u>16,022,308</u>	<u>31,673,756</u>	<u>4,000</u>	<u>(25,370,003)</u>	<u>131,560,285</u>
Net Position						
Net investment in capital assets	62,339,869	(2,831,581)	13,521,806	15,156,912	-	88,187,006
Restricted – expendable for						
Specific operating activities	300,000	-	-	-	-	300,000
Restricted – nonexpendable	-	-	-	-	7,224,309	7,224,309
Unrestricted	<u>240,104,413</u>	<u>37,862</u>	<u>(775,636)</u>	<u>13,833</u>	<u>(30,860,771)</u>	<u>208,519,701</u>
Total net position	<u>302,744,282</u>	<u>(2,793,719)</u>	<u>12,746,170</u>	<u>15,170,745</u>	<u>(23,636,462)</u>	<u>304,231,016</u>
Total liabilities and net position	<u>\$ 411,974,506</u>	<u>\$ 13,228,589</u>	<u>\$ 44,419,926</u>	<u>\$ 15,174,745</u>	<u>\$ (49,006,465)</u>	<u>\$ 435,791,301</u>

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

	Authority	SMC Equipment	SMC Development	SMC RE	Eliminations	Combined Balance
Assets						
Current Assets						
Cash and cash equivalents	\$ 22,269,675	\$ 30,539	\$ 5,442	\$ 11,493	\$ -	\$ 22,317,149
Short-term investments	73,231,102	-	-	-	-	73,231,102
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	(13,324,604)	4,479,430
Total current assets	<u>157,008,932</u>	<u>30,692</u>	<u>85,056</u>	<u>318,404</u>	<u>(13,324,604)</u>	<u>144,118,480</u>
Noncurrent Cash and Investments						
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>
Capital Assets, Net	<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>
Other Assets						
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>
Deferred Outflows of Resources	<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>\$ (37,411,066)</u>	<u>\$ 410,521,255</u>

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	Authority	SMC Equipment	SMC Development	SMC RE	Eliminations	Combined Balance
Liabilities and Net Position						
Current Liabilities						
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	1,322,989	4,000	-	19,320,287
Amounts due to related parties	-	-	2,364,644	-	(2,364,644)	-
Estimated amounts due to third-party payors	9,298,172	-	-	-	-	9,298,172
Total current liabilities	55,948,671	22,308	3,700,133	4,000	(13,324,604)	46,350,508
Estimated Amounts Due to Third-Party Payors – Noncurrent						
	18,085,000	-	-	-	-	18,085,000
Other Liabilities						
	1,888,141	-	-	-	-	1,888,141
Long-Term Debt						
	28,784,408	16,000,000	30,000,000	-	-	74,784,408
Total liabilities	104,706,220	16,022,308	33,700,133	4,000	(13,324,604)	141,108,057
Net Position						
Net investment in capital assets	55,179,781	(1,074,396)	13,091,330	15,570,742	-	82,767,457
Restricted – expendable for						
Specific operating activities	300,000	-	-	-	-	300,000
Restricted – nonexpendable	-	-	-	-	7,466,019	7,466,019
Unrestricted	209,604,966	8,231	504,602	314,404	(31,552,481)	178,879,722
Total net position	265,084,747	(1,066,165)	13,595,932	15,885,146	(24,086,462)	269,413,198
Total liabilities and net position	\$ 369,790,967	\$ 14,956,143	\$ 47,296,065	\$ 15,889,146	\$ (37,411,066)	\$ 410,521,255

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The following table includes combining statement of revenues, expenses, and changes in net position information for the Authority (including Perry and Blackwell) and its component units for the year ended December 31, 2021:

	Authority	SMC Equipment	SMC Development	SMC RE	Eliminations	Combined Balance
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; \$26,806,218	\$ 296,698,981	\$ -	\$ -	\$ -	\$ -	\$ 296,698,981
Other	4,448,616	317,696	750,000	1,215,607	(2,283,303)	4,448,616
Total operating revenues	<u>301,147,597</u>	<u>317,696</u>	<u>750,000</u>	<u>1,215,607</u>	<u>(2,283,303)</u>	<u>301,147,597</u>
Operating Expenses						
Salaries and wages	120,891,158	-	-	-	-	120,891,158
Employee benefits	30,856,061	-	-	-	-	30,856,061
Purchased services and professional fees	35,778,298	20,482	20,713	3,500	-	35,822,993
Supplies and other expenses	86,137,082	40	-	160	(2,283,303)	83,853,979
Depreciation and amortization	9,984,453	1,757,032	1,222,786	413,830	-	13,378,101
Total operating expenses	<u>283,647,052</u>	<u>1,777,554</u>	<u>1,243,499</u>	<u>417,490</u>	<u>(2,283,303)</u>	<u>284,802,292</u>
Operating Income (Loss)	<u>17,500,545</u>	<u>(1,459,858)</u>	<u>(493,499)</u>	<u>798,117</u>	<u>-</u>	<u>16,345,305</u>
Nonoperating Revenues (Expenses)						
Government grants	10,859,424	-	-	-	-	10,859,424
Gain on investments in joint ventures	1,288,876	-	-	-	-	1,288,876
Investment return	9,266,594	-	5,645	-	-	9,272,239
Interest expense and financing costs	(1,255,904)	(267,696)	(361,908)	-	-	(1,885,508)
Total nonoperating revenues (expenses)	<u>20,158,990</u>	<u>(267,696)</u>	<u>(356,263)</u>	<u>-</u>	<u>-</u>	<u>19,535,031</u>
Income (Loss) Before Transfers, Capital Gifts, and Distributions	<u>37,659,535</u>	<u>(1,727,554)</u>	<u>(849,762)</u>	<u>798,117</u>	<u>-</u>	<u>35,880,336</u>
Distributions to Minority Owners, Net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,512,518)</u>	<u>450,000</u>	<u>(1,062,518)</u>
Increase (Decrease) in Net Position	<u>37,659,535</u>	<u>(1,727,554)</u>	<u>(849,762)</u>	<u>(714,401)</u>	<u>450,000</u>	<u>34,817,818</u>
Net Position, Beginning of Year	<u>265,084,747</u>	<u>(1,066,165)</u>	<u>13,595,932</u>	<u>15,885,146</u>	<u>(24,086,462)</u>	<u>269,413,198</u>
Net Position, End of Year	<u>\$ 302,744,282</u>	<u>\$ (2,793,719)</u>	<u>\$ 12,746,170</u>	<u>\$ 15,170,745</u>	<u>\$ (23,636,462)</u>	<u>\$ 304,231,016</u>

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

	Authority	SMC Equipment	SMC Development	SMC RE	Eliminations	Combined Balance
Operating Revenues						
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	862,798	1,209,589	(2,390,083)	4,413,916
Total operating revenues	<u>250,649,460</u>	<u>317,696</u>	<u>862,798</u>	<u>1,209,589</u>	<u>(2,390,083)</u>	<u>250,649,460</u>
Operating Expenses						
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	(2,390,083)	70,103,122
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>(2,390,083)</u>	<u>250,241,130</u>
Operating Income (Loss)	<u>1,338,696</u>	<u>(1,140,525)</u>	<u>(583,124)</u>	<u>793,283</u>	<u>-</u>	<u>408,330</u>
Nonoperating Revenues (Expenses)						
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)	(1,513,218)	-	-	(2,908,286)
Total nonoperating revenues (expenses)	<u>24,811,668</u>	<u>(142,023)</u>	<u>(1,347,588)</u>	<u>-</u>	<u>-</u>	<u>23,322,057</u>
Income (Loss) Before Transfers, Capital Gifts, and Distributions	26,150,364	(1,282,548)	(1,930,712)	793,283	-	23,730,387
Transfers	935,547	-	-	-	(935,547)	-
Capital Gifts	1,250,000	-	-	-	-	1,250,000
Distributions to Minority Owners, Net	-	-	-	(1,193,571)	891,780	(301,791)
Increase (Decrease) in Net Position	28,335,911	(1,282,548)	(1,930,712)	(400,288)	(43,767)	24,678,596
Net Position, Beginning of Year	<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>
Net Position, End of Year	<u>\$ 265,084,747</u>	<u>\$ (1,066,165)</u>	<u>\$ 13,595,932</u>	<u>\$ 15,885,146</u>	<u>\$ (24,086,462)</u>	<u>\$ 269,413,198</u>

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The following table includes condensed combining statement of cash flows information for the Authority (including Perry and Blackwell) and its component units for the year ended December 31, 2021:

	Authority	SMC Equipment	SMC Development	SMC RE	Eliminations	Combined Balance
Net Cash Provided by (Used in) Operating Activities	\$ 6,645,923	\$ 297,174	\$ (538,037)	\$ 1,518,858	\$ -	\$ 7,923,918
Net Cash Provided by Noncapital Financing Activities	10,859,424	-	-	-	-	10,859,424
Net Cash Used in Capital and Related Financing Activities	(17,547,593)	(267,696)	(14,922,743)	-	-	(32,738,032)
Net Cash Provided by (Used in) Investing Activities	<u>(2,132,083)</u>	<u>153</u>	<u>15,815,660</u>	<u>(1,512,518)</u>	<u>-</u>	<u>12,171,212</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,174,329)	29,631	354,880	6,340	-	(1,783,478)
Cash and Cash Equivalents, Beginning of Year	<u>22,269,675</u>	<u>30,539</u>	<u>5,442</u>	<u>11,493</u>	<u>-</u>	<u>22,317,149</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 20,095,346</u></u>	<u><u>\$ 60,170</u></u>	<u><u>\$ 360,322</u></u>	<u><u>\$ 17,833</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 20,533,671</u></u>

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

	Authority	SMC Equipment	SMC Development	SMC RE	Eliminations	Combined Balance
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>(45,357,201)</u>	<u>3,939</u>	<u>7,875,167</u>	<u>(1,193,571)</u>	<u>-</u>	<u>(38,671,666)</u>
Increase (Decrease) in Cash and Cash Equivalents	(8,914,843)	(1,114,836)	5,442	(293,369)	-	(10,317,606)
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><u>\$ 22,269,675</u></u>	<u><u>\$ 30,539</u></u>	<u><u>\$ 5,442</u></u>	<u><u>\$ 11,493</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,317,149</u></u>

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Note 17: Future Change in Accounting Principles

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 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.

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.

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

Provider Relief Fund

During the years ended December 31, 2021 and 2020, the Authority received approximately \$10,859,000 and \$16,287,000, respectively, 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, 2021 and 2020, the Authority recognized approximately \$10,859,000 and \$16,287,000, respectively, related to the Provider Relief Fund distributions and

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these payments are recorded as nonoperating revenue – government grants in the accompanying statements of revenues, expenses, and changes in net position.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The Authority has evaluated the “Post-Payment Notice of Reporting Requirements” (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to December 31, 2021, in accordance with GASB Codification Section 2250 and has concluded that any impact of the January 1, 2022, or later, FAQs would be nonrecognized.

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, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the accompanying financial statements compared to the Authority’s Provider Relief Fund reporting could differ. Provider Relief Fund payments are 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 the Centers for Medicare and Medicaid Services (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%.

During the year ended December 31, 2020, the Authority received approximately \$24,558,000 from these accelerated Medicare payment requests. During the years ended December 31, 2021 and 2020, Medicare has applied approximately \$11,264,000 and \$0, respectively, from these accelerated Medicare payment requests against filed claims. As of December 31, 2021, approximately \$14,268,000 of accelerated Medicare payment requests are recorded as current estimated amounts due to third-party payors in the accompanying balance sheets. As of December 31, 2020, approximately \$7,447,000 and \$18,085,000 of accelerated Medicare payment requests were recorded as current and noncurrent estimated amounts due to third-party payors in the accompanying balance sheets.

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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, 2021 and 2020, the Authority had deferred approximately \$2,481,000 and \$3,776,000, respectively, of payroll taxes recorded as a part of accrued expenses and other liabilities in the accompanying balance sheets.

Note 19: Subsequent Events

In February 2022, the Authority entered into a Series 2022A Hospital Revenue Note in the original amount of \$40,000,000, which bears interest annually at 2.80%. The Series 2022A Hospital Revenue Note is payable in monthly principal and interest installments through January 31, 2037.

In March 2022, the Authority entered into a Series 2022B Hospital Revenue Note in the original amount of \$8,000,000, which bears interest annually at 2.50%. The Series 2022B Hospital Revenue Note is payable in monthly principal and interest installments through March 16, 2029. The proceeds from this note will be used to fund the Authority's participation in a new market tax credit transaction with the purpose of acquiring eligible equipment for use in the Authority's operations.

**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, 2021, 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 May 27, 2022, which contained an *Other Matter* paragraph regarding omission of required supplementary information.

Report on 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

Report on 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 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
May 27, 2022

**Stillwater Medical Center Authority
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Schedule of Findings and Responses
Year Ended December 31, 2021**

**Reference
Number**

Finding

No matters are reportable.