

Consolidated Financial Statements,
Schedule of Expenditures of Federal
Awards, and Report of Independent
Certified Public Accountants

Oklahoma Medical Research Foundation

June 30, 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Oklahoma Medical Research Foundation

Report on the financial statements

We have audited the accompanying consolidated financial statements of Oklahoma Medical Research Foundation (a nonprofit organization) and its subsidiary (collectively the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma Medical Research Foundation and its subsidiary as of June 30, 2021, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters*Supplementary information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on pages 35 through 37 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating information by funds without donor restrictions (Operating and Plant) for the year ended June 30, 2021 is presented for purposes of additional analysis, rather than to present the results of operations of the individual funds and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on 2020 summarized comparative information

We have previously audited the Foundation's 2020 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 20, 2020. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 19, 2021, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Foundation's internal control over financial reporting and compliance.

Grant Thornton LLP

Oklahoma City, Oklahoma
November 19, 2021

Oklahoma Medical Research Foundation

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,

| | <u>2021</u> | <u>2020</u> |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,354,388 | \$ 14,009,394 |
| Receivables - net | 43,080,857 | 17,981,761 |
| Prepaid expenses and other assets | 7,353,706 | 5,170,581 |
| Assets restricted for investment in plant and equipment | 5,711,156 | 5,569,921 |
| Investments | 185,288,488 | 144,176,078 |
| Plant and equipment - net | <u>91,167,104</u> | <u>94,795,181</u> |
| Total assets administered by the Foundation | 336,955,699 | 281,702,916 |
| Funds held in trust by others | <u>162,854,841</u> | <u>134,393,763</u> |
| Total assets | <u>\$ 499,810,540</u> | <u>\$ 416,096,679</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 7,236,057 | \$ 7,145,957 |
| Accrued vacation and sick pay | 3,074,233 | 2,966,951 |
| Deferred revenue | 1,350,878 | 2,192,510 |
| Split-interest agreements | 101,108 | 110,874 |
| Postretirement benefits and deferred compensation | 8,872,272 | 6,952,545 |
| Accrued interest payable | 152,809 | 403,599 |
| Bonds payable | <u>16,885,000</u> | <u>31,965,000</u> |
| Total liabilities | <u>37,672,357</u> | <u>51,737,436</u> |
| Net assets | | |
| Net assets without donor restrictions | 146,514,111 | 124,900,551 |
| Net assets with donor restrictions | <u>315,624,072</u> | <u>239,458,692</u> |
| Total net assets | <u>462,138,183</u> | <u>364,359,243</u> |
| Total liabilities and net assets | <u>\$ 499,810,540</u> | <u>\$ 416,096,679</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Oklahoma Medical Research Foundation

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2021
(with comparative totals for 2020)

| | Without Donor Restrictions | | Total Without | With Donor | Total | 2020 Total |
|--|----------------------------|---------------|-----------------------|----------------|----------------|----------------|
| | Operating | Plant | Donor Restrictions | Restrictions | | |
| Revenue | | | | | | |
| Competitive research grants: | | | | | | |
| National Institutes of Health | \$ 32,620,542 | \$ - | \$ 32,620,542 | \$ - | \$ 32,620,542 | \$ 29,904,475 |
| Other | 14,746,854 | - | 14,746,854 | - | 14,746,854 | 10,814,469 |
| Total grants | 47,367,396 | - | 47,367,396 | - | 47,367,396 | 40,718,944 |
| Private contributions | | | | | | |
| Income and gifts from trusts | 7,547,037 | - | 7,547,037 | 4,863,928 | 12,410,965 | 12,454,232 |
| Gifts and bequests | 2,180,222 | - | 2,180,222 | 22,038,793 | 24,219,015 | 3,700,502 |
| Contributions | 2,862,978 | - | 2,862,978 | 7,702,653 | 10,565,631 | 5,444,243 |
| Memorials | 528,682 | - | 528,682 | 17,000 | 545,682 | 767,217 |
| Total private contributions | 13,118,919 | - | 13,118,919 | 34,622,374 | 47,741,293 | 22,366,194 |
| Special event revenue | | | | | | |
| Ticket sales and sponsorships | - | - | - | - | - | 775,948 |
| Less: direct costs of event | - | - | - | - | - | (142,988) |
| Net revenues from special events | - | - | - | - | - | 632,960 |
| Other revenue | | | | | | |
| Clinical revenue, net of provisions for contractual and other adjustments of \$36,819,042 and \$40,129,935 for 2021 and 2020, respectively | 20,400,381 | - | 20,400,381 | - | 20,400,381 | 21,644,518 |
| Interest, dividends and net realized gains on investments designated for operations | 1,046,646 | - | 1,046,646 | 3,622,224 | 4,668,870 | 4,433,108 |
| Mineral income | 826,242 | - | 826,242 | 12,750 | 838,992 | 967,268 |
| Rent | 400,281 | - | 400,281 | - | 400,281 | 456,880 |
| Royalties and licensing income | 3,104,474 | - | 3,104,474 | - | 3,104,474 | 1,761,708 |
| Loss on disposal of assets | (123,789) | (53,268) | (177,057) | (3,500) | (180,557) | (132,581) |
| Loss from uncollected receivables | (70,000) | - | (70,000) | - | (70,000) | (59,000) |
| Other | 1,745,684 | - | 1,745,684 | - | 1,745,684 | 2,338,698 |
| Total other revenue | 27,329,919 | (53,268) | 27,276,651 | 3,631,474 | 30,908,125 | 31,410,599 |
| Total revenue | 87,816,234 | (53,268) | 87,762,966 | 38,253,848 | 126,016,814 | 95,128,697 |
| Net assets released from restrictions | 7,958,048 | 6,682,064 | 14,640,112 | (14,640,112) | - | - |
| Total operating revenue | 95,774,282 | 6,628,796 | 102,403,078 | 23,613,736 | 126,016,814 | 95,128,697 |
| Expenses | | | | | | |
| Program services - Research | 56,472,201 | 6,991,584 | 63,463,785 | - | 63,463,785 | 58,099,493 |
| Program services - Clinic operations | 22,501,401 | 277,632 | 22,779,033 | - | 22,779,033 | 24,084,308 |
| Supporting services - General and administrative | 4,835,648 | 1,260,121 | 6,095,769 | - | 6,095,769 | 6,424,724 |
| Total expenses | 83,809,250 | 8,529,337 | 92,338,587 | - | 92,338,587 | 88,608,525 |
| Change in net assets from operations | 11,965,032 | (1,900,541) | 10,064,491 | 23,613,736 | 33,678,227 | 6,520,172 |
| Other gains, transfers and nonrecurring items: | | | | | | |
| Increase in fair value of funds held in trust by others | - | - | - | 28,461,078 | 28,461,078 | (3,784,859) |
| Net investment gains in excess of designated for operations | 11,444,304 | - | 11,444,304 | 24,090,566 | 35,534,870 | 1,719,448 |
| Transfer to plant | (15,813,537) | 15,813,537 | - | - | - | - |
| Pension related changes other than net periodic pension cost | 104,765 | - | 104,765 | - | 104,765 | 444,085 |
| Net increase in net assets for the year | \$ 7,700,564 | \$ 13,912,996 | 21,613,560 | 76,165,380 | 97,778,940 | 4,898,846 |
| Net assets - beginning of year | | | 124,900,551 | 239,458,692 | 364,359,243 | 359,460,397 |
| Net assets - end of year | | | \$ 146,514,111 | \$ 315,624,072 | \$ 462,138,183 | \$ 364,359,243 |

The accompanying notes are an integral part of these consolidated financial statements.

Oklahoma Medical Research Foundation
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

| | 2021 | 2020 |
|--|---------------------|----------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 97,778,940 | \$ 4,898,846 |
| Adjustments to reconcile change in net assets to cash provided by operating activities: | | |
| Depreciation | 7,912,192 | 8,071,357 |
| Change in value of split-interest agreements | (9,766) | (10,507) |
| Loss on disposal of plant and equipment | 53,267 | 44,925 |
| Recovery of uncollectible receivables | (885,349) | (830,134) |
| (Gain) loss on investments | (193) | 2,047 |
| Contributed non-cash assets | (582,357) | (319,747) |
| Proceeds from sale of contributed investments without donor restrictions | 350,740 | 195,256 |
| Contribution received of funds held in trust by others | - | 385,600 |
| Contributions received for long-term investment, reserved for future periods and investment in plant and equipment | (8,997,150) | (6,969,898) |
| Net realized and unrealized gain on investments | (38,651,617) | (4,558,009) |
| (Increase) decrease in fair value of funds held in trust by others | (28,461,078) | 3,013,659 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in receivables | (24,218,212) | 437,489 |
| (Increase) decrease in prepaid expenses and other assets | (1,740,339) | 261,823 |
| Increase (decrease) in accounts payable and accrued expenses | 90,100 | (2,900,258) |
| Increase in accrued vacation and sick pay | 107,282 | 374,457 |
| (Decrease) increase in deferred revenue | (841,632) | 1,131,934 |
| Increase in postretirement benefits and deferred compensation | 1,919,727 | 391,583 |
| Decrease in accrued interest payable | (250,790) | (24,513) |
| | <u>3,573,765</u> | <u>3,595,910</u> |
| Net cash provided by operating activities | | |
| | <u>3,573,765</u> | <u>3,595,910</u> |
| Cash flows from investing activities: | | |
| Proceeds from maturities/sales of investments | 97,050,654 | 133,822,423 |
| Purchases of investments | (99,508,471) | (131,652,735) |
| Purchase of life insurance investment | (442,786) | (574,697) |
| Purchases of plant and equipment | (4,337,382) | (4,651,897) |
| Proceeds from sales of plant and equipment | - | 6,602 |
| Increase in assets restricted for investment in plant and equipment | (141,235) | (876,361) |
| | <u>(7,379,220)</u> | <u>(3,926,665)</u> |
| Net cash used in investing activities | | |
| | <u>(7,379,220)</u> | <u>(3,926,665)</u> |
| Cash flows from financing activities: | | |
| Proceeds from sale of contributed investments with donor restrictions | 228,834 | 225,901 |
| Payments on bonds payable | (15,080,000) | (2,845,000) |
| Contributions received reserved for future periods | 6,492,355 | 6,565,691 |
| Contributions received for purchase of endowed investments | 2,504,795 | 404,207 |
| Payments received on miscellaneous notes | 4,465 | 4,634 |
| | <u>4,665</u> | <u>4,634</u> |
| Net cash (used in) provided by financing activities | | |
| | <u>(5,849,551)</u> | <u>4,355,433</u> |
| Net (decrease) increase in cash and cash equivalents | (9,655,006) | 4,024,678 |
| Cash and cash equivalents - beginning of year | 14,009,394 | 9,984,716 |
| Cash and cash equivalents - end of year | <u>\$ 4,354,388</u> | <u>\$ 14,009,394</u> |
| Supplemental cash flow information: | | |
| Contributions of funds held in trust by others | <u>\$ -</u> | <u>\$ 385,600</u> |
| Contributions of plant and equipment | <u>\$ -</u> | <u>\$ 3,500</u> |
| Contributions of investments | <u>\$ 582,357</u> | <u>\$ 319,747</u> |
| Interest paid | <u>\$ 1,213,937</u> | <u>\$ 731,376</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Oklahoma Medical Research Foundation is incorporated under the laws of the State of Oklahoma as a nonprofit organization without capital stock to promote scientific research and education in medicine.

Principles of Consolidation

Oklahoma Medical Research Foundation formed a limited liability company (the "LLC") on June 20, 2019 to hold real estate for future uses related to the Foundation's mission. The Foundation is the sole member of the LLC, which is a disregarded entity for tax purposes. The financial activities of the Foundation and the LLC (collectively, the "Foundation") are presented as a consolidated entity in these financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation. Activity in the LLC was immaterial during the years ended 2021 and 2020.

Recognition of Donor Restrictions

Contributions are reported as increases in the appropriate category of net assets. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law, except for changes in fair value for assets held in trust, which are recorded as changes in net assets with donor restrictions. Expirations of temporary restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service. Restricted contributions received and whose restrictions are met in the same year are classified as revenue without donor restrictions in the consolidated statement of activities.

Revenue Recognition

The Foundation receives grants and contributions from a number of sources, including the federal government, private foundations, and other donors in support of scientific research and education in medicine. In 2020, the Foundation adopted Accounting Standards Update ("ASU") No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves guidance about whether a transfer of assets is an exchange transaction (Topic 606) or a contribution (Subtopic 958-605).

Grant revenue is recognized as a contribution when the related costs are expended in accordance with the terms of the grant and eligibility requirements have been met. The Foundation considers receivables relating to research grants and contracts to be fully collectible; accordingly, no allowance is required.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift, except that contributions of works of art, historical treasures and similar assets held as part of collections are not recognized or capitalized. Contributions to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

The Foundation reports gifts of land, buildings and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. No gifts of land, buildings, or equipment were received during the years ended June 30, 2021 and 2020.

In addition, the Foundation receives payments from royalty and license contracts, certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and other various contracts and deeds. During fiscal year 2021, the Foundation adopted the Financial Accounting Standards Board ("FASB") ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"); as such, the Foundation recognizes revenue when control of promised goods or services are transferred to outside parties in an amount that reflects the consideration the Foundation is entitled to in exchange for those goods or services. The impact of the adoption of ASC 606 was nominal.

Net Assets

The Foundation's net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Directors ("Board") has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment. In addition, changes to this category of net assets include gifts with restrictions whose donor-imposed restrictions were met in the year received, through the passage of time, or through fulfillment of the restricted purpose.
- *Net assets with donor restrictions* - Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Expirations of donor restrictions on net assets are reported as net assets released from restrictions in the accompanying consolidated statement of activities.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the consolidated financial statements and revenues, gains, other support and expenses recognized during the reporting period. Actual results could differ from those estimates.

Operating and Plant Columns without Donor Restrictions

The amounts in the plant column represent depreciation, interest expense, revenues designated to purchase plant and equipment, and losses on disposals of plant and equipment. The Operating column includes all other revenues and expenses without donor restrictions and other changes in net assets without donor restrictions.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

Measure of Operations

The change in net assets from operations reflected in the accompanying consolidated statement of activities includes substantially all of the activities related to changes in net assets. Amounts not included in this measure of operations consist of net investment gains in excess of losses designated for operations, gains or losses on funds held in trust by others and unusual or nonrecurring items.

Taxes

The Foundation is a public foundation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except for amounts relating to unrelated business income. There were no known material unrelated business income taxes incurred in fiscal year 2021 or 2020, and accordingly, no material provision for income taxes has been made in these consolidated financial statements for either period.

Management has reviewed the Foundation's tax positions and concluded that there are no uncertain tax positions that require accrual in the consolidated financial statements or disclosure in the footnotes to be in compliance with authoritative literature. Generally, the Foundation is no longer subject to income tax examination by federal, state or local tax authorities for years prior to 2018. The statute of limitations will remain open for both federal and state purposes for any returns not filed.

Cash Equivalents

The Foundation maintains its cash and cash equivalents in bank deposit accounts, money market funds and short-term certificates of deposit, some of which may not be federally insured. Bank deposit balances are transferred daily into interest-bearing accounts secured by short-term, high-quality fixed income securities issued by banks, corporations and the U.S. Government. The Foundation has not experienced any losses in cash equivalents and believes it is not exposed to significant credit risk on cash equivalents.

Management considers highly liquid debt instruments readily convertible into cash to be cash equivalents other than cash equivalents held as part of its investment portfolio and cash equivalents held as a part of assets restricted for investment in plant and equipment.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the consolidated statement of financial position with gains and losses included in the consolidated statement of activities. The fair values of these investments are generally determined based on quoted market prices or estimates of fair value provided by external investment managers. Investments for which there are no readily determinable fair values are reported at cost. Investments received in connection with technology transfer agreements are not valued until such time as there is a readily determinable fair value for such investments.

Plant and Equipment

Plant and equipment are recorded at cost or fair value at date of donation. Depreciation is based on the estimated useful lives, ranging from 3 to 40 years, using the straight-line method. Plant and equipment with a cost of less than \$5,000 is expensed when purchased. Costs incurred during construction of long-lived assets are recognized as construction in progress and are not depreciated until placed in service. Net interest costs incurred in the construction of plant and equipment are capitalized. In 2021 and 2020, total interest incurred was \$617,145 and \$911,620, respectively. No interest was capitalized in 2021 or 2020.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held or used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Split-Interest Agreements

The Foundation's split-interest agreements with donors consist primarily of charitable gift annuities. Assets received under these agreements are recorded at fair value on the gift date. During the term of these agreements, changes in the value of the split-interest agreements are recognized in the consolidated statement of activities. Contribution revenues are recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. Present values are calculated using a risk-free discount rate, determined at the time the annuities are established and actuarial tables and guidelines used for calculating the available deduction for income tax purposes. The liabilities are adjusted for accretion of the discount and other changes in the estimates of future benefits.

Funds Held in Trust by Others

Funds held in trust by others represent amounts held under irrevocable perpetual trust agreements between donors and third-party trustees. The net increase or decrease in the fair value of funds held in trust by others is reported as a change in net assets with donor restrictions. The amounts the Foundation will ultimately realize could differ materially from these recorded amounts, and significant fluctuations in fair values could occur from year to year.

Assets with Donor Restrictions for Investment in Plant and Equipment

Assets with donor restrictions for investment in plant and equipment consist of cash and cash equivalents which are primarily restricted by donors or the board of directors for plant and equipment.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note J. The footnote presents the natural classification detail of the expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Supporting services represent general and administrative expenses that are not allocable to the various Foundation departments as an element of research activities. Of the total, \$1,847,784 and \$1,923,654 represents development or fundraising costs in 2021 and 2020, respectively.

Recent Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820). This ASU created additional disclosure requirements and changed certain disclosure requirements related to level 3 fair value measurements, which are included in Note M. The Foundation adopted the standard as of July 1, 2020.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize assets and liabilities that arise from leases on the statement of financial position. A lessee should recognize in the statement of financial position a liability to make lease payments and a right-of-use asset

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

representing its right to use the underlying asset for the lease term. This ASU also provides addition guidance as to the definition of a lease, identification of lease components, and sale and leaseback transactions. The effective date of the amendments in the ASU was deferred (see ASU No. 2020-05 below). Management is currently evaluating the impact of the adoption of this ASU.

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers and Leases*. This ASU supersedes the effective dates for ASU No. 2016-02 discussed above. Due to the challenging experiences brought on by the COVID-19 pandemic, the FASB deferred the effective dates for certain entities by one year. The effective date for annual reporting for ASU No. 2016-02, *Leases*, is periods beginning after December 15, 2021.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations through enhancement of the presentation and disclosures. The new guidance is effective for fiscal years beginning after June 15, 2022. Management is currently evaluating the impact that ASU 2020-07 will have on the consolidated financial statements.

Prior Year Information

The consolidated financial statements include certain prior year summarized comparative totals. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's consolidated financial statements for the year ended June 30, 2020, from which the summarized totals were derived.

Reclassification

Certain reclassifications of prior year comparative information have been made in order to conform to current year presentation. There reclassifications had no effect on net assets or the change in net assets.

NOTE B - RECEIVABLES

Receivables are comprised of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Pledges - net of discount of \$429,589 and \$206,698 for 2021 and 2020, respectively, and an allowance of \$3,500 and \$51,730 for 2021 and 2020, respectively | \$ 6,190,678 | \$ 3,424,348 |
| Wills and bequests - net of discount of \$514,530 and \$539,122 for 2021 and 2020, respectively | 23,930,787 | 2,451,205 |
| Recoverable expenditures under research grants and contracts | 5,885,501 | 5,870,681 |
| Clinic operations - net of contractual adjustments and allowance of \$4,269,106 and \$5,202,684 for 2021 and 2020, respectively | 3,565,538 | 3,740,137 |
| Other - net of allowance of \$657,481 and \$209,009 for 2021 and 2020, respectively | 3,445,083 | 2,435,763 |
| Accrued interest | <u>63,270</u> | <u>59,627</u> |
| | <u>\$ 43,080,857</u> | <u>\$ 17,981,761</u> |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

The pledges receivable at June 30, 2021, are recoverable as follows:

| | <u>Less than One Year</u> | <u>One to Five Years</u> | <u>More than Five Years</u> | <u>Total</u> |
|-------------------------------|-------------------------------|------------------------------|---------------------------------|-------------------------|
| Pledges receivable | \$ 3,014,767 | \$ 3,409,000 | \$ 200,000 | \$ 6,623,767 |
| Less unamortized discount | - | (359,056) | (70,533) | (429,589) |
| Less allowance | <u>(3,500)</u> | <u>-</u> | <u>-</u> | <u>(3,500)</u> |
| Net pledges receivable | <u>\$ 3,011,267</u> | <u>\$ 3,049,944</u> | <u>\$ 129,467</u> | <u>\$ 6,190,678</u> |

Wills and bequests at June 30, 2021 are estimated to be recoverable as follows:

| | <u>Less than One Year</u> | <u>One to Five Years</u> | <u>More than Five Years</u> | <u>Total</u> |
|---|-------------------------------|------------------------------|---------------------------------|--------------------------|
| Wills and bequests | \$ 23,496,317 | \$ 400,000 | \$ 549,000 | \$ 24,445,317 |
| Less unamortized discount | <u>-</u> | <u>(56,233)</u> | <u>(458,297)</u> | <u>(514,530)</u> |
| Net wills and bequests receivable | <u>\$ 23,496,317</u> | <u>\$ 343,767</u> | <u>\$ 90,703</u> | <u>\$ 23,930,787</u> |

Recoverable expenditures under research grants and contracts are as follows at June 30:

| | <u>2021</u> | <u>2020</u> |
|---|-------------------------|-------------------------|
| Balance of grants and contracts awarded but not collected | \$ 31,318,323 | \$ 23,288,409 |
| Less portion not yet expended | <u>(25,432,822)</u> | <u>(17,417,728)</u> |
| Recoverable expenditures under research grants and contracts | <u>\$ 5,885,501</u> | <u>\$ 5,870,681</u> |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

NOTE C - INVESTMENTS

The fair values of investments, classified by investment type, are as follows at June 30:

| | <u>2021</u> | <u>2020</u> |
|----------------------------|-----------------------|-----------------------|
| Equity investments | \$ 102,553,724 | \$ 69,687,507 |
| Equity investments - other | 1,998,814 | 2,268,106 |
| Bond funds | 28,730,622 | 25,606,842 |
| Common collective trusts | 22,676,719 | 16,831,267 |
| Debt securities | - | 1,121,899 |
| Private equity funds | 8,221,040 | 6,813,395 |
| Real estate fund | 4,148,625 | 4,041,968 |
| Hedge funds | 13,559,554 | 8,323,185 |
| Cash equivalents | 3,399,390 | 9,481,909 |
| | <u>\$ 185,288,488</u> | <u>\$ 144,176,078</u> |

NOTE D - ENDOWMENTS

Generally accepted accounting principles provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization and enhanced disclosure information to enable users of consolidated financial statements to understand the net asset classification, net asset composition, changes in net asset composition, spending policy, and related investment policy of its endowment funds.

The Foundation's endowment consists of individual funds established to provide the Foundation with funding in perpetuity. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"), which was enacted by the State of Oklahoma effective November 1, 2007 ("OK UPMIFA"), as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The funds of the donor-restricted endowment fund will remain classified in assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

The duration and preservation of the fund;

The purposes of the Foundation and the donor-restricted endowment fund;

General economic conditions;

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

The possible effect of inflation and deflation;

The expected total return from income and the appreciation of investments;

Other resources of the Foundation; and

The investment policies of the Foundation.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended, over the long-term (defined as at least one full market cycle, typically 3 to 5 years), to earn an annual total return that exceeds the rate of inflation as measured by the Consumer Price Index by at least 5% annually. This is intended to enable the Foundation to meet its recommended distribution to operating budget each year, and maintain the principal of the Foundation’s assets.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Foundation has established a spending policy that attempts to balance the long-term objective of maintaining the purchasing power of the Foundation’s invested funds with the goal of meeting current and future cash flow requirements. The Foundation staff makes an annual recommendation to the Board for approval of the annual spending policy. This amount typically does not exceed 5% of the average market value of the Foundation’s endowment balances for the previous 12-calendar quarters.

The Foundation’s endowment is composed by the following net asset classifications as of June 30, 2021:

| | Without Donor Restrictions | With Donor Restrictions | Total |
|----------------------------------|-------------------------------|----------------------------|-----------------------|
| Donor-endowment funds | \$ 4,353,264 | \$ 118,521,411 | \$ 122,874,675 |
| Board-designated endowment funds | 46,758,101 | - | 46,758,101 |
| | <u>\$ 51,111,365</u> | <u>\$ 118,521,411</u> | <u>\$ 169,632,776</u> |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

The Foundation's endowment is composed by the following net asset classifications as of June 30, 2020:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|----------------------------------|---------------------------------------|------------------------------------|-----------------------|
| Donor-endowment funds | \$ 1,432,267 | \$ 92,280,291 | \$ 93,712,558 |
| Board-designated endowment funds | 22,568,535 | - | 22,568,535 |
| | <u>\$ 24,000,802</u> | <u>\$ 92,280,291</u> | <u>\$ 116,281,093</u> |

The following table reconciles the activity of endowments for the year ended June 30, 2021:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|-----------------------|
| Endowment net assets, beginning of year | \$ 24,000,802 | \$ 92,280,291 | \$ 116,281,093 |
| Investment returns: | | | |
| Investment income | 11,101,325 | 26,905,339 | 38,006,664 |
| Net appreciation (realized and unrealized) | 350,149 | 807,449 | 1,157,598 |
| Total investment returns | 11,451,474 | 27,712,788 | 39,164,262 |
| Contributions, net of discounts | 16,836,865 | - | 16,836,865 |
| Board restricted contribution to endowment | - | 2,150,556 | 2,150,556 |
| Appropriation of endowment assets for expenditure | <u>(1,177,776)</u> | <u>(3,622,224)</u> | <u>(4,800,000)</u> |
| Endowment net assets, end of year | <u>\$ 51,111,365</u> | <u>\$ 118,521,411</u> | <u>\$ 169,632,776</u> |

The following table reconciles the activity of endowments for the year ended June 30, 2020:

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|-----------------------|
| Endowment net assets, beginning of year | \$ 25,878,234 | \$ 90,060,744 | \$ 115,938,978 |
| Investment returns: | | | |
| Investment income | 568,969 | 588,629 | 1,157,598 |
| Net appreciation (realized and unrealized) | <u>(1,464,427)</u> | <u>5,022,222</u> | <u>3,557,795</u> |
| Total investment returns | (895,458) | 5,610,851 | 4,715,393 |
| Contributions, net of discounts | - | 26,722 | 26,722 |
| Appropriation of endowment assets for expenditure | <u>(981,974)</u> | <u>(3,418,026)</u> | <u>(4,400,000)</u> |
| Endowment net assets, end of year | <u>\$ 24,000,802</u> | <u>\$ 92,280,291</u> | <u>\$ 116,281,093</u> |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

NOTE E - PLANT AND EQUIPMENT

Investment in plant and equipment is comprised of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|--|----------------------|----------------------|
| Land and improvements | \$ 4,080,847 | \$ 4,080,847 |
| Buildings and improvements | 185,665,747 | 185,261,984 |
| Research and other equipment | 53,082,060 | 49,764,563 |
| Less accumulated depreciation | <u>(151,667,074)</u> | <u>(144,379,032)</u> |
| | 91,161,580 | 94,728,362 |
| Construction in progress | 5,524 | 66,819 |
| Investment in plant and equipment, net | <u>\$ 91,167,104</u> | <u>\$ 94,795,181</u> |

NOTE F - FUNDS HELD IN TRUST BY OTHERS

The fair values of funds held in trust by others for the Foundation's benefit consist of the following at June 30:

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-----------------------|
| J.A. and Leta M. Chapman Charitable Trust | \$ 124,745,431 | \$ 102,663,472 |
| J.A. and Leta M. Chapman 1949 Trust | 33,382,268 | 27,582,120 |
| McElmurry Trust | 1,888,834 | 1,916,979 |
| Clyde Evans Trust | 1,425,959 | 1,135,141 |
| The Dallas Foundation | 495,013 | 385,600 |
| Various trusts at Oklahoma City Community Foundation | 484,439 | 396,272 |
| Other trusts | <u>432,897</u> | <u>314,179</u> |
| | <u>\$ 162,854,841</u> | <u>\$ 134,393,763</u> |

These resources are neither in the possession of nor under the control of the Foundation. The trusts are classified as net assets with donor restrictions. The trusts are held and administered by external fiscal trust agents, with the income distributed to the Foundation according to the terms of the gift instruments. Total income and gifts from these trusts was \$12,410,965 and \$12,454,232 in 2021 and 2020, respectively. The increase (decrease) in fair value of the trust net assets during 2021 and 2020 was \$28,461,078 and \$(3,784,859), respectively.

The Foundation participates in endowment funds through the Oklahoma City Community Foundation ("OCCF"). OCCF is a not-for-profit entity that provides for endowed contributions to be pooled to maximize return on investments for the benefit of area not-for-profit organizations. Contributions into the endowment funds are permitted by the not-for-profit entities, as well as individual donors in the community who designate the beneficiary of their contributions. Earnings on these endowed funds are paid annually to the beneficiary organization for unrestricted use. The endowed funds contributed by the Foundation and the earnings thereon, net of distributions received, are noted above for June 30, 2021 and 2020, respectively. The endowed funds contributed by third-party donors held by OCCF designated for the benefit of the Foundation were approximately \$865,000 and \$642,000 at June 30, 2021 and 2020, respectively, and are not reflected in the Foundation's consolidated statements of financial position.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

NOTE G - BONDS PAYABLE

In July 2016, the Foundation entered into advanced refinancing of the Series 2008 bonds. The Foundation issued \$43,955,000 of OIA Series 2008 Revenue Bonds (the "Series 2008 Bonds") dated July 1, 2008; the proceeds from this bond were used to construct and equip a new research facility. The Series 2008 Bonds were defeased when the Foundation issued \$29,535,000 of OIA Series 2016 Revenue Bonds (the "Series 2016 Bonds") dated July 13, 2016. The Series 2016 Bonds mature on July 1, 2026 and bear interest at the stated rate of 1.81% per annum. Payments of principal and interest began January 1, 2017 and are due January 1 and July 1 of each year. The Series 2016 Bond agreements also require maintenance of a reserve fund which is included in investments in the accompanying consolidated statement of financial position. This amount was \$2,953,500 as of June 30, 2021 and 2020.

In May 2010, the Foundation issued \$12,185,000 of Oklahoma Industrial Authorities ("OIA") Series 2010 Revenue Bonds (the "Series 2010 Bonds") dated May 1, 2010. The proceeds from the Series 2010 Bonds were used to retire the OIA 2001 Series Bonds on February 1, 2011. The Series 2010 Bonds matured February 1, 2021 and were paid in full at that time.

The bond agreements contain various restrictive covenants for the Foundation, including a requirement to maintain specified levels of liquidity and a requirement to maintain its 501(c) (3) tax status. The Foundation was in compliance with the covenants as of June 30, 2020 and 2021.

Maturities of bonds payable are as follows at June 30, 2021:

| | |
|------|----------------------|
| 2022 | \$ 2,950,000 |
| 2023 | 3,000,000 |
| 2024 | 3,060,000 |
| 2025 | 3,110,000 |
| 2026 | 3,165,000 |
| 2027 | 1,600,000 |
| | <u>\$ 16,885,000</u> |

NOTE H - EMPLOYEE BENEFIT PROGRAMS

The Foundation provides a defined contribution pension plan for all eligible employees. All eligible employees participate on the same basis, and the Foundation contributes amounts equal to 8.0% of the individual's salary up to the Social Security wage base and 13.7% of the amounts in excess of the wage base. Employees become fully vested after five years of service. Total contributions to the plan for the years ended June 30, 2021 and 2020 were \$2,265,596 and \$2,240,170, respectively.

The Foundation provides health care benefits to retired employees on a basis substantially similar to those provided to active employees. The plan is currently unfunded.

The following table sets forth the health care plan's status at June 30:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Accumulated postretirement benefit obligation: | | |
| Retirees | \$ 53,942 | \$ 158,924 |
| Fully eligible active plan participants | 706,373 | 705,466 |
| Other active plan participants | 3,476,661 | 3,094,791 |
| | <u>\$ 4,236,976</u> | <u>\$ 3,959,181</u> |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

The change in accrued postretirement benefit cost for the years ended June 30, is as follows:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Liability for postretirement benefits - beginning of year | \$ 3,959,181 | \$ 4,049,292 |
| Service cost | 389,533 | 305,930 |
| Interest cost | 103,627 | 129,586 |
| Actuarial gain | (209,054) | (522,249) |
| Benefits paid | (6,311) | (3,378) |
| Liability for postretirement benefits - end of year | <u>\$ 4,236,976</u> | <u>\$ 3,959,181</u> |

Components of net periodic postretirement benefit cost for the years ended June 30, is as follows:

| | <u>2021</u> | <u>2020</u> |
|-----------------------|-------------------|-------------------|
| Service cost | \$ 389,533 | \$ 305,930 |
| Interest cost | 103,627 | 129,586 |
| Net gain amortization | <u>(104,289)</u> | <u>(78,164)</u> |
| | <u>\$ 388,871</u> | <u>\$ 357,352</u> |

The change in net gain that has not been recognized in net periodic postretirement benefit cost is as follows for the years ended June 30:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Unrecognized net gain - beginning of year | \$ 2,000,142 | \$ 1,556,057 |
| Net gain amortized to net periodic postretirement benefit cost | (104,289) | (78,164) |
| Net actuarial gain occurring during the year | <u>209,054</u> | <u>522,249</u> |
| Unrecognized net gain - end of year | <u>\$ 2,104,907</u> | <u>\$ 2,000,142</u> |

The change in unrecognized net gain of \$104,765 and \$444,085 for 2021 and 2020, respectively, has been recognized in the 2021 and 2020 consolidated statement of activities apart from expenses. The estimated net gain for the plan that will be amortized from changes in net assets without restrictions into net periodic benefit cost over the next fiscal year is \$103,685.

The following assumptions were used in accounting for the plan as of June 30, 2021:

| | |
|---|-------|
| Weighted-average assumption used to determine benefit obligation | |
| Discount rate | 2.78% |
| Rate of compensation increase | N/A |
| Assumed health care cost trend rates | |
| Health care cost trend rate assumed for next year | 7.50% |
| Rate to which the cost trend rate is assumed to decline (the "ultimate trend rate") | 5.00% |
| Year that the rate reaches the ultimate trend rate | 2026 |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

Following are the estimated effects of a 1% change in health care cost trend rates at June 30:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| 1% increase | | |
| Service cost | \$ 465,746 | \$ 358,667 |
| Interest cost | 116,460 | 146,868 |
| | <u>\$ 582,206</u> | <u>\$ 505,535</u> |
| Total | | |
| Accumulated postretirement benefit obligation | <u>\$ 4,748,022</u> | <u>\$ 4,443,434</u> |
| 1% decrease | | |
| Service cost | \$ 327,588 | \$ 262,387 |
| Interest cost | 92,697 | 115,041 |
| | <u>\$ 420,285</u> | <u>\$ 377,428</u> |
| Total | | |
| Accumulated postretirement benefit obligation | <u>\$ 3,801,948</u> | <u>\$ 3,546,708</u> |

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

| | |
|-------------|---------------------|
| 2022 | \$ 171,438 |
| 2023 | 204,218 |
| 2024 | 215,495 |
| 2025 | 240,908 |
| 2026 | 264,872 |
| 2027 - 2031 | <u>1,599,214</u> |
| | <u>\$ 2,696,145</u> |

The Foundation expects to contribute \$171,438 to the plan for the next fiscal year.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

NOTE I - NET ASSETS

Net assets are designated for specific purposes or uses as follows at June 30, 2021:

Net assets without donor restrictions consist of the following:

| | |
|----------------------------------|------------------|
| Board designated | \$ 51,111,365 |
| Any activities of the Foundation | 9,828,495 |
| Investment in plant | 77,532,774 |
| Research programs | <u>8,041,477</u> |

| | |
|-------|--------------------|
| Total | <u>146,514,111</u> |
|-------|--------------------|

Earnings from net assets with donor restrictions are available for the following:

| | |
|--|--------------------|
| Specific use pending donor designation for periods after June 30, 2021 | 84,149,492 |
| Restricted for research programs | 58,595,981 |
| Investment in plant, net | 6,012,074 |
| Unrestricted use | <u>166,866,525</u> |

| | |
|-------|--------------------|
| Total | <u>315,624,072</u> |
|-------|--------------------|

| | |
|-----------------------------------|-----------------------|
| Total net assets at June 30, 2021 | <u>\$ 462,138,183</u> |
|-----------------------------------|-----------------------|

NOTE J - FUNCTIONAL EXPENSES

Expenses are reported in the accompanying consolidated statement of activities by their program classifications. The Foundation's primary programs services are research and clinic operations. Expenses reported as general and administrative are incurred in support of these primary program services.

The Foundation allocates certain types of expenses that relate to more than one program or supporting activity. Expenses of this nature include, but are not limited to, depreciation, interest and operations and maintenance of plant and direct research and clinic support. Amounts have been allocated to the specific programs and support services based on the total square footage of the Foundation's buildings, the number of average employees per department and other financial methods determined by management and are consistently applied.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

Functional expenses were incurred for the years ended June 30, 2021 and 2020 as follows:

| Year ended 2021 | Program Services | | | Supporting Services | Total Expenses |
|--|----------------------|----------------------|----------------------|----------------------------|----------------------|
| | Research | Clinic Operations | Total | General and Administrative | |
| Personnel | \$ 22,111,353 | \$ 2,327,537 | \$ 24,438,890 | \$ 7,079,187 | \$ 31,518,077 |
| Fringe benefits | 6,250,677 | 665,983 | 6,916,660 | 1,627,323 | 8,543,983 |
| Change in benefit accruals | - | - | - | 688,828 | 688,828 |
| Trainee costs | 1,428,058 | - | 1,428,058 | - | 1,428,058 |
| Professional expenses, awards, other | 33,436 | 450 | 33,886 | 312,295 | 346,181 |
| Professional services & dues | 641,181 | 106,561 | 747,742 | 1,940,893 | 2,688,635 |
| Communications | 65,773 | 13,440 | 79,213 | 40,539 | 119,752 |
| Office supplies | 95,291 | 40,807 | 136,098 | 119,740 | 255,838 |
| Laboratory supplies | 6,714,212 | 153,893 | 6,868,105 | - | 6,868,105 |
| Laboratory animal purchases & care | 1,862,382 | - | 1,862,382 | - | 1,862,382 |
| Computer supplies & services | 469,559 | 59,951 | 529,510 | 998,199 | 1,527,709 |
| Food service | - | - | - | 109,940 | 109,940 |
| Travel | 79,707 | 2,869 | 82,576 | 45,619 | 128,195 |
| Publication cost & books | 285,968 | 908 | 286,876 | 17,817 | 304,693 |
| Printing, postage, & binding | 13,004 | 513 | 13,517 | 304,928 | 318,445 |
| Building & maintenance | 121,902 | - | 121,902 | 374,633 | 496,535 |
| Equipment repair & maintenance | 945,163 | 4,389 | 949,552 | 38,202 | 987,754 |
| Meetings/seminars/sabbatical | (6,800) | - | (6,800) | 55,527 | 48,727 |
| In-house expenses | 1,072,472 | 26,016 | 1,098,488 | 65,807 | 1,164,295 |
| Liability & casualty insurance | - | - | - | 271,682 | 271,682 |
| Utilities | - | - | - | 2,526,874 | 2,526,874 |
| Subcontracts | 5,801,508 | 18,422,667 | 24,224,175 | - | 24,224,175 |
| Support services allocated | 10,768,326 | 681,717 | 11,450,043 | (11,450,043) | - |
| Less amounts recovered from other departments | (2,280,971) | (6,300) | (2,287,271) | (332,342) | (2,619,613) |
| Total expense before interest and depreciation | 56,472,201 | 22,501,401 | 78,973,602 | 4,835,648 | 83,809,250 |
| Interest expense | 557,877 | 13,999 | 571,876 | 45,269 | 617,145 |
| Depreciation | 6,433,707 | 263,633 | 6,697,340 | 1,214,852 | 7,912,192 |
| | <u>\$ 63,463,785</u> | <u>\$ 22,779,033</u> | <u>\$ 86,242,818</u> | <u>\$ 6,095,769</u> | <u>\$ 92,338,587</u> |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

| Year ended 2020 | Program Services | | | Supporting Services | Total Expenses |
|---|----------------------|----------------------|----------------------|----------------------------|----------------------|
| | Research | Clinic Operations | Total | General and Administrative | |
| Personnel | \$ 21,016,175 | \$ 2,276,557 | \$ 23,292,732 | \$ 7,308,963 | \$ 30,601,695 |
| Fringe benefits | 5,716,283 | 623,907 | 6,340,190 | 2,084,578 | 8,424,768 |
| Change in benefit accruals | - | - | - | 914,085 | 914,085 |
| Trainee costs | 1,127,936 | - | 1,127,936 | - | 1,127,936 |
| Professional expenses, awards, other | 28,930 | 284 | 29,214 | 495,208 | 524,422 |
| Professional services & dues | 824,757 | 142,953 | 967,710 | 1,550,452 | 2,518,162 |
| Communications | 69,865 | 12,113 | 81,978 | 38,396 | 120,374 |
| Office supplies | 116,752 | 16,382 | 133,134 | 116,282 | 249,416 |
| Laboratory supplies | 5,638,931 | 235,939 | 5,874,870 | - | 5,874,870 |
| Laboratory animal purchases & care | 1,664,747 | - | 1,664,747 | - | 1,664,747 |
| Computer supplies & services | 400,060 | 36,915 | 436,975 | 671,412 | 1,108,387 |
| Food service | - | - | - | 142,696 | 142,696 |
| Travel | 268,433 | 18,874 | 287,307 | 140,721 | 428,028 |
| Publication cost & books | 245,412 | 808 | 246,220 | 15,938 | 262,158 |
| Printing, postage, & binding | 18,276 | 2,939 | 21,215 | 262,790 | 284,005 |
| Building & maintenance | 86,719 | 60 | 86,779 | 325,444 | 412,223 |
| Equipment repair & maintenance | 1,035,003 | 4,827 | 1,039,830 | 24,868 | 1,064,698 |
| Meetings/seminars/sabbatical | 88,712 | 60 | 88,772 | 2,079 | 90,851 |
| In-house expenses | 883,269 | 30,325 | 913,594 | 77,338 | 990,932 |
| Liability & casualty insurance | - | - | - | 299,578 | 299,578 |
| Utilities | - | - | - | 2,371,856 | 2,371,856 |
| Subcontracts | 2,761,940 | 19,686,696 | 22,448,636 | - | 22,448,636 |
| Support services allocated | 10,635,765 | 709,531 | 11,345,296 | (11,345,296) | - |
| Less amounts recovered from other departments | (1,901,469) | (4,800) | (1,906,269) | (392,706) | (2,298,975) |
| Total expense before interest and depreciation | 50,726,496 | 23,794,370 | 74,520,866 | 5,104,682 | 79,625,548 |
| Interest expense | 849,557 | 14,659 | 864,216 | 47,404 | 911,620 |
| Depreciation | 6,523,440 | 275,279 | 6,798,719 | 1,272,638 | 8,071,357 |
| | <u>\$ 58,099,493</u> | <u>\$ 24,084,308</u> | <u>\$ 82,183,801</u> | <u>\$ 6,424,724</u> | <u>\$ 88,608,525</u> |

NOTE K - DEFERRED REVENUE

The Foundation receives non-federally funded grants from various institutions that fully awards the amount of the grant award at the beginning of the grant period, which the Foundation recognizes as deferred revenue on the consolidated statement of financial position.

Deferred revenue is comprised of the following at June 30:

| | 2021 | 2020 |
|-------------------------------|---------------------|---------------------|
| Unexpended grant revenue | \$ 1,186,853 | \$ 2,190,660 |
| Other revenue | 164,025 | 1,850 |
| Total deferred revenue | <u>\$ 1,350,878</u> | <u>\$ 2,192,510</u> |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

NOTE L - COMMITMENTS AND CONTINGENCIES

The Foundation has entered into various deferred compensation arrangements. The total liability related to these agreements was \$4,635,296 and \$2,993,364 at June 30, 2021 and 2020, respectively. The total assets related to these accounts was \$6,123,051 and \$4,433,698 at June 30, 2021 and 2020, respectively, and is included in prepaid expenses and other assets in the consolidated statement of financial position.

As of June 30, 2021, no commitments remain under construction contracts; however, there is construction scheduled to be completed during the 2022 fiscal year.

The Foundation is party to an operating lease with payments of \$18,648 due monthly beginning on October 1, 2018 and ending September 30, 2022. Rent payments for fiscal year 2021 and 2020 totaled \$242,224 and \$223,776, respectively. The following is a schedule of future minimum rental payments required under the operating leases that has a remaining lease term in excess of one year as of June 30, 2021:

| | |
|------------------------------|-------------------|
| 2022 | \$ 223,776 |
| 2023 | <u>37,296</u> |
| Total minimum lease payments | <u>\$ 261,072</u> |

The Foundation is a party to a \$4 million line of credit agreement with outstanding amounts bearing interest at the 90-day LIBOR rate and matured in May 2021. A new line of credit with the same terms was established in October 2021 and maturing in October 2023. The line of credit is available for general corporate purposes. The lender has the right to offset outstanding balances against funds held in operating accounts with the lender. The line of credit was not used during the year.

The Foundation, whenever feasible, makes an effort, through licensing, royalty, stock ownership and other arrangements to position itself to share an interest in the commercial rewards attributable to its research programs. In certain situations, the Foundation may not attribute value to such arrangements based upon management's best estimates. As a result, at any point in time, the Foundation may hold revenue and ownership rights that are not reflected in its consolidated financial statements.

In June 2016, the Foundation received a ten-year funding commitment of \$250,000 per year from the Presbyterian Health Foundation. The funds will be used to provide scholarships and stipends to PhD/MD students. As in prior funding commitments from Presbyterian Health Foundation, if the \$250,000 annual funding provided under this commitment is not used in a given year, the unused portion will be available for carry forward to future years. Since the commitment is only funded by the Presbyterian Health Foundation on an as used basis for allowable expenditures, the Foundation records the revenue relating to this commitment when the scholarships and stipends are paid. In 2021, \$229,966 in scholarships and stipends were paid and an equivalent amount of grant revenue was recorded. At June 30, 2021, the remaining funds available under this commitment, which will be recorded as revenue when expended, is \$1,660,504.

During 2004, the Department of Health and Human Services ("DHHS") awarded a grant to the Foundation that provided funds for the renovation of a portion of one of the Foundation's research buildings. The grant included a clause that restricts the Foundation from mortgaging or selling the property without the prior written consent of the granting agency.

The Foundation receives a significant portion of its public support from agencies of the U.S. government. If the government effects significant budget cuts in the future, this source of funding could decrease. If this were to occur, it is management's opinion that the Foundation could continue most of its research activities on a more limited basis through other sources of funding.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

In the normal course of operations, the Foundation receives grants and other forms of reimbursement from various government agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. Management believes that the liability, if any, for any reimbursement which may arise as the result of audits, would not be material to the consolidated financial statements.

The Foundation holds a variety of investments, the underlying securities of which are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the value of investment securities would occur in the near term and that such changes, could materially affect the amounts reported in the consolidated financial statements.

From time to time, the Foundation may be involved in certain lawsuits arising in the ordinary course of business. While the outcome of these lawsuits cannot be predicted with certainty, the Foundation does not expect these matters to have a material adverse effect on the Foundation's consolidated financial condition, liquidity or operations.

NOTE M - FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a three-level hierarchy for measuring fair value.

The fair value hierarchy for valuation inputs gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument; and
- Level 3 - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|--|----------------------|---------------------|----------------------|----------------------|
| Equity investments | \$ 102,553,724 | \$ - | \$ - | \$ 102,553,724 |
| Equity investments - other | - | - | 1,998,814 | 1,998,814 |
| Bond funds | 28,730,622 | - | - | 28,730,622 |
| Common collective trusts | - | 22,676,719 | - | 22,676,719 |
| Private equity funds | - | - | 8,221,040 | 8,221,040 |
| Real estate fund | - | - | 4,148,625 | 4,148,625 |
| Hedge funds | - | - | 13,559,554 | 13,559,554 |
| Cash equivalents | 3,399,390 | - | - | 3,399,390 |
| Total investments | 134,683,736 | 22,676,719 | 27,928,033 | 185,288,488 |
| Cash and cash equivalents restricted for investment in plant and equipment | 5,711,156 | - | - | 5,711,156 |
| Funds held in trust by others | - | - | 162,854,841 | 162,854,841 |
| | <u>\$140,394,892</u> | <u>\$22,676,719</u> | <u>\$190,782,874</u> | <u>\$353,854,485</u> |

| | Fair Value Measurement Using Significant Unobservable Inputs (Level 3) |
|-------------------------------|--|
| Beginning balance | \$ 155,840,417 |
| Net realized/unrealized gains | 41,964,092 |
| Purchases | (30,655,651) |
| Sales | 23,634,016 |
| Ending balance | <u>\$ 190,782,874</u> |

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|--|----------------------|---------------------|----------------------|----------------------|
| Equity investments | \$ 69,687,507 | \$ - | \$ - | \$ 69,687,507 |
| Equity investments - other | - | - | 2,268,106 | 2,268,106 |
| Bond funds | 25,606,842 | - | - | 25,606,842 |
| Common collective trusts | - | 16,831,267 | - | 16,831,267 |
| Debt securities | 1,121,899 | - | - | 1,121,899 |
| Private equity funds | - | - | 6,813,395 | 6,813,395 |
| Real estate fund | - | - | 4,041,968 | 4,041,968 |
| Hedge funds | - | - | 8,323,185 | 8,323,185 |
| Cash equivalents | 9,481,909 | - | - | 9,481,909 |
| Total investments | 105,898,157 | 16,831,267 | 21,446,654 | 144,176,078 |
| Cash and cash equivalents restricted for investment in plant and equipment | 5,569,921 | - | - | 5,569,921 |
| Funds held in trust by others | - | - | 134,393,763 | 134,393,763 |
| | <u>\$111,468,078</u> | <u>\$16,831,267</u> | <u>\$155,840,417</u> | <u>\$284,139,762</u> |

| | Fair Value Measurement Using Significant Unobservable Inputs (Level 3) |
|-------------------------------|--|
| Beginning balance | \$ 152,795,799 |
| Net realized/unrealized gains | 12,434,758 |
| Purchases | (51,872,678) |
| Sales | 42,482,538 |
| Ending balance | <u>\$ 155,840,417</u> |

The following table includes various estimated fair value information relating to certain of the Foundation's financial instruments and does not purport to represent the aggregate net fair value of the Foundation. The carrying amounts in the table are the amounts at which the financial instruments are reported in the consolidated financial statements.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

The carrying amounts and estimated fair values of the Foundation's financial instruments are as follows:

| | 2021 | | 2020 | |
|---|-----------------|--------------|-----------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 4,354,388 | \$ 4,354,388 | \$ 14,009,394 | \$ 14,009,394 |
| Receivables – net | 43,080,857 | 43,080,857 | 17,981,761 | 17,981,761 |
| Assets restricted for investment in plant and equipment | 5,711,156 | 5,711,156 | 5,569,921 | 5,569,921 |
| Investments | 185,288,488 | 185,288,488 | 144,176,078 | 144,176,078 |
| Funds held in trust by others | 162,854,841 | 162,854,841 | 134,393,763 | 134,393,763 |
| Financial liabilities: | | | | |
| Accounts payable and accrued expenses | 7,236,057 | 7,236,057 | 7,145,957 | 7,145,957 |
| Split-interest agreements and other liabilities | 1,451,986 | 1,451,986 | 2,303,384 | 2,303,384 |
| Accrued interest payable | 152,809 | 152,809 | 403,599 | 403,599 |
| Bonds payable | 16,885,000 | 16,605,935 | 31,965,000 | 31,223,485 |

NOTE N - LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The following reflects the Foundation's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions or internal designations. The Foundation has certain donor-restricted net assets that are available for general expenditures within one year of June 30, 2021 because the restrictions on the net assets are expected to be met by conducting the normal activities of our programs in the coming year. Accordingly, the related resources have been included in the table below detailing the financial assets available to meet general expenditures within one year. The Foundation has other assets limited to use for donor-restricted purposes and for contractually required debt service reserves, which are not included.

Oklahoma Medical Research Foundation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021

| | <u>2021</u> | <u>2020</u> |
|---|---------------------------|--------------------------|
| Financial assets due within one year: | | |
| Cash and cash equivalents | \$ 4,354,388 | \$ 14,009,394 |
| Receivables, net | 43,080,857 | 17,981,761 |
| Prepaid expenses and other assets | 7,353,706 | 5,170,581 |
| Investments | <u>185,288,488</u> | <u>144,176,078</u> |
| Total financial assets | <u>240,077,439</u> | <u>181,337,814</u> |
| Less amount unavailable for general expenditures with one year due to: | | |
| Donor-restricted gifts for research | (3,613,881) | (2,441,796) |
| Other assets held for future obligations | (6,470,747) | (4,727,582) |
| Reserved for debt service | (2,953,500) | (4,172,118) |
| Investments non-convertible to cash within one year | (2,664,232) | (2,504,334) |
| Donor-restricted endowment fund | <u>(118,521,411)</u> | <u>(92,280,291)</u> |
| Total amounts unavailable due to donor restrictions or law | <u>(134,223,771)</u> | <u>(106,126,121)</u> |
| Total financial assets available for general expenditure within one year | <u>\$ 105,853,668</u> | <u>\$ 75,211,693</u> |

As a part of our liquidity plan, the Foundation routinely monitors the availability of resources to meet operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As such, cash in excess of daily requirements are invested in short-term investments and money market funds.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue, including federal funds, to cover general expenditures not covered by donor-restricted resources. Furthermore, in the event of an unanticipated liquidity need, the Foundation also could draw upon \$4,000,000 of an available line of credit (as further discussed in Note L).

NOTE O - RELATED PARTY TRANSACTIONS

The Foundation holds various investments in privately held companies. At June 30, 2021, officers of the Foundation may also be officers or directors of the privately held companies where the Foundation has less than 50% interest in the companies. Therefore, the Foundation does not have controlling financial interest over the companies and consolidation with the companies was not required.

The Foundation has transactions in the normal course of business with third parties of which directors of the Foundation are also officers. All such transactions are conducted at arm's length.

NOTE P - SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions subsequent to June 30, 2021 through November 19, 2021, the date these consolidated financial statements were available to be issued, for potential recognition or disclosure in these consolidated financial statements.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Oklahoma Medical Research Foundation

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 consolidated financial statements of Oklahoma Medical Research Foundation and its subsidiary (collectively, the "Foundation"), which comprise the consolidated statement of financial position as of June 30, 2021, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 19, 2021.

Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered the Foundation'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 internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 Foundation'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 the Foundation's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated 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*.

Intended purpose

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



Oklahoma City, Oklahoma
November 19, 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Oklahoma Medical Research Foundation

Report on compliance for each major federal program

We have audited the compliance of Oklahoma Medical Research Foundation and its subsidiary (collectively, the “Foundation”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021. The Foundation’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to the Foundation’s federal programs.

Auditor’s responsibility

Our responsibility is to express an opinion on compliance for each of the Foundation’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation’s compliance.

Opinion on each major federal program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on internal control over compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of compliance requirements that could have a direct and material effect on each major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

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

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

The purpose of this Report on Internal Control Over Compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Oklahoma City, Oklahoma
November 19, 2021

Oklahoma Medical Research Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2021

| Federal Grantor/Pass-through Grantors Program Title | Federal Assistance Listing Number (if available) | Pass-through Entity ID Number | Amount Provided to Subrecipient | Total Expenditures |
|---|--|-------------------------------------|---------------------------------------|-----------------------|
| RESEARCH AND DEVELOPMENT CLUSTER | | | | |
| Direct Funded Grants: | | | | |
| U.S. Department of Health and Human Services: | | | | |
| National Institutes of Health: | | | | |
| National Institute on Aging Research | 93.866 | | \$ 287,746 | \$ 2,157,599 |
| National Institute of Allergy and Infectious Diseases Research | 93.855 | | 492,537 | 5,797,688 |
| National Institute of Arthritis and Musculoskeletal and Skin Diseases | 93.846 | | 11,037 | 4,722,658 |
| National Institute of Dental, Oral and Craniofacial Research | 93.121 | | - | 680,891 |
| National Institute of Diabetes, Digestive and Kidney Diseases | 93.847 | | 78,523 | 339,402 |
| National Institute of Vision Research | 93.867 | | 112,266 | 1,069,894 |
| National Institute of Biomedical Research and Research Training | 93.859 | | 455,018 | 7,581,088 |
| National Institute of Child Health and Human Development | 93.865 | | - | 58,067 |
| National Institute of Cardiovascular Diseases Research | 93.837 | | 14,666 | 1,614,191 |
| National Institute of Lung Diseases Research | 93.838 | | 57,657 | 914,558 |
| National Institute of Blood Diseases and Resources Research | 93.839 | | 104,304 | 1,203,180 |
| National Center for Advancing Translational Sciences | 93.350 | | - | 2,419 |
| National Institute of Drug Abuse and Addiction Research | 93.279 | | - | 98,893 |
| National Institute of Research Infrastructure Programs | 93.351 | | - | 316,566 |
| National Institute of Discovery and Applied Research for Technology | 93.286 | | 213,000 | 414,654 |
| | | | <u>1,826,754</u> | <u>26,971,748</u> |
| Total U.S. Department of Health and Human Services | | | | |
| Office of Minority Health DHHS | 93.137 | | - | 64,872 |
| US Army Medical Research and Development | 12.420 | | - | 177,678 |
| Office of Personnel Management | N/A | | - | 538,713 |
| National Science Foundation | 47.074 | | 187,735 | 464,120 |
| COVID-19 Provider Relief Fund | 93.498 | | - | 301,120 |
| | | | <u>187,735</u> | <u>1,546,503</u> |
| Total other | | | | |
| | | | <u>\$ 2,014,489</u> | <u>\$ 28,518,251</u> |
| Total Direct Funded Grants | | | | |

The accompanying notes are an intergral part of this schedule.

Oklahoma Medical Research Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the year ended June 30, 2021

| Federal Grantor/Pass-through Grantors Program Title | Federal Assistance Listing Number (if available) | Pass-through Entity ID Number | Amount Provided to Subrecipient | Total Expenditures |
|--|--|-------------------------------|---------------------------------|--------------------|
| RESEARCH AND DEVELOPMENT CLUSTER - CONTINUED | | | | |
| Pass-through Grants: | | | | |
| U.S. Department of Health and Human Services: | | | | |
| National Institutes of Health: | | | | |
| National Institute of Aging Research: | | | | |
| University of Oklahoma Health Sciences Center | 93.866 | 731563627 | \$ - | \$ 827,835 |
| University of Michigan | 93.866 | 386006309 | - | 493,181 |
| Mayo Clinic | 93.866 | 416011702 | - | 7,860 |
| Adventist Health System | 93.866 | 590724459 | - | 34,416 |
| University of Kansas Medical Center | 93.866 | 481108830 | - | 30,350 |
| Iowa State University | 93.866 | 466004224 | - | 19,029 |
| University of Texas Health Science Center | 93.866 | 741761309 | - | 70,488 |
| National Institute of Allergy and Infectious Diseases: | | | | |
| Emory University | 93.855 | 580566256 | - | 423,843 |
| Progentec Diagnostics | 93.855 | 474587440 | - | 54,639 |
| University of Oklahoma | 93.855 | 736017987 | - | 157,144 |
| Oregon Health & Science University | 93.855 | 931176109 | - | 59,420 |
| University of Pittsburgh | 93.855 | 250965591 | - | 8,710 |
| National Institute of Arthritis and Musculoskeletal and Skin Diseases: | | | | |
| Stanford University | 93.846 | 941156365 | - | 311,047 |
| Penn State University | 93.846 | 251857035 | - | 116,918 |
| University of California San Diego | 93.846 | 956006144 | - | 11,945 |
| Medical University of South Carolina | 93.846 | 576000722 | - | 463,705 |
| University of Pittsburgh | 93.846 | 250965591 | - | 37,791 |
| New York University Medical Center | 93.846 | 135562309 | - | 21,808 |
| National Institute of Biomedical Research and Research Training: | | | | |
| Oklahoma State University | 93.859 | 731383996 | - | 26,184 |
| University of Oklahoma Health Sciences Center | 93.859 | 731563627 | - | 930,108 |
| Cherokee Nation | 93.859 | 730757033 | - | 175,090 |
| University of California Medical Center | 93.859 | 530754770 | - | 19,457 |
| University of Texas MD Anderson Cancer Center | 93.859 | 746001118 | - | 54,504 |
| Stanford University | 93.859 | 941156365 | - | 75,876 |
| University of Arkansas for Medical Sciences | 93.859 | 716046242 | - | 225,946 |
| National Institute of Cardiovascular Diseases Research: | | | | |
| Boston Children's Hospital | 93.837 | 042774441 | - | 36,962 |
| University of South Florida | 93.837 | 593102112 | - | 25,488 |
| National Institute of Cancer Cause and Prevention Research: | | | | |
| University of Oklahoma Health Sciences Center | 93.393 | 731563627 | - | 215,779 |
| University of Oklahoma | 93.393 | 736017987 | - | 38,946 |
| National Institute of Dental, Oral and Craniofacial Research: | | | | |
| University of Oklahoma Health Sciences Center | 93.121 | 731563627 | - | 111,422 |
| University of Florida | 93.121 | 596002052 | - | 48,086 |
| University of Oklahoma Health Sciences Center | 93.867 | 731563627 | - | 857 |
| National Institute of Diabetes, Digestive and Kidney Disease Research: | | | | |
| Glycologix LLC | 93.847 | 813146853 | - | 196,126 |
| University of California Davis Medical Center | 93.847 | 530754770 | - | 31,419 |
| University of Oklahoma Health Sciences Center | 93.847 | 731563627 | - | 38,723 |
| Research and Training in Complementary and Integrative Health: | | | | |
| University of Kentucky Research Foundation | 93.213 | 616033693 | - | 137,303 |
| Trans-NIH Research Support: | | | | |
| University of Oklahoma Health Sciences Center | 93.310 | 731563627 | - | 84,322 |
| Cherokee Nation | 93.310 | 730757033 | - | 156,509 |
| Total U.S. Department of Health and Human Services: | | | - | 5,779,236 |

The accompanying notes are an intergral part of this schedule.

Oklahoma Medical Research Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the year ended June 30, 2021

| <u>Federal Grantor/Pass-through Grantors Program Title</u> | <u>Federal Assistance Listing Number (if available)</u> | <u>Pass-through Entity ID Number</u> | <u>Amount Provided to Subrecipient</u> | <u>Total Expenditures</u> |
|--|---|--------------------------------------|--|---------------------------|
| RESEARCH AND DEVELOPMENT CLUSTER - CONTINUED | | | | |
| Pass-through Grants: | | | | |
| U.S. Department of Defense: | | | | |
| Military Medical Research and Development: | | | | |
| University of Oklahoma Health Sciences Center | 12.420 | 731563627 | - | 33,861 |
| Total U.S. Department Defense: | | | - | 33,861 |
| Total Pass-through Grants | | | - | 5,813,097 |
| TOTAL RESEARCH AND DEVELOPMENT CLUSTER | | | <u>\$ 2,014,489</u> | <u>\$ 34,331,348</u> |
| CORONAVIRUS RELIEF FUND | | | | |
| Pass-through Grants: | | | | |
| U.S. Department of Treasury: | | | | |
| City of Oklahoma City | | | | |
| COVID-19 Coronavirus Relief Fund Grant | 21.019 | 736005359 | \$ 919,897 | \$ 1,515,062 |
| TOTAL CORONAVIRUS RELIEF FUND | | | <u>\$ 919,897</u> | <u>\$ 1,515,062</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 2,934,386</u> | <u>\$ 35,846,410</u> |

The accompanying notes are an integral part of this schedule.

Oklahoma Medical Research Foundation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2021

1. The purpose of the Schedule of Expenditures of Federal Awards (the "Schedule") is to present a summary of the activities of Oklahoma Medical Research Foundation (the "Foundation") for the year ended June 30, 2021, which have been financed by the U.S. Government.

For purposes of the schedule, federal awards have been classified into two types:

- Direct federal awards consisting of federal assistance; and
- Pass-through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.

The Schedule is prepared on the cash basis of accounting. Expenditures are recognized when paid.

Federal awards provided to subrecipient are treated as expenditures when they are paid to the subrecipient.

2. Assistance Listing Numbers ("ALN") are presented for those programs for which such numbers were available.
3. Federal direct programs are presented by federal department and, where applicable, the funding agency within the department. Federal pass through programs are presented by the entity through which the Foundation received the federal award. Amounts provided to subrecipient from each federal program have been separately identified for additional analysis. These awards are included in total cash basis expenditures.
4. The Foundation has a federally negotiated indirect cost rate and therefore elected not to use the 10% de minimis indirect cost rate as covered in 2 CFR §200.414.

Oklahoma Medical Research Foundation
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2021

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | |
|---|---------------|
| Type of auditor's report issued: | Unmodified |
| Internal control over financial reporting: | |
| • Material weakness(es) identified | No |
| • Significant deficiencies identified that are not considered to be material weaknesses | None reported |

| | |
|---|----|
| Noncompliance material to financial statements noted: | No |
|---|----|

Federal Awards

| | |
|---|---------------|
| Internal controls over major programs: | |
| • Material weakness(es) identified | No |
| • Significant deficiencies identified that are not considered to be material weakness(es) | None reported |

| | |
|---|------------|
| Type of auditor's report issued on compliance for major programs: | Unmodified |
|---|------------|

| | |
|---|----|
| Any audit findings disclosed that are required to be reported in accordance with §200.516 of 2 CFR 200. | No |
|---|----|

Identification of major programs:

| <u>Assistance Listing Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|--|---|
| Various | Research and Development Cluster |
| 21.019 | Coronavirus Relief Fund |
| Dollar threshold used to distinguish between type A and type B programs: | \$1,075,392 |
| Auditee qualified as low-risk auditee? | Yes |

Oklahoma Medical Research Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended June 30, 2021

**SECTION II - FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

No matters are reportable.

**SECTION III - FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH §200.516 OF
2 CFR 200**

No matters are reportable.

Oklahoma Medical Research Foundation
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2021

There were no prior year findings or questioned costs reported.