Stillwater Medical Center Authority
d/b/a Stillwater Medical Center
A Component Unit of the City of Stillwater, Oklahoma

Independent Auditor's Reports and Financial Statements

December 31, 2014 and 2013

BKD LLP
CPAs & Advisors

Stillwater Medical Center Authority
d/b/a Stillwater Medical Center
A Component Unit of the City of Stillwater, Oklahoma
December 31, 2014 and 2013

Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority), a component unit of the City of Stillwater, Oklahoma, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stillwater Medical Center Authority d/b/a Stillwater Medical Center as of December 31, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2015, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
May 22, 2015

Stillwater Medical Center Authority
d/b/a Stillwater Medical Center
A Component Unit of the City of Stillwater, Oklahoma
Management's Discussion and Analysis
Years Ended December 31, 2014 and 2013

Introduction

This management's discussion and analysis of the financial performance of Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority) provides an overview of the Authority's financial activities for the years ended December 31, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and cash equivalents increased in 2014 by $7,567,059 (58.9%) and increased in 2013 by $3,650,024 (39.7%).
- The Authority's net position increased in 2014 and 2013 by $16,014,051 (14.8%) and $10,691,283 (10.9%), respectively.
- The Authority reported operating income in 2014 and 2013 of $14,133,632 and $6,979,686, respectively. The operating income in 2014 increased by $7,153,946 (102.5%) over the operating income reported in 2013. The operating income in 2013 decreased by $5,697,962 (44.9%) from the operating income reported in 2012.
- Net nonoperating revenues decreased by $1,807,794 (49.0%) in 2014 compared to 2013 and increased by $1,443,111 (64.3%) in 2013 compared to 2012.

Using This Annual Report

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

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

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

These two statements report the Authority's net position and changes in them. The Authority's total net position—the difference between assets and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

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

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased by $16,014,051 (14.8%) in 2014 over 2013 and increased by $10,691,283 (10.9%) in 2013 over 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2014	2013	2012
Assets			
Cash and cash equivalents	$ 20,407,362	$ 12,840,303	$ 9,190,279
Patient accounts receivable, net	18,007,198	16,674,453	12,590,472
Investments	46,136,650	39,870,906	39,523,614
Other current assets	4,673,622	3,876,660	5,813,425
Capital assets, net	55,908,689	51,850,448	48,678,605
Other noncurrent assets	8,478,787	9,056,333	9,842,061
Total assets	$ 153,612,308	$ 134,169,103	$ 125,638,456
Liabilities			
Long-term debt (including current portion)	$ 16,945,914	$ 14,569,636	$ 14,962,503
Other current liabilities	12,196,727	11,143,851	12,911,620
Total liabilities	29,142,641	25,713,487	27,874,123
Net Position			
Net investment in capital assets	38,655,032	37,185,672	30,418,161
Restricted – expendable	1,761,667	2,602,974	2,629,384
Unrestricted	84,052,968	68,666,970	64,716,788
Total net position	124,469,667	108,455,616	97,764,333
Total liabilities and net position	$ 153,612,308	$ 134,169,103	$ 125,638,456

A significant change in the Authority's assets in 2014 is the increase in cash and cash equivalents of $7,567,059 (58.9%), the results of which are described in the Authority's cash flows disclosure on page 11. Investments increased $6,265,744 (15.7%) as a result of using excess cash from operations, investment income and the change due to refinancing the 2003 and 2005 Bonds. Capital assets increased $4,058,241 (7.8%) primarily due to the purchase of a building.

A significant change in the Authority's assets in 2013 is the increase in cash and cash equivalents of $3,650,024 (39.7%), the results of which are described in the Authority's cash flows disclosure on page 11. Patient accounts receivable, net, increased $4,083,981 (32.4%), which is consistent with the increases in net patient service revenue. Other current assets decreased $1,936,765 (33.3%) in 2013 as a result of a receivable from self-insured health reinsurance in the amount of $1,387,000 recorded in 2012 and from a $597,252 electronic health records incentive receivable in 2012, both of which were received in 2013.

Operating Results and Changes in the Authority's Net Position

In 2014, the Authority's net position increased by $16,014,051 as shown in Table 2. This increase is made up of several different components and represents an increase of $5,322,768 (49.8%) compared with the increase in net position for 2013 of $10,691,283. The Authority's change in net position decreased from $14,922,750 in 2012 to $10,691,283 in 2013, a decrease of $4,231,467 (28.4%).

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	$ 137,164,637	$ 116,878,343	$ 100,554,781
Gain on investment in joint ventures	1,179,827	1,274,807	1,312,868
Other operating revenues	4,717,442	4,266,582	5,522,662
Total operating revenues	143,061,906	122,419,732	107,390,311
Operating Expenses			
Salaries, wages and employee benefits	66,984,023	62,682,946	49,226,902
Purchased services and professional fees	16,899,117	12,722,600	10,688,881
Supplies and other expenses	36,682,371	32,310,134	29,004,588
Depreciation and amortization	8,362,763	7,724,366	5,792,292
Total operating expenses	128,928,274	115,440,046	94,712,663
Operating Income	14,133,632	6,979,686	12,677,648
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	4,542	44,485	22,273
Gain on investment in joint ventures	7,653	55,392	159,125
Investment income	2,609,543	4,457,874	2,883,089
Interest expense and financing costs	(741,319)	(869,538)	(819,385)
Total nonoperating revenues (expenses)	1,880,419	3,688,213	2,245,102
Gifts to Purchase Capital Assets and Other Capital Gifts	-	23,384	-
Increase in Net Position	$ 16,014,051	$ 10,691,283	$ 14,922,750

Operating Income

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported an operating income.

Operating income for 2014 increased by $7,153,946 (102.5%) as compared to 2013. The primary components of the increased operating income are:

- An increase in net patient service revenue of $20,286,294 (17.4%) as a result of higher outpatient volumes during 2014 and higher volumes at clinics partially due to new physicians added in 2014 and late 2013. In addition, the Authority posted rate increases to most inpatient and outpatient services averaging 6.1%.

- An increase in salaries, wages and employee benefits of $4,301,077 (6.9%) as a result of pay increases in combination with the additional employees needed to cover the increase in clinic and outpatient volumes.

- An increase in supplies and other expenses of $4,372,237 (13.5%) as a result of Supplemental Hospital Offset Payment Program (SHOPP) assessments increasing approximately $700,000 and the increased use of supplies due to corresponding higher clinic and outpatient volumes.

- An increase in purchased services and professional fee expenses of $4,176,517 (32.8%) as a result of the purchased services related to OrthoOklahoma P.C. (OrthoOklahoma), and the physicians previously associated with the Warren Clinic located in Stillwater and the Authority's oncology clinic both being operational for a full year in 2014 compared to a partial year in 2013. Increases also occurred due to several increased services related to electronic health record implementation and maintenance.

Operating income for 2013 decreased by $5,697,962 (44.9%) as compared to 2012. The primary components of the decreased operating income are:

- An increase in net patient service revenue of $16,423,562 (16.2%) as a result of the addition of OrthoOklahoma and the physicians previously associated with the Warren Clinic located in Stillwater, resulting in increased net patient service revenue of approximately $7,505,000 and $3,317,000, respectively, during 2013. In addition, the Authority posted rate increases to most inpatient and outpatient services averaging 6.9%.

- An increase in salaries, wages and employee benefits of $13,456,044 (27.3%) as a result of the addition of OrthoOklahoma and the physicians previously associated with the Warren Clinic located in Stillwater, resulting in increased salaries, wages and employee benefits of approximately $4,764,000 and $3,115,000, respectively, during 2013. In addition, during 2013, the Authority saw increased salaries during the year as a result of pay increases and market adjustments totaling approximately 3.5%.

- An increase in supplies and other expenses of $3,305,546 (11.4%) as a result of the addition of OrthoOklahoma and the physicians previously associated with the Warren Clinic located in Stillwater, resulting in increased supplies and other expenses of approximately $968,000 and $1,092,000, respectively, during 2013. The current year includes drug and other expenses of approximately $462,000 related to the 2013 opening of the Authority's oncology clinic.

- An increase in purchased services and professional fee expenses of $2,033,719 (19.0%) as a result of the addition of OrthoOklahoma, the physicians previously associated with the Warren Clinic located in Stillwater and the Authority's oncology clinic, resulting in increased purchased services and professional fees of approximately $514,000, $279,000 and $252,000, respectively, during 2013. In addition, the prior year also includes increases related to the Authority's use of mid-level practitioners within the emergency department totaling approximately $186,000. Other various increases in purchased services and professional fees include the need for additional service contracts related to necessary equipment, increased information technology services outsourced and consulting services provided in advance of the Authority's 340B program.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of the Authority's investment in joint ventures, investment income and interest expense. In 2014, the Authority's investment income decreased by $1,848,331 as compared to 2013 due to lower performance in investment markets. In 2013, the Authority's investment income increased by $1,574,785 as compared to 2012 due to increases in the total volume of investments and greater performance in investment markets. In 2014, the Authority's interest expense decreased by $233,639 as compared to 2013 due to refinancing bonds as discussed below, which was partially offset by $105,420 in bond issuance costs.

The Authority's Cash Flows

Net cash provided by operating activities increased in 2014 by $7,492,448 (55.2%) from 2013. The increase is attributable to receipts from and on behalf of patients increasing a larger amount than payments to suppliers, contractors and employees. A portion of the cash generated from operating activities was reinvested back into the facility through new equipment purchases and infrastructure improvements. Therefore, the Authority's overall cash position increase is attributable to the cash provided by operating activities.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the Authority had $55,908,689 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2014, the Authority purchased new equipment and infrastructure improvements costing $10,994,229. Of this amount, $254,160 was acquired through incursion of capital lease obligations.

At the end of 2013, the Authority had $51,850,448 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2013, the Authority purchased new equipment and infrastructure improvements costing $9,743,726. Of this amount, $588,827 was acquired through incursion of capital lease obligations.

Debt

At December 31, 2014 and 2013, the Authority had $16,945,914 and $14,569,636, respectively, in revenue bonds and capital lease obligations outstanding as discussed in *Note 9* to the financial statements. To take advantage of more favorable interest rates and fund certain capital expenditures, the Authority redeemed the Series 2003 revenue bonds and the Series 2005 revenue bonds during 2014 by using the proceeds received from the issuance of the Series 2014 revenue bonds as discussed in *Note 9*. The Authority also incurred $254,160 and $588,827 of new debt in 2014 and 2013, respectively, related to the purchase of new capital lease obligations.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's Business Administration by telephoning 405.372.1480.

Stillwater Medical Center Authority
d/b/a Stillwater Medical Center
A Component Unit of the City of Stillwater, Oklahoma
Balance Sheets
December 31, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	$ 20,407,362	$ 12,840,303
Short-term investments	27,910,746	27,779,379
Restricted cash and investments – current	1,783,717	1,049,654
Patient accounts receivable, net of allowance; 2014 – $5,245,000, 2013 – $5,010,000	18,007,198	16,674,453
Supplies	2,737,510	2,513,728
Prepaid expenses and other	1,936,112	1,362,932
Total current assets	72,782,645	62,220,449
Noncurrent Cash and Investments		
Held by trustee for debt service	1,783,717	2,662,628
Less amount required to meet current obligations	1,783,717	1,049,654
	-	1,612,974
Other long-term investments	16,442,187	9,428,899
Noncurrent cash and investments, net	16,442,187	11,041,873
Capital Assets, Net	55,908,689	51,850,448
Investments in Joint Ventures	2,060,660	2,257,357
Goodwill, Net	6,418,127	6,798,976
Total assets	$ 153,612,308	$ 134,169,103

Liabilities and Net Position

	2014	2013
Current Liabilities		
Current maturities of long-term debt	$ 3,650,994	$ 1,127,309
Accounts payable	2,826,732	2,201,820
Accrued expenses	9,299,995	8,772,031
Estimated amounts due to third-party payers	70,000	170,000
Total current liabilities	15,847,721	12,271,160
Long-Term Debt	13,294,920	13,442,327
Total liabilities	29,142,641	25,713,487
Net Position		
Net investment in capital assets	38,655,032	37,185,672
Restricted – expendable for debt service	1,761,667	2,602,974
Unrestricted	84,052,968	68,666,970
Total net position	124,469,667	108,455,616
Total liabilities and net position	$ 153,612,308	$ 134,169,103

Stillwater Medical Center Authority
d/b/a Stillwater Medical Center
A Component Unit of the City of Stillwater, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 – $10,144,577; 2013 – $11,876,399	$ 137,164,637	$ 116,878,343
Gain on investments in joint ventures	1,179,827	1,274,807
Other	4,717,442	4,266,582
Total operating revenues	143,061,906	122,419,732
Operating Expenses		
Salaries and wages	53,339,980	49,236,884
Employee benefits	13,644,043	13,446,062
Purchased services and professional fees	16,899,117	12,722,600
Supplies and other expenses	36,687,567	32,311,369
Depreciation and amortization	8,362,763	7,724,366
Gain on sale of capital assets	(5,196)	(1,235)
Total operating expenses	128,928,274	115,440,046
Operating Income	14,133,632	6,979,686
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	4,542	44,485
Gain on investments in joint ventures	7,653	55,392
Investment income	2,609,543	4,457,874
Interest expense and financing costs	(741,319)	(869,538)
Total nonoperating revenues (expenses)	1,880,419	3,688,213
Excess of Revenues over Expenses Before Capital Gifts	16,014,051	10,667,899
Gifts to Purchase Capital Assets and Other Capital Gifts	-	23,384
Increase in Net Position	16,014,051	10,691,283
Net Position, Beginning of Year	108,455,616	97,764,333
Net Position, End of Year	$ 124,469,667	$ 108,455,616

Stillwater Medical Center Authority
d/b/a Stillwater Medical Center
A Component Unit of the City of Stillwater, Oklahoma
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on behalf of patients	$ 135,731,892	$ 113,249,362
Payments to suppliers and contractors	(53,690,776)	(42,348,060)
Payments to employees	(66,984,023)	(62,682,946)
Other receipts and payments, net	6,117,999	5,358,868
Net cash provided by operating activities	21,175,092	13,577,224
Noncapital Financing Activities		
Noncapital gifts	4,542	44,485
Net cash provided by noncapital financing activities	4,542	44,485
Capital and Related Financing Activities		
Capital grants and gifts	-	23,384
Proceeds from issuance of long-term debt	15,570,000	-
Payment of bond issuance costs	(105,420)	-
Proceeds from disposal of capital assets	11,969	7,089
Principal paid on long-term debt	(13,447,882)	(981,694)
Interest paid on long-term debt	(552,902)	(744,568)
Purchase of capital assets	(10,648,067)	(12,389,719)
Net cash used in capital and related financing activities	(9,172,302)	(14,085,508)
Investing Activities		
Change in restricted assets whose use is limited under bond agreements, net	878,911	23,460
Change in investments, net	(5,522,984)	3,167,596
Dividends received from investments in joint ventures	(184,386)	3,241
Purchase of Women First, LLC, net of cash acquired	(599,686)	-
Investment income received	987,872	919,526
Net cash provided by (used in) investing activities	(4,440,273)	4,113,823
Increase in Cash and Cash Equivalents	7,567,059	3,650,024
Cash and Cash Equivalents, Beginning of Year	12,840,303	9,190,279
Cash and Cash Equivalents, End of Year	$ 20,407,362	$ 12,840,303

	2014	2013
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 14,133,632	$ 6,979,686
Depreciation and amortization	8,362,763	7,724,366
Accrued self-insurance costs	(310,056)	(768,707)
Gain on sale of capital assets	(5,196)	(1,235)
Provision for uncollectible accounts	10,144,577	11,876,399
Changes in operating assets and liabilities		
Patient accounts receivable	(11,477,322)	(15,960,380)
Supplies, prepaid expenses and other	(941,969)	1,509,151
Estimated amounts due to/from third-party payers	(100,000)	455,000
Change in investments in joint ventures	220,730	(182,521)
Accounts payable and accrued expenses	1,147,933	1,945,465
Net cash provided by operating activities	$ 21,175,092	$ 13,577,224
Supplemental Cash Flows Information		
Capital asset purchases in accounts payable	$ 307,743	$ 215,741
Capital lease obligations incurred for equipment	$ 254,160	$ 588,827

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

Nature of Operations and Reporting Entity

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

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers.

Risk Management

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

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

Investments and Investment Income

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

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

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

Compensated Absences

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

Net Position

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

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs is contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Authority completed the fourth-year requirements under the Medicaid program and recorded revenue of approximately $62,000 and $81,000 in 2014 and 2013, respectively. In 2014, the Authority completed the third-year requirements under the Medicare program and recorded revenue of approximately $705,000 and $905,000 in 2014 and 2013, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

During the years ended December 31, 2014 and 2013, the Authority had the following activity related to the SHOPP program:

	2014	2013
SHOPP funds received	$ 4,330,000	$ 3,440,000
SHOPP assessment fees paid	2,411,000	1,721,000
Net benefit under SHOPP	$ 1,919,000	$ 1,719,000

The annual amounts to be received and paid by the Authority over the term of the SHOPP program are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP program is not expected to be materially different than the net amounts received in 2014. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation and home health services are paid at prospectively determined rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through December 31, 2011.

- **Medicaid** – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 50% and 41% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

At December 31, 2014 and 2013, approximately $3,680,000 and $1,722,000 of the Authority's bank balances of $11,387,000 and $7,887,000, respectively, were uninsured and uncollateralized.

Investments

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

At December 31, 2014 and 2013, the Authority had the following investments and maturities:

	December 31, 2014				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
U.S. Treasury obligations	$ 1,172,872	$ -	$ 651,854	$ 205,090	$ 315,928
U.S. agencies obligations	3,825,590	167,334	613,866	570,083	2,474,307
Corporate bonds	5,400,618	153,999	1,640,005	1,825,245	1,781,369
Money market mutual funds	20,979,905	20,979,905	-	-	-
Mutual funds – fixed income	6,364,446	-	4,463,666	1,900,780	-
Mutual funds – domestic equities	6,157,422	6,157,422	-	-	-
Mutual funds – international equities	929,512	929,512	-	-	-
	44,830,365	$ 28,388,172	$ 7,369,391	$ 4,501,198	$ 4,571,604
Corporate stocks	12,349,967				
Accrued investment income	99,995				
Total investments	$ 57,280,327				

	December 31, 2013				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
U.S. Treasury obligations	$ 407,115	$ 34,992	$ 238,527	$ 97,216	$ 36,380
U.S. agencies obligations	3,900,189	335,412	552,107	866,977	2,145,693
Corporate bonds	5,590,474	98,475	1,177,663	2,957,421	1,356,915
Money market mutual funds	13,650,376	13,650,376	-	-	-
Mutual funds – fixed income	4,454,944	-	1,993,962	2,460,982	-
Mutual funds – domestic equities	4,357,347	4,357,347	-	-	-
Mutual funds – international equities	652,018	652,018	-	-	-
	33,012,463	$ 19,128,620	$ 3,962,259	$ 6,382,596	$ 3,538,988
Corporate stocks	10,761,812				
Accrued investment income	103,851				
	43,878,126				
Guaranteed income contract – carrying value	1,245,000				
Total investments	$ 45,123,126				

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits its investment portfolio to an average maturity of three to five years with an average overall portfolio duration greater than 7.5 years. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority's policy to limit its domestic fixed income investments to a credit rating of no less than investment grade and an overall, weighted-average rating of A by Standard & Poor's (S & P), Moody's or Fitch. At December 31, 2014 and 2013, the Authority's investments not directly guaranteed by the U.S. government were rated as follows:

	2014	
Investments	**Moody's**	**S & P**
U.S. agencies obligations	Aaa	AA+
Corporate bonds	Not rated to Aaa	Not rated to AAA
Money market mutual funds	Aaa	AAA
Mutual funds	Not Rated	Not Rated

	2013	
Investments	**Moody's**	**S & P**
Guaranteed investment contract	Not Rated	Not Rated
U.S. agencies obligations	Aaa	AA+
Corporate bonds	Not rated to Aaa	BBB to AAA
Money market mutual funds	Aaa	AAA
Mutual funds	Not Rated	Not Rated

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

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

At both December 31, 2014 and 2013, no investments exceeded 5% of the total fair value of all investments.

Summary of Carrying Values

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

	2014	2013
Carrying value		
Deposits	$ 9,263,685	$ 7,588,083
Investments	57,280,327	45,123,126
	$ 66,544,012	$ 52,711,209
Included in the following balance sheet captions		
Cash and cash equivalents	$ 20,407,362	$ 12,840,303
Short-term investments	27,910,746	27,779,379
Restricted cash and investments – current	1,783,717	1,049,654
Noncurrent cash and investments	16,442,187	11,041,873
	$ 66,544,012	$ 52,711,209

Investment Income

Investment income for the years ended December 31, 2014 and 2013, consisted of:

	2014	2013
Interest, dividends and realized gain on sales of investments	$ 1,616,458	$ 2,485,782
Net increase in fair value of investments	993,085	1,972,092
	$ 2,609,543	$ 4,457,874

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2014 and 2013, consisted of:

	2014	2013
Medicare	$ 4,048,736	$ 3,655,015
Medicaid	1,005,680	773,720
Other third-party payers	10,804,256	10,073,141
Patients	7,393,526	7,182,577
	23,252,198	21,684,453
Less allowance for uncollectible accounts	5,245,000	5,010,000
	$ 18,007,198	$ 16,674,453

Note 5: Investments in Joint Ventures

The investments in joint ventures relate to a 10% ownership in Heartland Healthcare Reciprocal Risk Retention Group (Heartland), which is accounted for using the equity method of accounting; a 63% ownership in Stillwater Medical Imaging, LLC, which is accounted for using the equity method (as the Authority only controls 50% of the entity); a 50% ownership in Women First, LLC during 2013 (the Authority purchased the remaining 50% ownership during 2014, which was accounted for using the equity method up until the purchase of the remaining 50% interest); and a 9% ownership in Fresenius Medical Care – Stillwater, LLC, which is accounted for using the cost method. Financial position and results of operations from Heartland's audited financial statements and the unaudited financial statements of the remaining joint venture entities for the fiscal years ended December 31, 2014 and 2013, are summarized below:

	December 31, 2014		
	(Audited) Heartland	Stillwater Medical Imaging, LLC	Fresenius Medical Care – Stillwater, LLC
Current assets	$ 14,751,843	$ 2,020,232	$ 438,553
Property and other long-term assets, net	-	556,029	1,857,407
Total assets	$ 14,751,843	$ 2,576,261	$ 2,295,960
Total liabilities	$ 5,793,960	$ 441,505	$ 260,396
Partners' equity	8,957,883	2,134,756	2,035,564
Total liabilities and partners' equity	$ 14,751,843	$ 2,576,261	$ 2,295,960
Revenues	$ 3,046,570	$ 2,795,882	$ 1,665,372
Excess (deficiency) of revenues over expenses	$ 59,385	$ 1,699,836	$ (267,728)

	December 31, 2013			
	(Audited) Heartland	Stillwater Medical Imaging, LLC	Fresenius Medical Care – Stillwater, LLC	Women First, LLC
Current assets	$ 15,050,049	$ 1,965,685	$ 279,954	$ 451,915
Property and other long-term assets, net	19,000	669,489	2,008,707	108,531
Total assets	$ 15,069,049	$ 2,635,174	$ 2,288,661	$ 560,446
Total liabilities	$ 6,018,828	$ 566,041	$ 167,369	$ 27,583
Partners' equity	9,050,221	2,069,133	2,121,292	532,863
Total liabilities and partners' equity	$ 15,069,049	$ 2,635,174	$ 2,288,661	$ 560,446
Revenues	$ 3,331,650	$ 2,762,450	$ 1,271,341	$ 496,722
Excess (deficiency) of revenues expenses	$ 536,255	$ 1,692,297	$ (257,375)	$ 447,569

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

The Authority purchases its professional liability (medical malpractice) and general liability insurance coverage from Heartland (see *Note 7*). For the years ended December 31, 2014 and 2013, the Authority paid approximately $207,000 and $190,000, respectively, to Heartland for the coverage. The Authority's investment in Heartland was $833,506 and $825,853 at December 31, 2014 and 2013, respectively.

Stillwater Medical Imaging, LLC (SMI) owns and operates MRI, CT and other imaging equipment. The Authority utilizes SMI to provide imaging services for its patients. The equipment is located within Stillwater Medical Center, and the Authority manages the operations and provides all staffing and supplies for SMI. The Authority performs all billing and collection services on behalf of SMI in exchange for a percentage of cash collections. SMI functions as if it were a department within the Authority. As a result, management has elected to record the gain on investment in SMI within operating revenues. Included in accrued expenses of the Authority is approximately $555,000 and $478,000 due to the joint venture at December 31, 2014 and 2013, respectively. During the years ended December 31, 2014 and 2013, the Authority earned approximately $925,000 and $886,000, respectively, in fees from billing and collections services, which are recorded in other operating revenues. The Authority's investment in SMI was $965,379 and $919,677 at December 31, 2014 and 2013, respectively.

Fresenius Medical Care – Stillwater, LLC (Fresenius) provides dialysis services to residents of Stillwater and the surrounding area. The Authority invested $16,380 in additional capital contributions to Fresenius during the year. The Authority's investment in Fresenius was $261,775 and $245,395 at December 31, 2014 and 2013, respectively.

Women First, LLC (Women First) was organized to provide digital mammography and bone density services to the patients of the Authority. The equipment is located within Stillwater Medical Center, and the Authority manages the operations and provides all staffing and supplies for Women First. Women First functions as if it were a department within the Authority. As a result, management has elected to record the gain on investment in Women First with operating revenues. On July 2, 2014, the Authority purchased the remaining 50% ownership of Women First and then subsequently dissolved the entity and absorbed the operations into the Authority. The Authority's investment in Women First was $0 and $266,432 at December 31, 2014 and 2013, respectively.

Note 6: Capital Assets

Capital asset activity for the years ended December 31, 2014 and 2013, was:

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 4,470,073	$ -	$ -	$ -	$ 4,470,073
Land improvements	1,343,974	-	-	1,713,755	3,057,729
Buildings, fixed equipment and leasehold improvements	57,917,585	5,148,188	(83,111)	1,434,947	64,417,609
Major moveable equipment	61,432,699	3,663,283	(303,194)	-	64,792,788
Construction in progress	1,400,881	2,182,758	-	(3,148,702)	434,937
	126,565,212	10,994,229	(386,305)	-	137,173,136
Less accumulated depreciation					
Land improvements	1,297,779	14,042	-	-	1,311,821
Buildings, fixed equipment and leasehold improvements	30,036,981	2,279,957	(70,386)	-	32,246,552
Major moveable equipment	43,380,004	4,635,216	(309,146)	-	47,706,074
	74,714,764	6,929,215	(379,532)	-	81,264,447
Capital assets, net	$ 51,850,448	$ 4,065,014	$ (6,773)	$ -	$ 55,908,689

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 2,115,409	$ -	$ -	$ 2,354,664	$ 4,470,073
Land improvements	1,343,974	-	-	-	1,343,974
Buildings, fixed equipment and leasehold improvements	52,228,271	457,552	(36,649)	5,268,411	57,917,585
Major moveable equipment	57,283,253	4,572,786	(287,836)	(135,504)	61,432,699
Construction in progress	4,175,064	4,713,388	-	(7,487,571)	1,400,881
	117,145,971	9,743,726	(324,485)	-	126,565,212
Less accumulated depreciation					
Land improvements	1,274,832	22,947	-	-	1,297,779
Buildings, fixed equipment and leasehold improvements	28,168,147	1,905,484	(36,650)	-	30,036,981
Major moveable equipment	39,024,387	4,637,598	(281,981)	-	43,380,004
	68,467,366	6,566,029	(318,631)	-	74,714,764
Capital assets, net	$ 48,678,605	$ 3,177,697	$ (5,854)	$ -	$ 51,850,448

Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, an accrual of approximately $58,000 has been made as of December 31, 2014 and 2013, respectively. It is reasonably possible that this estimate could change materially in the near term.

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

Note 8: Self-Insured Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's employee health insurance plan. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of approximately $150,000 and any amounts over $1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of $150,000 up to $1,000,000.

The Authority is self-insured for risks related to workers' compensation claims up to $400,000 per occurrence with an annual liability limit of $1,000,000 in the aggregate. In connection with the self-insured workers' compensation policy, the Authority was required to obtain a $250,000 standby letter of credit. As of December 31, 2014, the Authority had not drawn upon the letter of credit.

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

Activity in the Authority's accrued employee health and workers' compensation claims liability during 2014 and 2013 is summarized as follows:

	December 31, 2014	
	Employee Health	Workers' Compensation
Balance, beginning of year	$ 1,189,851	$ 329,597
Current year claims incurred and changes in estimates for claims incurred in prior years	6,648,133	154,536
Claims and expenses paid	(6,757,984)	(354,741)
Balance, end of year	$ 1,080,000	$ 129,392

	December 31, 2013	
	Employee Health	Workers' Compensation
Balance, beginning of year	$ 2,087,000	$ 201,155
Current year claims incurred and changes in estimates for claims incurred in prior years	6,595,227	480,392
Claims and expenses paid	(7,492,376)	(351,950)
Balance, end of year	$ 1,189,851	$ 329,597

Note 9: Long-Term Debt

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2014 and 2013:

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable – Series 2003	$ 7,000,000	$ -	$ 7,000,000	$ -	$ -
Revenue bonds payable – Series 2005	6,285,000	-	6,285,000	-	-
Revenue bonds payable – Series 2014	-	15,570,000	-	15,570,000	3,020,000
Capital lease obligations	1,284,636	254,160	162,882	1,375,914	630,994
Total long-term debt	$ 14,569,636	$ 15,824,160	$ 13,447,882	$ 16,945,914	$ 3,650,994

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable – Series 2003	$ 7,000,000	$ -	$ -	$ 7,000,000	$ -
Revenue bonds payable – Series 2005	7,235,000	-	950,000	6,285,000	990,000
Capital lease obligations	727,503	588,827	31,694	1,284,636	137,309
Total long-term debt	$ 14,962,503	$ 588,827	$ 981,694	$ 14,569,636	$ 1,127,309

Revenue Bonds Payable – Series 2003

The Series 2003 revenue bonds payable consist of Hospital Revenue Bonds (the 2003 Bonds) in the original amount of $7,000,000 dated November 13, 2003, which bear interest semiannually at 5.625%. The 2003 Bonds were payable in annual installments beginning May 15, 2018 through May 15, 2023. The 2003 Bonds were secured by the gross revenues of the Authority and the trustee-held assets restricted under the bond indenture agreement. In March 2014, the bonds were redeemed with a new bond (see below).

Revenue Bonds Payable – Series 2005

The Series 2005 revenue bonds payable consist of Hospital Revenue Bonds (the 2005 Bonds) in the original amount of $12,715,000 dated March 1, 2005, which bear interest semiannually at 4.50% to 5.25%. The 2005 Bonds were payable in annual installments through May 15, 2019. The Authority was required to make monthly deposits of approximately $95,700 to the debt service fund held by the trustee. The 2005 Bonds were secured by the gross revenues of the Authority and the trustee-held assets restricted under the bond indenture agreement. In March 2014, the bonds were redeemed with a new bond (see below).

Revenue Bonds Payable – Series 2014

The Series 2014 revenue bonds payable consist of Hospital Revenue Bonds (the 2014 Bonds) in the original amount of $15,570,000 dated March 28, 2014, which bear interest semiannually at 1.69%. The 2014 Bonds are payable in annual installments through May 15, 2019. The 2014 Bonds outstanding may be redeemed at the Authority's option on or after May 16, 2015. The redemption price is 102% decreasing to 101% on or after May 16, 2016, and decreasing to 100% on or after May 16, 2017. The 2014 Bonds are secured by the gross revenues of the Authority, personal property and the trustee-held assets restricted under the bond indenture agreement.

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

Upon issuance and delivery of the 2014 Bonds, the Authority defeased its outstanding 2003 and 2005 Bonds in the total principal amount of $12,295,000. Proceeds from the 2014 Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since the Authority was legally released from its obligation on the 2003 and 2005 Bonds at the time of the defeasance. The bonds were subsequently fully redeemed in May 2014. The Authority completed the advance refunding to reduce its number of years to make debt service payments by four years, fund the purchase of capital expenditures of $4,825,000 and reduce total debt service payments by approximately $2,067,000.

The debt service requirements as of December 31, 2014, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2015	$ 3,260,701	$ 3,020,000	$ 240,701
2016	3,259,112	3,070,000	189,112
2017	3,260,444	3,125,000	135,444
2018	3,231,682	3,150,000	81,682
2019	3,232,233	3,205,000	27,233
	$ 16,244,172	$ 15,570,000	$ 674,172

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital lease at December 31, 2014 and 2013, totaled $1,570,614 and $1,316,454, respectively, net of accumulated depreciation of $510,299 and $214,135, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest rates between 1.69% and 5.00% together with the present value of the future minimum lease payments as of December 31, 2014:

Year Ending December 31,	
2015	$ 681,123
2016	551,577
2017	192,234
2018	38,796
Total minimum lease payments	1,463,730
Less amount representing interest	87,816
Present value of future minimum lease payments	$ 1,375,914

Note 10: Charity Care and Uncompensated Care

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

Uncompensated costs relating to these services are approximately as follows:

	2014	2013
Charity allowances	$ 1,897,000	$ 1,526,000
State Medicaid and other public aid programs	5,247,000	5,771,000
	$ 7,144,000	$ 7,297,000

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

Note 11: Operating Leases

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

Future minimum lease payments at December 31, 2014, were approximately:

2015	$ 962,000
2016	972,000
2017	935,000
2018	868,000
2019	783,000
2020–2024	2,944,000
2025–2027	1,117,000
Future minimum lease payments	$ 8,581,000

Rental expense for the years ended December 31, 2014 and 2013, was approximately $1,917,000 and $1,982,000, respectively.

Note 12: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 3% and 6% for 2014 and 2013, respectively. Contributions actually made by plan members and the Authority aggregated approximately $1,171,000 and $2,129,000 during 2014, respectively, and $1,097,000 and $1,987,000 during 2013, respectively.

Note 13: Acquired Goodwill

Goodwill related to the 2009 acquisition of Stillwater Surgery Center, L.L.C., is being amortized on the straight-line basis over 15 years. Amortization expense is estimated to be approximately $388,000 each year through 2024.

Goodwill related to the 2012 acquisition of OrthoOklahoma is being amortized on the straight-line basis over five years. Amortization expense is estimated to be approximately $632,000 each year through 2017.

Goodwill related to the 2014 acquisition of Women First, LLC is being amortized on the straight-line basis over three years. Amortization expense is estimated to be approximately $256,000 each year through 2017.

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2014 and 2013, were:

	2014	2013
Goodwill	$ 9,751,437	$ 8,983,976
Accumulated amortization	3,333,310	2,185,000
	$ 6,418,127	$ 6,798,976

The changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013, were:

	2014	2013
Balance as of January 1	$ 8,983,976	$ 8,983,976
Goodwill acquired during the year	767,461	-
Balance as of December 31	$ 9,751,437	$ 8,983,976

Note 14: Risks and Uncertainties

Litigation

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

Investments

The Authority invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain securities, it is at least reasonably possible that change in the values of investment securities will occur in the near term and such change could materially affect the amounts reported in the accompanying balance sheets.

Patient Protection and Affordable Care Act (PPACA)

The PPACA will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Oklahoma has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Authority's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Authority's net patient service revenue. Additionally, it is possible the Authority will experience payment delays and other operational challenges during PPACA's implementation.

Note 15: Subsequent Events

In February 2015, the Authority purchased a physician's clinic building for $1,900,000 using cash and investment reserves.

In April 2015, the Authority began construction on an estimated $13,000,000 project to build a Medical Office Building/Support Services Building with an expected completion date of June 2016. The project is to be funded by cash and investment reserves.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority), which comprise the balance sheet as of December 31, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated May 22, 2015.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to the Authority's management in a separate letter dated May 22, 2015.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
May 22, 2015