Stillwater **Medical Center**

Memorandum

TO: Distribution List

FROM: Alan Lovelace, Chief Financial Officer Alan

DATE: May 30, 2012

SUBJECT: 2011 Auditors' Financial Report

Please find enclosed a copy of Stillwater Medical Center's 2011 Independent Auditors' Financial Report and Supplementary Information.

If you have any questions, please contact me at (405) 742-5729. Thank you.

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Stillwater Medical Center Authority

A Component Unit of the City of Stillwater, Oklahoma

Accountants' Reports and Financial Statements

December 31, 2011 and 2010

BKD LLP
CPAs & Advisors

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
December 31, 2011 and 2010

Contents

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Stillwater Medical Center Authority
Stillwater, Oklahoma

We have audited the accompanying balance sheets of Stillwater Medical Center Authority (the Authority), a component unit of the City of Stillwater, Oklahoma, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stillwater Medical Center Authority as of December 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedules listed in the table of contents are presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual companies and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

May 29, 2012

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Management's Discussion and Analysis
Years Ended December 31, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Stillwater Medical Center Authority (the Authority) provides an overview of the Authority's financial activities for the years ended December 31, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and cash equivalents increased in 2011 and 2010 by \$2,463,269 (16.5%) and \$7,872,694 (112.1%), respectively.
- The Authority's net assets increased in 2011 and 2010 by \$12,318,908 (16.6%) and \$6,500,912 (9.6%), respectively.
- The Authority reported operating income in 2011 and 2010 of \$12,692,414 and \$5,934,431, respectively. The operating income in 2011 increased by \$6,757,983 (113.9%) from the operating income reported in 2010. The operating income in 2010 increased by \$2,952,450 (99%) over the operating income reported in 2009.
- Net nonoperating revenues decreased by \$1,014,987 (179.2%) in 2011 compared to 2010 and decreased by \$1,140,025 (66.8%) in 2010 compared to 2009.

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 assets; 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 Assets

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 assets 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 assets and changes in them. The Authority's total net assets—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 assets 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 Assets

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheets. The Authority's net assets increased by $12,318,908 (16.6%) in 2011 over 2010 and increased by $6,500,912 (9.6%) in 2010 over 2009 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Cash and cash equivalents	$ 17,361,359	$ 14,898,090	$ 7,025,396
Patient accounts receivable, net	11,536,078	9,929,422	10,530,217
Investments	29,546,075	23,285,580	23,739,290
Other current assets	3,611,061	2,977,481	3,862,092
Capital assets, net	40,955,235	39,855,937	41,158,781
Other noncurrent assets	7,307,884	8,196,056	8,059,045
Total assets	$ 110,317,692	$ 99,142,566	$ 94,374,821
Liabilities			
Long-term debt (including current portion)	$ 15,127,818	$ 16,583,036	$ 18,161,858
Other current and noncurrent liabilities	8,500,760	8,189,324	8,343,669
Total liabilities	23,628,578	24,772,360	26,505,527
Net Assets			
Invested in capital assets, net of related debt	25,605,624	23,233,892	23,777,895
Restricted – expendable	3,298,976	3,038,518	2,933,775
Restricted – nonexpendable	1,397,505	1,248,884	556,040
Unrestricted	56,387,009	46,848,912	40,601,584
Total net assets	86,689,114	74,370,206	67,869,294
Total liabilities and net assets	$ 110,317,692	$ 99,142,566	$ 94,374,821

A significant change in the Authority's assets in 2011 is the increase in cash and cash equivalents and investments of $8,723,764 (22.8%) as a result of net cash provided by operating activities. Patient accounts receivable, net increased $1,606,656 (16.2%) as a result of increased net patient service revenue due to increased patient volumes.

A significant change in the Authority's assets in 2010 is the increase in cash and cash equivalents of $7,418,984 (24.1%) as a result of not having any significant investments in infrastructure projects during the year and, instead, building cash reserves as a result of net cash provided by operating activities.

Operating Results and Changes in the Authority's Net Assets

In 2011, the Authority's net assets increased by $12,318,908 as shown in Table 2. This increase is made up of several different components and represents an increase of $5,817,996 or 89.5% compared with the increase in net assets for 2010 of $6,500,912. The Authority's change in net assets increased from $4,721,572 in 2009 to $6,500,912 in 2010, an increase of $1,779,340 or 37.7%.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 93,440,137	$ 83,909,797	$ 80,072,023
Gain on investment in joint ventures	727,583	1,763,980	1,780,801
Other operating revenues	5,906,115	4,793,532	2,883,242
Total operating revenues	100,073,835	90,467,309	84,736,066
Operating Expenses			
Salaries, wages and employee benefits	45,071,216	41,447,821	39,397,647
Purchased services and professional fees	11,793,943	12,843,845	16,203,908
Supplies and other expenses	25,304,893	25,049,867	21,027,012
Depreciation and amortization	5,211,369	5,191,345	5,125,518
Total operating expenses	87,381,421	84,532,878	81,754,085
Operating Income	12,692,414	5,934,431	2,981,981
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	323	-	171,891
Gain on investment in joint ventures	70,022	114,135	759,337
Investment income	383,282	1,411,189	1,816,517
Interest expense	(902,133)	(958,843)	(1,041,239)
Total nonoperating revenues (expenses)	(448,506)	566,481	1,706,506
Gifts to Purchase Capital Assets and Other Capital Gifts	75,000	-	33,085
Change in Net Assets	$ 12,318,908	$ 6,500,912	$ 4,721,572

Operating Income

The first component of the overall change in the Authority's net assets is its operating income or loss—generally, the difference between net patient service 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 2011 increased by $6,757,983 or 113.9% as compared to 2010. The primary components of the increased operating income are:

- An increase in net patient service revenue of $9,530,340 (11.4%) as a result of increases in admissions of 3.9%, emergency room visits of 3.7%, births of 2.9% and outpatient surgeries of 18.5%.
- An increase in other operating revenue of $1,112,583 (23.2%) primarily as a result of increased contributions received by the Stillwater Medical Center Foundation and the receipt of Medicaid incentive funds related to implementation of electronic health records.
- An increase in salaries, wages and employee benefits of $3,623,395 (8.7%) as a result of pay increases of 3% with market adjustments of 1.7%. Turnover rate increased 6.29% from 2010. The Authority added 19 full-time equivalent employees to accommodate volume changes mainly in nursing. The Authority also experienced higher self-funded health plan payouts in 2011 compared to 2010.
- A decrease in purchased services and professional fees of $1,049,902 (8.2%) as a result of contracting out professional services in the emergency department.

The operating income for 2010 of $5,934,431 increased by 99.0% as compared to 2009. The Authority recognized an increase in operating revenues of $5,731,243 (6.8%) as a result of increased patient volumes and an increase in operating expenses of $2,778,793 (3.4%) as compared to 2009 due primarily to increased supplies and other expenses and salaries, wages and employee benefits.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of the Authority's investment in joint ventures, investment income and interest expense. Due to market volatility during 2011, the Authority's investment income decreased by $1,027,907 as compared to 2010. During 2010, the Authority's gain on investments in joint ventures decreased by $645,202 as compared to 2009.

The Authority's Cash Flows

Net cash provided by operating activities increased in 2011 by $3,942,232 or 31.8% from 2010. The increase is attributable to increases in inpatient, emergency department, births and outpatient surgery volumes in 2011 as compared to 2010.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the Authority had $40,955,235 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2011, the Authority purchased new equipment costing $5,937,496. At the end of 2010, the Authority had $39,855,937 invested in capital assets, net of accumulated depreciation, and purchased new equipment costing $3,525,799.

Debt

At December 31, 2011 and 2010, the Authority had $15,127,818 and $16,583,036, respectively, in revenue bonds and capital lease obligations outstanding as discussed in *Note 9* to the financial statements. The Authority did not issue new debt in either 2011 or 2010.

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
A Component Unit of the City of Stillwater, Oklahoma
Balance Sheets
December 31, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	$ 17,361,359	$ 14,898,090
Short-term investments	18,845,833	13,534,537
Restricted cash and investments – current	967,748	919,461
Patient accounts receivable, net of allowance; 2011 – $4,890,000, 2010 – $4,625,000	11,536,078	9,929,422
Supplies	1,876,017	1,894,823
Prepaid expenses and other	1,735,044	1,082,658
Total current assets	52,322,079	42,258,991
Noncurrent Cash and Investments		
Held by trustee for debt service	2,617,822	2,638,192
Less amount required to meet current obligations	967,748	919,461
	1,650,074	1,718,731
Other long-term investments	8,082,420	7,112,851
Noncurrent cash and investments, net	9,732,494	8,831,582
Capital Assets, Net	40,955,235	39,855,937
Investments in Joint Ventures	1,850,970	2,318,119
Other Assets		
Deferred financing costs, net	315,719	348,542
Goodwill, net	5,046,576	5,434,776
Other	94,619	94,619
Total other assets	5,456,914	5,877,937
Total assets	$ 110,317,692	$ 99,142,566

See Notes to Financial Statements

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 1,135,439	$ 1,455,218
Accounts payable	2,010,199	2,067,739
Accrued expenses	6,240,561	5,971,585
Estimated amounts due to third-party payers	250,000	150,000
Total current liabilities	9,636,199	9,644,542
Long-Term Debt	13,992,379	15,127,818
Total liabilities	23,628,578	24,772,360
Net Assets		
Invested in capital assets, net of related debt	25,605,624	23,233,892
Restricted – expendable for		
Debt service	2,550,074	2,573,731
Specific operating activities	748,902	464,787
Restricted – nonexpendable permanent endowments	1,397,505	1,248,884
Unrestricted	56,387,009	46,848,912
Total net assets	86,689,114	74,370,206
Total liabilities and net assets	$ 110,317,692	$ 99,142,566

Stillwater Medical Center Authority

A Component Unit of the City of Stillwater, Oklahoma

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – $7,145,893, 2010 – $9,039,343	$ 93,440,137	$ 83,909,797
Gain on investment in joint ventures	727,583	1,763,980
Other	5,906,115	4,793,532
Total operating revenues	100,073,835	90,467,309
Operating Expenses		
Salaries and wages	35,881,066	33,287,400
Employee benefits	9,190,150	8,160,421
Purchased services and professional fees	11,793,943	12,843,845
Supplies and other expenses	25,277,180	25,006,960
Depreciation and amortization	5,211,369	5,191,345
Loss on sale of capital assets	27,713	42,907
Total operating expenses	87,381,421	84,532,878
Operating Income	12,692,414	5,934,431
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	323	-
Gain on investment in joint ventures	70,022	114,135
Investment income	383,282	1,411,189
Interest expense	(902,133)	(958,843)
Total nonoperating revenues (expenses)	(448,506)	566,481
Excess of Revenues over Expenses Before Capital Gifts	12,243,908	6,500,912
Gifts to Purchase Capital Assets and Other Capital Gifts	75,000	-
Change in Net Assets	12,318,908	6,500,912
Net Assets, Beginning of Year	74,370,206	67,869,294
Net Assets, End of Year	$ 86,689,114	$ 74,370,206

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 91,933,481	$ 83,804,592
Payments to suppliers and contractors	(37,679,338)	(36,031,669)
Payments to employees	(45,071,216)	(41,447,821)
Other receipts and payments, net	7,164,569	6,080,162
Net cash provided by operating activities	16,347,496	12,405,264
Noncapital Financing Activities		
Noncapital gifts	323	-
Net cash provided by noncapital financing activities	323	-
Capital and Related Financing Activities		
Capital grants and gifts	75,000	-
Proceeds from disposal of capital assets	20,139	15,415
Principal paid on long-term debt	(1,493,526)	(1,617,132)
Interest paid on long-term debt	(860,538)	(930,956)
Purchase of capital assets	(5,754,712)	(3,886,396)
Net cash used in capital and related financing activities	(8,013,637)	(6,419,069)
Investing Activities		
Change in restricted assets – whose use is limited under bond agreements, net	20,370	(27,141)
Change in investments, net	(6,615,700)	1,217,234
Dividends received from investments in joint ventures	6,300	21,600
Investment income received	718,117	674,806
Net cash provided by (used in) investing activities	(5,870,913)	1,886,499
Increase in Cash and Cash Equivalents	2,463,269	7,872,694
Cash and Cash Equivalents, Beginning of Year	14,898,090	7,025,396
Cash and Cash Equivalents, End of Year	$ 17,361,359	$ 14,898,090

See Notes to Financial Statements

	2011	2010
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 12,692,414	$ 5,934,431
Depreciation and amortization	5,211,369	5,191,345
Loss on sale of capital assets	27,713	42,907
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,606,656)	600,795
Supplies, prepaid expenses and other	(741,686)	468,904
Estimated amounts due to third-party payers	100,000	(706,000)
Other assets	-	17,723
Change in investment in joint ventures	530,871	(495,073)
Accounts payable and accrued expenses	133,471	1,350,232
Net cash provided by operating activities	$ 16,347,496	$ 12,405,264
Supplemental Cash Flows Information		
Capital asset purchases in accounts payable	$ 221,793	$ 39,009
Prepaid expenses in accounts payable	$ -	$ 108,106

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), and 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 a rehabilitation unit, skilled nursing unit and provides home health services in the same geographic area.

The Stillwater Medical Center Foundation, Inc. (the Foundation) is a nonprofit corporation organized to support certain charitable health care activities of the Authority and, accordingly, is included as a component unit in the Authority's financial statements using the blended method. All significant intercompany accounts and transactions between the Authority and the Foundation have been eliminated in the financial statements.

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) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

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; 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 time of acquisition and in nonnegotiable 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 sold and the net change for the year in the fair values 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

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

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 Assets

Net assets of the Authority are classified in four components. Net assets invested in capital assets, net of related debt, consist 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 assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Authority, such as permanent endowments. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the above definitions.

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 (the Code) and a similar provision of state law. The Foundation is generally exempt from income taxes under Section 501 of the Code. The Foundation is also exempt from state income taxes under a similar provision of Oklahoma state statutes. However, the Authority and the Foundation are subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 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, 2009.

- **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 36% and 39% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, $16,611,000 and $14,171,000 of the Authority's bank balances of $21,162,000 and $18,437,000, respectively, were uninsured and uncollateralized. These amounts exclude deposits held by the Authority's blended component unit with bank balances of $1,393,000 and $1,217,000 at December 31, 2011 and 2010, respectively. As a nongovernmental entity, the blended component unit is not subject to collateralization requirements. At December 31, 2011, the blended component unit's cash accounts did not exceed federally insured limits.

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, 2011 and 2010, the Authority had the following investments and maturities:

	December 31, 2011				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
Guaranteed income contract	$ 1,245,000	$ -	$ -	$ 1,245,000	$ -
U.S. Treasury obligations	308,852	-	153,869	53,836	101,147
U.S. agencies obligations	3,550,122	-	856,719	264,955	2,428,448
Corporate bonds	3,540,340	1,400	751,810	2,078,020	709,110
Money market mutual funds	3,645,839	3,645,839	-	-	-
Municipal bonds	10,887	-	-	10,887	-
Mutual funds	5,924,218	5,924,218	-	-	-
	18,225,258	$ 9,571,457	$ 1,762,398	$ 3,652,698	$ 3,238,705
Corporate stocks	6,971,945				
Accrued investment income	81,658				
	$ 25,278,861				

	December 31, 2010				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
Guaranteed income contract	$ 1,245,000	$ -	$ -	$ 1,245,000	$ -
U.S. Treasury obligations	239,540	-	145,196	94,344	-
U.S. agencies obligations	3,004,226	-	1,107,789	148,070	1,748,367
Corporate bonds	3,484,503	59,879	505,579	2,198,179	720,866
Money market mutual funds	2,040,830	2,040,830	-	-	-
Mutual funds	1,759,373	1,759,373	-	-	-
	11,773,472	$ 3,860,082	$ 1,758,564	$ 3,685,593	$ 2,469,233
Corporate stocks	7,242,676				
Accrued investment income	77,967				
	$ 19,094,115				

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 a duration no greater than 7.5 years. The money market mutual funds are presented as an investment with a maturity of less than one year because 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, 2011 and 2010, the Authority's investments not directly guaranteed by the U.S. government were rated as follows:

	2011	
Investments	**Moody's**	**S & P**
Guaranteed investment contract	Not Rated	Not Rated
U.S. agencies obligations	Aaa	Not Rated
Corporate bonds	Baa3–Aa2	BBB–AA+
Money market mutual funds	Aa3–Aaa	AAAm
Municipal bonds	Aa3	AAA
Mutual funds	Not Rated	Not Rated

	2010	
Investments	**Moody's**	**S & P**
Guaranteed investment contract	Not Rated	Not Rated
U.S. agencies obligations	Aaa	Not Rated
Corporate bonds	Baa3–Aaa	BBB–AA+
Money market mutual funds	Aaa	AAAm–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 December 31, 2011, no investments exceeded 5% of the total fair value of all investments. At December 31, 2010, the following investments exceeded 5% of the total fair value of all investments:

	2010	
Investment	Fair Value	Percentage of Total
JPMorgan US Treas Plus Inv 3126	$ 1,386,085	6.0%
FGIC Capital MRK SERV GIC	$ 1,245,000	5.4%

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	$ 21,628,573	$ 19,089,555
Investments	25,278,861	19,094,115
	$ 46,907,434	$ 38,183,670
Included in the following balance sheet captions		
Cash and cash equivalents	$ 17,361,359	$ 14,898,090
Short-term investments	18,845,833	13,534,537
Restricted cash and investments – current	967,748	919,461
Noncurrent cash and investments	9,732,494	8,831,582
	$ 46,907,434	$ 38,183,670

Investment Income (Loss)

Investment income (loss) for the years ended December 31, 2011 and 2010, consisted of:

	2011	2010
Interest, dividends and realized gain on sales of investments	$ 630,136	$ 343,499
Net increase (decrease) in fair value of investments	(246,854)	1,067,690
	$ 383,282	$ 1,411,189

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, 2011 and 2010, consisted of:

	2011	2010
Medicare	$ 2,738,835	$ 3,066,272
Medicaid	515,355	540,584
Other third-party payers	8,227,223	5,909,534
Patients	4,944,665	5,038,032
	16,426,078	14,554,422
Less allowance for uncollectible accounts	4,890,000	4,625,000
	$ 11,536,078	$ 9,929,422

Note 5: Investments in Joint Ventures

The investments in joint ventures relate to a 9% ownership in Heartland Healthcare Reciprocal Risk Retention Group (Heartland) and is accounted for using the equity method of accounting; a 62% ownership in Stillwater Medical Imaging, LLC and is accounted for using the equity method (as the Authority only controls 50% of the entity); a 50% ownership in Women First, LLC and is accounted for using the equity method; and a 9% ownership in Fresenius Medical Care – Stillwater, LLC and is accounted for using the cost method. Financial position and results of operations from unaudited financial statements of the joint venture entities for the fiscal years ended December 31, 2011 and 2010, are summarized below:

	December 31, 2011			
	Heartland	Stillwater Medical Imaging, LLC	Fresenius Medical Care – Stillwater, LLC	Women First, LLC
Current assets	$ 13,383,330	$ 1,699,478	$ 843,956	$ 209,668
Property and other long-term assets, net	101,999	393,244	2,319,475	274,691
Total assets	$ 13,485,329	$ 2,092,722	$ 3,163,431	$ 484,359
Total liabilities	$ 5,361,419	$ 266,955	$ 270,191	$ 279,507
Partners' equity	8,123,910	1,825,767	2,893,240	204,852
Total liabilities and partners' equity	$ 13,485,329	$ 2,092,722	$ 3,163,431	$ 484,359
Revenues	$ 3,294,959	$ 2,566,538	$ 1,747,552	$ 310,918
Excess of revenues over expenses	$ 1,156,919	$ 1,003,345	$ 476,690	$ 184,429

	December 31, 2010			
	Heartland	Stillwater Medical Imaging, LLC	Fresenius Medical Care – Stillwater, LLC	Women First, LLC
Current assets	$ 14,716,073	$ 2,196,897	$ 307,675	$ 269,677
Property and other long-term assets, net	13,998	778,850	2,446,621	377,795
Total assets	$ 14,730,071	$ 2,975,747	$ 2,754,296	$ 647,472
Total liabilities	$ 5,774,564	$ 321,318	$ 267,746	$ 407,049
Partners' equity	8,955,507	2,654,429	2,486,550	240,423
Total liabilities and partners' equity	$ 14,730,071	$ 2,975,747	$ 2,754,296	$ 647,472
Revenues	$ 3,382,756	$ 4,180,086	$ 782,865	$ 431,506
Excess (deficiency) of revenues over expenses	$ 1,835,712	$ 2,672,492	$ (98,424)	$ 320,971

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, 2011 and 2010, the Authority paid approximately $181,700 and $208,000, respectively, to Heartland for the coverage. The Authority's investment in Heartland was $739,949 and $686,127 at December 31, 2011 and 2010, 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 with other operating revenues. Included in accounts receivable of the Authority at December 31, 2011, is approximately $357,000 due from the joint venture. Included in accounts payable of the Authority at December 31, 2010, is approximately $540,000 due to the joint venture. During the years ended December 31, 2011 and 2010, the Authority earned approximately $941,000 and $1,030,000, respectively, in fees from billing and collections services. The Authority's investment in SMI was $763,201 and $1,276,287 at December 31, 2011 and 2010, respectively.

Fresenius Medical Care – Stillwater, LLC (Fresenius) provides dialysis services to residents of Stillwater and the surrounding area. The Authority did not have any transactions with Fresenius during the year. The Authority's investment in Fresenius was $245,395 and $235,495 at December 31, 2011 and 2010, 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 other operating revenues. Included in accounts payable of the Authority at December 31, 2011 and 2010, are approximately $54,000 due to the joint venture. During the years ended December 31, 2011 and 2010, Women First reimbursed the Authority approximately $366,000 and $198,000, respectively, for expenses the Authority incurred to manage its operations. The Authority's investment in Women First was $102,425 and $120,210 at December 31, 2011 and 2010, respectively.

Note 6: Capital Assets

Capital assets activity for the years ended December 31, 2011 and 2010, was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 2,115,409	$ -	$ -	$ -	$ 2,115,409
Land improvements	1,462,807	11,737	(156,613)	-	1,317,931
Buildings and fixed equipment	47,212,772	230,784	(378,069)	4,138,067	51,203,554
Major moveable equipment	47,696,820	3,503,685	(394,979)	-	50,805,526
Construction in progress	2,701,738	2,191,290	-	(4,138,067)	754,961
	101,189,546	5,937,496	(929,661)	-	106,197,381
Less accumulated depreciation					
Land improvements	1,314,893	58,429	(156,308)	-	1,217,014
Buildings and fixed equipment	24,984,693	1,912,892	(378,069)	-	26,519,516
Major moveable equipment	35,034,023	2,819,025	(347,432)	-	37,505,616
	61,333,609	4,790,346	(881,809)	-	65,242,146
	$ 39,855,937	$ 1,147,150	$ (47,852)	$ -	$ 40,955,235

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 2,115,409	$ -	$ -	$ -	$ 2,115,409
Land improvements	1,462,807	-	-	-	1,462,807
Buildings and fixed equipment	46,678,376	302,383	-	232,013	47,212,772
Major moveable equipment	45,745,228	2,403,555	(407,223)	(44,740)	47,696,820
Construction in progress	2,069,150	819,861	-	(187,273)	2,701,738
	98,070,970	3,525,799	(407,223)	-	101,189,546
Less accumulated depreciation					
Land improvements	1,254,581	60,312	-	-	1,314,893
Buildings and fixed equipment	23,369,185	1,615,508	-	-	24,984,693
Major moveable equipment	32,288,423	3,094,502	(348,902)	-	35,034,023
	56,912,189	4,770,322	(348,902)	-	61,333,609
	$ 41,158,781	$ (1,244,523)	$ (58,321)	$ -	$ 39,855,937

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 $157,000 and $57,000 has been made as of December 31, 2011 and 2010, respectively. It is reasonably possible that this estimate could change materially in the near term.

The Authority is a subscriber (member) of Heartland Healthcare Reciprocal Risk Retention Group (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 $100,000 and any amounts over $1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of $100,000 up to $1,000,000.

The Authority is self-insured for risks related to workers' compensation claims up to $350,000 per occurrence with an annual liability limit of $1,000,000 in the aggregate.

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 2011 and 2010 is summarized as follows:

	December 31, 2011	
	Employee Health	Workers' Compensation
Balance, beginning of year	$ 732,015	$ 300,000
Current year claims incurred and changes in estimates for claims incurred in prior years	4,209,871	397,698
Claims and expenses paid	(4,341,886)	(405,017)
Balance, end of year	$ 600,000	$ 292,681

	December 31, 2010	
	Employee Health	Workers' Compensation
Balance, beginning of year	$ 1,000,000	$ 250,000
Current year claims incurred and changes in estimates for claims incurred in prior years	3,482,439	422,086
Claims and expenses paid	(3,750,424)	(372,086)
Balance, end of year	$ 732,015	$ 300,000

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 2003 Hospital Revenue Bonds (A)	$ 7,000,000	$ -	$ -	$ 7,000,000	$ -
Series 2005 Hospital Revenue Bonds (B)	8,990,000	-	855,000	8,135,000	900,000
Capital lease obligations	912,273	-	638,526	273,747	273,747
Total long-term debt	16,902,273	-	1,493,526	15,408,747	1,173,747
Loss on bond defeasance	(489,192)	-	(58,703)	(430,489)	(58,703)
Original issue premium	169,955	-	20,395	149,560	20,395
Total long-term obligations	$ 16,583,036	$ -	$ 1,455,218	$ 15,127,818	$ 1,135,439

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 2003 Hospital Revenue Bonds (A)	$ 7,000,000	$ -	$ -	$ 7,000,000	$ -
Series 2005 Hospital Revenue Bonds (B)	9,805,000	-	815,000	8,990,000	855,000
Capital lease obligations	1,714,405	-	802,132	912,273	638,526
Total long-term debt	18,519,405	-	1,617,132	16,902,273	1,493,526
Loss on bond defeasance	(547,895)	-	(58,703)	(489,192)	(58,703)
Original issue premium	190,348	-	20,393	169,955	20,395
Total long-term obligations	$ 18,161,858	$ -	$ 1,578,822	$ 16,583,036	$ 1,455,218

Revenue Bonds Payable – Series 2003

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

Revenue Bonds Payable – Series 2005

The Series 2005 revenue bonds payable consist of Hospital Revenue Bonds (Bonds) in the original amount of $12,715,000 dated March 1, 2005, which bear interest semiannually at 4.50% to 5.25%. The Bonds are payable in annual installments through May 15, 2019. The Authority is required to make monthly deposits of approximately $95,700 to the debt service fund held by the trustee. The Bonds are secured by the gross revenues of the Authority 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 1.1 to 1.0 and restrictions on incurrence of additional debt.

The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31, 2011	Total to be Paid	Principal	Interest
2012	$ 1,689,350	$ 900,000	$ 789,350
2013	1,690,788	950,000	740,788
2014	1,679,862	990,000	689,862
2015	1,686,312	1,050,000	636,312
2016	1,679,875	1,100,000	579,875
2017–2021	8,411,751	6,350,000	2,061,751
2022–2023	4,137,280	3,795,000	342,280
	$ 20,975,218	$ 15,135,000	$ 5,840,218

Capital Lease Obligations

The Authority is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2011 and 2010, totaled $3,099,762 and $3,115,241, net of accumulated depreciation of $1,691,307 and $1,366,609, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 4.04% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31, 2011	
2012	$ 276,518
Total minimum lease payments	276,518
Less amount representing interest	2,771
Present value of future minimum lease payments	$ 273,747

Note 10: Restricted Net Assets

At December 31, 2011 and 2010, restricted net assets were available for the following purposes:

	2011	2010
Debt service	$ 2,550,074	$ 2,573,731
Specific operating activities	748,902	464,787
	3,298,976	3,038,518
Restricted – nonexpendable permanent endowments	1,397,505	1,248,884
Total restricted net assets	$ 4,696,481	$ 4,287,402

At December 31, 2011 and 2010, $209,699 and $284,756, respectively, of unrestricted net assets have been designated by the Authority's Board of Trustees for capital acquisitions. Designated net assets remain under control of the Board of Trustees, which may at its discretion later use these net assets for other purposes.

Note 11: 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 charges relating to these services are approximately as follows:

	2011	2010
Charity allowances	$ 5,178,000	$ 3,540,000
State Medicaid and other public aid programs	16,623,000	14,515,000
	$ 21,801,000	$ 18,055,000

In addition to uncompensated charges, 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 screening and assessments, prenatal education and care, community educational services and various support groups.

Note 12: Operating Leases

Noncancellable operating leases for equipment and building space expire in various years through October 2019. 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, 2011, were approximately:

2012	$ 626,000
2013	589,000
2014	606,000
2015	610,000
2016	615,000
2017–2019	762,000
Future minimum lease payments	$ 3,808,000

Rental expense for the years ended December 31, 2011 and 2010, was approximately $1,354,000 and $1,424,000, respectively.

Note 13: 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 2011 and 2010, respectively. Contributions actually made by plan members and the Authority aggregated approximately $817,000 and $1,650,000 during 2011 and $749,000 and $1,498,000 during 2010, respectively.

Note 14: 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. The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2011 and 2010, were:

	2011	2010
Goodwill	$ 5,822,976	$ 5,822,976
Accumulated amortization	776,400	388,200
	$ 5,046,576	$ 5,434,776

Note 15: Risks and Uncertainties

Current Economic Conditions

The current economic situation continues to present health care providers with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Authority's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Authority's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Authority's ability to meet debt covenants or maintain sufficient liquidity.

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.

Subsequent Event

On January 17, 2012, the Centers for Medicare and Medicaid Services (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, 2014. 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. Based on preliminary estimates, the Authority will receive approximately $2,991,000 in SHOPP funds and pay the SHOPP assessment fee of approximately $1,655,000 annually. As final approval by CMS was not obtained as of December 31, 2011, the accompanying 2011 financial statements do not include any activity related to the SHOPP program.

Stillwater Medical Center Authority

A Component Unit of the City of Stillwater, Oklahoma

Combining Schedule – Balance Sheet Information

December 31, 2011

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Assets					
Current Assets					
Cash and cash equivalents	$ 17,310,235	$ 51,124	$ 17,361,359	$ -	$ 17,361,359
Short-term investments	16,654,297	2,191,536	18,845,833	-	18,845,833
Restricted cash and investments – current	967,748	-	967,748	-	967,748
Patient accounts receivable, net of allowance	11,536,078	-	11,536,078	-	11,536,078
Supplies	1,876,017	-	1,876,017	-	1,876,017
Prepaid expenses and other	919,447	815,597	1,735,044	-	1,735,044
Total current assets	49,263,822	3,058,257	52,322,079	-	52,322,079
Noncurrent Cash and Investments					
Held by trustee for debt service	2,617,822	-	2,617,822	-	2,617,822
Less amount required to meet current obligations	967,748	-	967,748	-	967,748
	1,650,074	-	1,650,074	-	1,650,074
Other long-term investments	7,387,765	694,655	8,082,420	-	8,082,420
Noncurrent cash and investments, net	9,037,839	694,655	9,732,494	-	9,732,494
Capital Assets, Net	40,955,235	-	40,955,235	-	40,955,235
Investments in Joint Ventures	1,850,970	-	1,850,970	-	1,850,970
Other Assets					
Deferred financing costs, net	315,719	-	315,719	-	315,719
Goodwill, net	5,046,576	-	5,046,576	-	5,046,576
Other	-	94,619	94,619	-	94,619
Total other assets	5,362,295	94,619	5,456,914	-	5,456,914
Total assets	$ 106,470,161	$ 3,847,531	$ 110,317,692	$ -	$ 110,317,692

Liabilities and Net Assets

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Current Liabilities					
Current maturities of long-term debt	$ 1,135,439	$ -	$ 1,135,439	$ -	$ 1,135,439
Accounts payable	2,010,199	-	2,010,199	-	2,010,199
Accrued expenses	6,240,561	-	6,240,561	-	6,240,561
Estimated amounts due to third-party payers	250,000	-	250,000	-	250,000
Total current liabilities	9,636,199	-	9,636,199	-	9,636,199
Long-Term Debt	13,992,379	-	13,992,379	-	13,992,379
Total liabilities	23,628,578	-	23,628,578	-	23,628,578
Net Assets					
Invested in capital assets, net of related debt	25,605,624	-	25,605,624	-	25,605,624
Restricted – expendable for					
Debt service	2,550,074	-	2,550,074	-	2,550,074
Specific operating activities	-	748,902	748,902	-	748,902
Restricted – nonexpendable permanent endowments	-	1,397,505	1,397,505	-	1,397,505
Unrestricted	54,685,885	1,701,124	56,387,009	-	56,387,009
Total net assets	82,841,583	3,847,531	86,689,114	-	86,689,114
Total liabilities and net assets	$ 106,470,161	$ 3,847,531	$ 110,317,692	$ -	$ 110,317,692

Stillwater Medical Center Authority

A Component Unit of the City of Stillwater, Oklahoma

Combining Schedule – Balance Sheet Information

December 31, 2010

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Assets					
Current Assets					
Cash and cash equivalents	$ 14,692,142	$ 205,948	$ 14,898,090	$ -	$ 14,898,090
Short-term investments	11,091,657	2,442,880	13,534,537	-	13,534,537
Restricted cash and investments – current	919,461	-	919,461	-	919,461
Patient accounts receivable, net of allowance	9,929,422	-	9,929,422	-	9,929,422
Supplies	1,894,823	-	1,894,823	-	1,894,823
Prepaid expenses and other	1,027,279	55,379	1,082,658	-	1,082,658
Total current assets	39,554,784	2,704,207	42,258,991	-	42,258,991
Noncurrent Cash and Investments					
Held by trustee for debt service	2,638,192	-	2,638,192	-	2,638,192
Less amount required to meet current obligations	919,461	-	919,461	-	919,461
	1,718,731	-	1,718,731	-	1,718,731
Other long-term investments	6,668,390	444,461	7,112,851	-	7,112,851
Noncurrent cash and investments, net	8,387,121	444,461	8,831,582	-	8,831,582
Capital Assets, Net	39,855,937	-	39,855,937	-	39,855,937
Investments in Joint Ventures	2,318,119	-	2,318,119	-	2,318,119
Other Assets					
Deferred financing costs, net	348,542	-	348,542	-	348,542
Goodwill, net	5,434,776	-	5,434,776	-	5,434,776
Other	-	94,619	94,619	-	94,619
Total other assets	5,783,318	94,619	5,877,937	-	5,877,937
Total assets	$ 95,899,279	$ 3,243,287	$ 99,142,566	$ -	$ 99,142,566

Liabilities and Net Assets

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Current Liabilities					
Current maturities of long-term debt	$ 1,455,218	$ -	$ 1,455,218	$ -	$ 1,455,218
Accounts payable	2,067,739	-	2,067,739	-	2,067,739
Accrued expenses	5,971,585	-	5,971,585	-	5,971,585
Estimated amounts due to third-party payers	150,000	-	150,000	-	150,000
Total current liabilities	9,644,542	-	9,644,542	-	9,644,542
Long-Term Debt	15,127,818	-	15,127,818	-	15,127,818
Total liabilities	24,772,360	-	24,772,360	-	24,772,360
Net Assets					
Invested in capital assets, net of related debt	23,233,892	-	23,233,892	-	23,233,892
Restricted – expendable for					
Debt service	2,573,731	-	2,573,731	-	2,573,731
Specific operating activities	-	464,787	464,787	-	464,787
Restricted – nonexpendable permanent endowments	-	1,248,884	1,248,884	-	1,248,884
Unrestricted	45,319,296	1,529,616	46,848,912	-	46,848,912
Total net assets	71,126,919	3,243,287	74,370,206	-	74,370,206
Total liabilities and net assets	$ 95,899,279	$ 3,243,287	$ 99,142,566	$ -	$ 99,142,566

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Combining Schedule – Statement of Revenues, Expenses and Changes in Net Assets Information
Year Ended December 31, 2011

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	$ 93,440,137	$ -	$ 93,440,137	$ -	$ 93,440,137
Gain on investment in joint ventures	727,583	-	727,583	-	727,583
Other	4,824,872	1,217,881	6,042,753	(136,638)	5,906,115
Total operating revenues	98,992,592	1,217,881	100,210,473	(136,638)	100,073,835
Operating Expenses					
Salaries and wages	36,017,704	-	36,017,704	(136,638)	35,881,066
Employee benefits	9,190,150	-	9,190,150	-	9,190,150
Purchased services and professional fees	11,793,943	-	11,793,943	-	11,793,943
Supplies and other expenses	24,986,565	592,974	25,579,539	(302,359)	25,277,180
Depreciation and amortization	5,211,369	-	5,211,369	-	5,211,369
Loss on sale of capital assets	27,713	-	27,713	-	27,713
Total operating expenses	87,227,444	592,974	87,820,418	(438,997)	87,381,421
Operating Income	11,765,148	624,907	12,390,055	302,359	12,692,414
Nonoperating Revenues (Expenses)					
Noncapital grants and gifts	189,712	-	189,712	(189,389)	323
Gain on investment in joint ventures	70,022	-	70,022	-	70,022
Investment income	403,945	(20,663)	383,282	-	383,282
Interest expense	(902,133)	-	(902,133)	-	(902,133)
Total nonoperating revenues (expenses)	(238,454)	(20,663)	(259,117)	(189,389)	(448,506)
Excess of Revenues over Expenses Before Capital Gifts	11,526,694	604,244	12,130,938	112,970	12,243,908
Gifts to Purchase Capital Assets and Other Capital Gifts	187,970	-	187,970	(112,970)	75,000
Change in Net Assets	11,714,664	604,244	12,318,908	-	12,318,908
Net Assets, Beginning of Year	71,126,919	3,243,287	74,370,206	-	74,370,206
Net Assets, End of Year	$ 82,841,583	$ 3,847,531	$ 86,689,114	$ -	$ 86,689,114

Stillwater Medical Center Authority

A Component Unit of the City of Stillwater, Oklahoma

Combining Schedule – Statement of Revenues, Expenses and Changes in Net Assets Information

Year Ended December 31, 2010

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	$ 83,909,797	$ -	$ 83,909,797	$ -	$ 83,909,797
Gain on investment in joint ventures	1,763,980	-	1,763,980	-	1,763,980
Other	3,958,459	981,174	4,939,633	(146,101)	4,793,532
Total operating revenues	89,632,236	981,174	90,613,410	(146,101)	90,467,309
Operating Expenses					
Salaries and wages	33,433,501	-	33,433,501	(146,101)	33,287,400
Employee benefits	8,160,421	-	8,160,421	-	8,160,421
Purchased services and professional fees	12,843,845	-	12,843,845	-	12,843,845
Supplies and other expenses	24,746,745	260,215	25,006,960	-	25,006,960
Depreciation and amortization	5,191,345	-	5,191,345	-	5,191,345
Loss on sale of capital assets	42,907	-	42,907	-	42,907
Total operating expenses	84,418,764	260,215	84,678,979	(146,101)	84,532,878
Operating Income	5,213,472	720,959	5,934,431	-	5,934,431
Nonoperating Revenues (Expenses)					
Noncapital grants and gifts	-	-	-	-	-
Gain on investment in joint ventures	114,135	-	114,135	-	114,135
Investment income	1,214,840	196,349	1,411,189	-	1,411,189
Interest expense	(958,843)	-	(958,843)	-	(958,843)
Total nonoperating revenues (expenses)	370,132	196,349	566,481	-	566,481
Excess of Revenues over Expenses Before Capital Gifts	5,583,604	917,308	6,500,912	-	6,500,912
Change in Net Assets	5,583,604	917,308	6,500,912	-	6,500,912
Net Assets, Beginning of Year	65,543,315	2,325,979	67,869,294	-	67,869,294
Net Assets, End of Year	$ 71,126,919	$ 3,243,287	$ 74,370,206	$ -	$ 74,370,206

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Independent Accountants' 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
Stillwater, Oklahoma

We have audited the financial statements of Stillwater Medical Center Authority (the Authority) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 29, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a deficiency in internal control over financial reporting described in the accompanying schedule of findings and responses as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Board of Trustees
Stillwater Medical Center Authority

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 also noted certain matters that we reported to the Authority's management in a separate letter dated May 29, 2012.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 29, 2012

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Schedule of Findings and Responses
Year Ended December 31, 2011

Reference Number	Finding
2011-1	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting. Condition – The business office supervisor, payment posters, lockbox coordinators and data entry team leaders have incompatible duties in the patient revenues, cash receipts and accounts receivable transactions cycle. Context – The business office supervisor has access to payments received and has the ability to authorize and record discounts or adjustments to patient accounts. The payment posters, lockbox coordinators and data entry team leaders have access to payments received and have the ability to record discounts or adjustments to patient accounts. In addition, there is no documentation to verify only authorized discounts or adjustments to patient accounts are being recorded. Effect – Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Cause – Duties in the patient revenues, cash receipts and accounts receivable transactions cycle are not adequately segregated and monitoring or other compensating controls are insufficient. Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make any changes deemed appropriate that are cost beneficial within the next year.