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, 2016 and 2015

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, 2016 and 2015

Contents

Independent Auditor's Report 1

Management's Discussion and Analysis 3

Financial Statements

Balance Sheets 8

Statements of Revenues, Expenses and Changes in Net Position 9

Statements of Cash Flows 10

Notes to Financial Statements 11

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* 34

Schedule of Findings and Responses 36

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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 financial statements of Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority), a component unit of the City of Stillwater, Oklahoma, as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Stillwater Medical Center Authority d/b/a Stillwater Medical Center as of December 31, 2016 and 2015, 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.

Emphasis of Matter

As discussed in *Note 15* to the financial statements, in 2016, the Authority changed its method of accounting for goodwill as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, 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 audits 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 30, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 30, 2017

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, 2016 and 2015

Introduction

This management's discussion and analysis of the financial performance of Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority), a component unit of the City of Stillwater, Oklahoma, provides an overview of the Authority's financial activities for the years ended December 31, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and cash equivalents decreased in 2016 by $1,090,882 (3.2%) and increased in 2015 by $13,608,158 (66.7%).
- The Authority's net position increased in 2016 and 2015 by $21,712,145 (15.2%) and $18,403,677 (14.8%), respectively.
- The Authority reported operating income in 2016 and 2015 of $17,893,232 and $19,015,227, respectively. The operating income in 2016 decreased by $1,121,995 (5.9%) from the operating income reported in 2015. The operating income in 2015 increased by $4,881,595 (34.5%) from the operating income reported in 2014.
- Nonoperating revenues (expenses) increased by $3,706,617 (449%) in 2016 compared to 2015 and decreased by $2,705,969 (143.9%) in 2015 compared to 2014.

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 deferred outflows of resources and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in it. The Authority's total net position—the difference between assets and deferred outflows of resources 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 deferred outflows of resources and liabilities reported in the balance sheet. The Authority's net position increased by $21,712,145 (15.2%) in 2016 over 2015 and increased by $18,403,677 (14.8%) in 2015 over 2014 as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities and Net Position

	2016	2015 (Restated – *Note 15*)	2014 (Restated – *Note 15*)
Assets			
Cash and cash equivalents	$ 32,924,638	$ 34,015,520	$ 20,407,362
Patient accounts receivable, net	20,281,637	16,930,847	18,007,198
Investments	46,784,647	43,014,221	46,136,650
Other current assets	7,321,319	5,034,990	4,673,622
Capital assets, net	75,854,361	62,598,074	55,908,689
Other assets	3,389,692	3,436,273	2,060,660
Total assets	186,556,294	165,029,925	147,194,181
Deferred Outflows of Resources	6,810,803	5,159,962	6,418,127
Total assets and deferred outflows of resources	$ 193,367,097	$ 170,189,887	$ 153,612,308
Liabilities			
Long-term debt (including current portion)	$ 12,152,772	$ 14,070,486	$ 16,218,411
Other current liabilities	16,628,836	13,246,057	12,924,230
Total liabilities	28,781,608	27,316,543	29,142,641
Net Position			
Net investment in capital assets	62,393,006	48,452,215	38,655,032
Restricted – expendable	2,245,834	2,153,382	1,761,667
Unrestricted	99,946,649	92,267,747	84,052,968
Total net position	164,585,489	142,873,344	124,469,667
Total liabilities and net position	$ 193,367,097	$ 170,189,887	$ 153,612,308

A significant change in the Authority's assets in 2016 is the decrease in cash and cash equivalents of $1,090,882 (3.2%), the results of which are described in the Authority's cash flows disclosure on page 6. Investments increased $3,770,426 (8.8%) as a result of higher performance in investment markets. Capital assets increased $13,256,287 (21.2%) primarily due to ongoing construction projects and the purchase of equipment.

A significant change in the Authority's assets in 2015 is the increase in cash and cash equivalents of $13,608,158 (66.7%), the results of which are described in the Authority's cash flows disclosure on page 6. Investments decreased $3,122,429 (6.8%) as a result of lower performance in investment markets as well as the Authority's transfer of certain investments to cash equivalents. Capital assets increased $6,689,385 (12.0%) primarily due to ongoing construction projects and the purchase of equipment.

Operating Results and Changes in the Authority's Net Position

In 2016, the Authority's net position increased by $21,712,145 as shown in Table 2. This increase is made up of several different components and represents an increase of $3,308,468 (18.0%) compared with the increase in net position for 2015 of $18,403,677. The Authority's change in net position increased from $16,014,051 in 2014 to $18,403,677 in 2015, an increase of $2,389,626 (14.9%).

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Net patient service revenue	$ 157,825,578	$ 150,085,978	$ 137,164,637
Gain on investment in joint venture	868,925	1,192,750	1,179,827
Other	5,073,672	3,602,706	4,717,442
Total operating revenues	163,768,175	154,881,434	143,061,906
Operating Expenses			
Salaries, wages and employee benefits	79,526,025	72,290,999	66,984,023
Purchased services and professional fees	15,839,148	16,132,807	16,994,765
Supplies and other expenses	41,653,719	38,831,425	36,586,723
Depreciation and amortization	8,856,051	8,610,976	8,362,763
Total operating expenses	145,874,943	135,866,207	128,928,274
Operating Income	17,893,232	19,015,227	14,133,632
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	20,909	136,800	4,542
Gain (loss) on investments in joint ventures	90,898	(108,002)	7,653
Investment income (loss)	2,991,155	(682,142)	2,609,543
Interest expense and financing costs	(221,895)	(172,206)	(741,319)
Total nonoperating revenues (expenses)	2,881,067	(825,550)	1,880,419
Capital Gifts	1,532,436	214,000	-
Capital Contribution to the City of Stillwater, Oklahoma	(594,590)	-	-
Increase in Net Position	$ 21,712,145	$ 18,403,677	$ 16,014,051

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 operating income.

Operating income for 2016 decreased by $1,121,995 (5.9%) as compared to 2015. The primary components of the decreased operating income are:

- An increase in net patient service revenue of $7,739,600 (5.2%) as a result of higher inpatient, outpatient and clinic volumes during 2016
- An increase in salaries, wages and employee benefits of $7,235,026 (10.0%) as a result of pay increases in combination with the additional employees needed to cover the increase in patient volumes
- An increase in supplies and other expenses of $2,822,294 (7.3%) as a result of the increased use of supplies due to corresponding higher patient volumes

Operating income for 2015 increased by $4,881,595 (34.5%) as compared to 2014. The primary components of the increased operating income are:

- An increase in net patient service revenue of $12,921,341 (9.4%) as a result of higher inpatient, outpatient and clinic volumes during 2015
- An increase in salaries, wages and employee benefits of $5,306,976 (7.9%) as a result of pay increases in combination with the additional employees needed to cover the increase in patient volumes
- An increase in supplies and other expenses of $2,244,702 (6.1%) as a result of the increased use of supplies due to corresponding higher patient volumes

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of the Authority's investments in joint ventures, investment income, noncapital grants and gifts and interest expense. In 2016, the Authority's investment income increased by $3,673,297 compared to 2015 due to higher performance in investment markets. In 2015, the Authority's investment income decreased by $3,291,685 compared to 2014 due to lower performance in investment markets.

The Authority's Cash Flows

Net cash provided by operating activities decreased in 2016 by $4,419,735 (15.9%) compared to 2015. The decrease is attributable to payments to suppliers, contractors and employees outpacing increases in receipts from patients. A significant portion of the cash generated from operating activities was reinvested back into the facility through construction projects, new equipment purchases and infrastructure improvements and the purchase of the cancer center. Therefore, the Authority's overall cash position decrease is primarily attributable to the cash provided by operating activities.

Capital Asset and Debt Administration

Capital Assets

At the end of 2016, the Authority had $75,854,361 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2016, the Authority invested $14,044,973 into ongoing construction projects and purchased new equipment and infrastructure improvements costing $7,329,661. Of this amount, $1,829,653 was acquired through incursion of capital lease obligations.

At the end of 2015, the Authority had $62,598,074 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2015, the Authority invested $6,673,178 into ongoing construction projects and purchased new equipment and infrastructure improvements costing $7,376,910. Of this amount, $1,185,428 was acquired through incursion of capital lease obligations.

Debt

At December 31, 2016 and 2015, the Authority had $12,152,772 and $14,070,486, respectively, in revenue bonds and capital lease obligations outstanding as discussed in *Note 9* to the financial statements. The Authority incurred $1,829,653 and $1,185,428 of new debt in 2016 and 2015, respectively, related to 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, 2016 and 2015

Assets and Deferred Outflows of Resources

	2016	2015 (Restated – *Note 15*)
Current Assets		
Cash and cash equivalents	$ 32,924,638	$ 34,015,520
Short-term investments	24,448,242	24,226,181
Restricted cash and investments – current	2,410,654	2,348,904
Patient accounts receivable, net of allowance; 2016 – $5,308,000, 2015 – $5,116,000	20,281,637	16,930,847
Supplies	4,358,040	3,306,429
Estimated amounts due from third-party payers	-	320,000
Prepaid expenses and other	2,963,279	1,408,561
Total current assets	87,386,490	82,556,442
Noncurrent Cash and Investments		
Held by trustee for debt service	2,259,259	2,171,253
Held by trustee for specific operating activities	300,000	300,000
	2,559,259	2,471,253
Less amount required to meet current obligations	2,410,654	2,348,904
	148,605	122,349
Other long-term investments	19,777,146	16,316,787
Noncurrent cash and investments, net	19,925,751	16,439,136
Capital Assets, Net	75,854,361	62,598,074
Other Assets		
Investments in joint ventures	2,189,130	2,405,932
Other	1,200,562	1,030,341
Total other assets	3,389,692	3,436,273
Deferred Outflows of Resources	6,810,803	5,159,962
Total assets and deferred outflows of resources	$ 193,367,097	$ 170,189,887

Liabilities and Net Position

	2016	2015 (Restated – *Note 15*)
Current Liabilities		
Current maturities of long-term debt	$ 4,069,083	$ 3,575,337
Accounts payable	5,398,426	3,669,050
Accrued expenses	11,230,410	9,577,007
Total current liabilities	20,697,919	16,821,394
Long-Term Debt	8,083,689	10,495,149
Total liabilities	28,781,608	27,316,543
Net Position		
Net investment in capital assets	62,393,006	48,452,215
Restricted – expendable for		
Debt service	1,945,834	1,853,382
Specific operating activities	300,000	300,000
Unrestricted	99,946,649	92,267,747
Total net position	164,585,489	142,873,344
Total liabilities and net position	$ 193,367,097	$ 170,189,887

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, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 – $15,151,917, 2015 – $12,724,605	$ 157,825,578	$ 150,085,978
Gain on investment in joint venture	868,925	1,192,750
Other	5,073,672	3,602,706
Total operating revenues	163,768,175	154,881,434
Operating Expenses		
Salaries and wages	62,131,059	56,446,187
Employee benefits	17,394,966	15,844,812
Purchased services and professional fees	15,839,148	16,132,807
Supplies and other expenses	41,641,225	38,829,039
Depreciation and amortization	8,856,051	8,610,976
Loss on sale of capital assets	12,494	2,386
Total operating expenses	145,874,943	135,866,207
Operating Income	17,893,232	19,015,227
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	20,909	136,800
Gain (loss) on investments in joint ventures	90,898	(108,002)
Investment income (loss)	2,991,155	(682,142)
Interest expense and financing costs	(221,895)	(172,206)
Total nonoperating revenues (expenses)	2,881,067	(825,550)
Excess of Revenues over Expenses Before Capital Gifts and Contribution	20,774,299	18,189,677
Capital Gifts	1,532,436	214,000
Capital Contribution to the City of Stillwater, Oklahoma	(594,590)	-
Increase in Net Position	21,712,145	18,403,677
Net Position, Beginning of Year	142,873,344	124,469,667
Net Position, End of Year	$ 164,585,489	$ 142,873,344

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, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	$ 154,794,788	$ 150,772,329
Payments to suppliers and contractors	(60,024,363)	(53,231,352)
Payments to employees	(77,604,574)	(74,464,826)
Other receipts and payments, net	6,232,747	4,742,182
Net cash provided by operating activities	23,398,598	27,818,333
Noncapital Financing Activities		
Noncapital gifts	20,909	136,800
Net cash provided by noncapital financing activities	20,909	136,800
Capital and Related Financing Activities		
Capital gifts	1,532,436	214,000
Proceeds from disposal of capital assets	4,375	5,506
Principal paid on long-term debt	(3,747,367)	(3,333,353)
Interest paid on long-term debt	(226,341)	(176,385)
Purchase of capital assets	(16,935,771)	(13,097,030)
Net cash used in capital and related financing activities	(19,372,668)	(16,387,262)
Investing Activities		
Purchases of restricted assets whose use is limited under bond agreements	(3,101,472)	(3,354,546)
Proceeds from disposition of restricted assets whose use is limited under bond agreements	3,013,466	3,267,010
Purchases of investments	(9,431,210)	(22,699,527)
Proceeds from disposition of investments	7,703,352	24,587,544
Advances to and investments in joint ventures	17,550	(400,000)
Acquisition of cancer center	(4,376,000)	-
Investment income received	1,036,593	939,806
Net cash provided by (used in) investing activities	(5,137,721)	2,340,287
Increase (Decrease) in Cash and Cash Equivalents	(1,090,882)	13,908,158
Cash and Cash Equivalents, Beginning of Year	34,015,520	20,107,362
Cash and Cash Equivalents, End of Year	$ 32,924,638	$ 34,015,520

	2016	2015
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 17,893,232	$ 19,015,227
Depreciation and amortization	8,856,051	8,610,976
Accrued self-insurance costs	(263,602)	1,068,259
Loss on sale of capital assets	12,494	2,386
Provision for uncollectible accounts	15,151,917	12,724,605
Changes in operating assets and liabilities		
Patient accounts receivable	(18,502,707)	(11,648,254)
Supplies, prepaid expenses and other assets	(2,776,554)	(1,071,709)
Estimated amounts due to/from third-party payers	320,000	(390,000)
Change in investments in joint ventures	290,150	(53,274)
Accounts payable and accrued expenses	2,417,617	(439,883)
Net cash provided by operating activities	$ 23,398,598	$ 27,818,333
Noncash Investing, Capital and Financing Activities		
Capital asset purchases in accounts payable	$ 1,308,583	$ 75,373
Capital lease obligations incurred for equipment	$ 1,829,653	$ 1,185,428
Capital contribution to the City of Stillwater, Oklahoma (see *Note 6*)	$ 594,590	$ -

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

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers.

Included in restricted cash and investments – current on the accompanying balance sheets are money market mutual funds with brokers the Authority does not consider cash equivalents.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to 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 acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

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

Deferred Outflows of Resources

The Authority reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

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

Net Position

Net position of the Authority is classified in 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 Programs

The Electronic Health Records Incentive Programs, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provide 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 on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are 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 on an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the programs.

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 Medicare program and recorded incentive revenue of approximately $365,000 in 2015, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position. The Authority completed all requirements under the Medicaid program in 2014.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2020. The SHOPP 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, the Authority had the following activity related to the SHOPP:

	2016	2015
SHOPP funds received	$ 4,668,000	$ 4,511,000
SHOPP assessment fees paid	3,793,000	2,452,000
Net benefit under SHOPP	$ 875,000	$ 2,059,000

The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different than the net amounts received in 2016. SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These 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. 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 patient's 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, 2013.

- **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 61% and 57% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, approximately $5,942,000 and $4,993,000 of the Authority's bank balances of $6,726,000 and $10,451,000, 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, the Authority had the following investments and maturities:

	December 31, 2016				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
U.S. Treasury obligations	$ 2,654,504	$ -	$ 655,919	$ 663,942	$ 1,334,643
U.S. agencies obligations	4,455,373	-	412,063	972,437	3,070,873
Corporate bonds	5,091,891	101,540	2,283,818	819,588	1,886,945
Money market mutual funds	27,508,328	27,508,328	-	-	-
Mutual funds – fixed income	7,918,548	-	3,321,766	4,596,782	-
Mutual funds – domestic equities	7,665,244	7,665,244	-	-	-
Mutual funds – international equities	1,926,940	1,926,940	-	-	-
	57,220,828	$ 37,202,052	$ 6,673,566	$ 7,052,749	$ 6,292,461
Corporate stocks	14,332,792				
Accrued investment income	104,826				
Total investments	$ 71,658,446				

	December 31, 2015				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
U.S. Treasury obligations	$ 1,988,013	$ -	$ 815,005	$ 453,789	$ 719,219
U.S. agencies obligations	3,383,851	344,008	261,331	472,890	2,305,622
Corporate bonds	5,120,619	-	1,821,522	1,523,036	1,776,061
Money market mutual funds	30,925,147	30,925,147	-	-	-
Mutual funds – fixed income	6,468,313	-	2,721,921	3,746,392	-
Mutual funds – domestic equities	6,053,186	6,053,186	-	-	-
Mutual funds – international equities	1,550,505	1,550,505	-	-	-
	55,489,634	$ 38,872,846	$ 5,619,779	$ 6,196,107	$ 4,800,902
Corporate stocks	11,815,664				
Accrued investment income	99,100				
Total investments	$ 67,404,398				

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 overall portfolio duration no greater than 7.5 years. The money market mutual funds are presented as an investment with a maturity of less than one year because 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, 2016 and 2015, the Authority's investments not directly guaranteed by the U.S. government were rated as follows:

	2016	
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	AAAm
Mutual funds	Not Rated	Not Rated

Investments	2015 Moody's	2015 S & P
U.S. agencies obligations	Aaa	AA+
Corporate bonds	Not rated to Aaa	Not rated to AAA
Money market mutual funds	Aaa	AAAm
Mutual funds	Not Rated	Not Rated

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

Concentration of Credit Risk – The Authority limits exposure of the portfolio to any one issuer, other than 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, 2016 and 2015, 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:

	2016	2015
Carrying value		
Deposits	$ 8,050,839	$ 9,625,343
Investments	71,658,446	67,404,398
	$ 79,709,285	$ 77,029,741
Included in the following balance sheet captions		
Cash and cash equivalents	$ 32,924,638	$ 34,015,520
Short-term investments	24,448,242	24,226,181
Restricted cash and investments – current	2,410,654	2,348,904
Noncurrent cash and investments	19,925,751	16,439,136
	$ 79,709,285	$ 77,029,741

Investment Income

Investment income for the years ended December 31 consisted of:

	2016	2015
Interest, dividends and realized gain on sales of investments	$ 1,594,328	$ 1,436,887
Net increase (decrease) in fair value of investments	1,396,827	(2,119,029)
	$ 2,991,155	$ (682,142)

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 consisted of:

	2016	2015
Medicare	$ 4,402,868	$ 3,157,465
Medicaid	931,959	1,130,165
Other third-party payers	12,104,827	11,271,480
Patients	8,149,983	6,487,737
	25,589,637	22,046,847
Less allowance for uncollectible accounts	5,308,000	5,116,000
	$ 20,281,637	$ 16,930,847

Note 5: Investments in Joint Ventures

The investments in joint ventures relate to an approximate 10% ownership in Heartland Healthcare Reciprocal Risk Retention Group (Heartland), which is accounted for using the equity method; a 62% ownership in Stillwater Medical Imaging, LLC (SMI), which is accounted for using the equity method (as the Authority only controls 50% of the entity); a 50% ownership in Bristol Hospice and Homecare – Stillwater, L.L.C. (BHHC), which is accounted for using the equity method; a 9% ownership in Fresenius Medical Care – Stillwater, LLC (Fresenius), which is accounted for using the cost method; and a 0.93% ownership interest in Upper Midwest Consolidated Services Center, LLC (UMCSC), 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 which the Authority applies equity method accounting for the fiscal years ended December 31 are summarized below:

	December 31, 2016		
	(Unaudited) Heartland	Stillwater Medical Imaging, LLC	Bristol Hospice and Homecare – Stillwater, L.L.C.
Current assets	$ 12,952,360	$ 1,889,184	$ 492,486
Property and other long-term assets, net	-	329,109	12,009
Total assets	$ 12,952,360	$ 2,218,293	$ 504,495
Total liabilities	$ 4,772,360	$ 320,530	$ 529,636
Partners' equity (deficit)	8,180,000	1,897,763	(25,141)
Total liabilities and partners' equity	$ 12,952,360	$ 2,218,293	$ 504,495
Revenues	$ 2,994,822	$ 2,550,057	$ 2,002,172
Excess (deficiency) of revenues over expenses	$ 1,201,959	$ 1,396,031	$ (76,961)

	December 31, 2015		
	(Audited) Heartland	Stillwater Medical Imaging, LLC	Bristol Hospice and Homecare – Stillwater, L.L.C.
Current assets	$ 13,832,346	$ 2,193,073	$ 397,330
Property and other long-term assets, net	-	434,930	16,013
Total assets	$ 13,832,346	$ 2,628,003	$ 413,343
Total liabilities	$ 5,967,747	$ 395,114	$ 361,523
Partners' equity	7,864,599	2,232,889	51,820
Total liabilities and partners' equity	$ 13,832,346	$ 2,628,003	$ 413,343
Revenues	$ 3,150,373	$ 3,013,947	$ 1,398,631
Excess (deficiency) of revenues over expenses	$ 315,412	$ 1,905,808	$ (273,180)

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, 2016 and 2015, the Authority paid approximately $255,000 and $214,000, respectively, to Heartland for the coverage. The Authority's investment in Heartland was $973,923 and $862,094 at December 31, 2016 and 2015, respectively.

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 $593,000 and $524,000 due to the joint venture at December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, the Authority earned approximately $1,019,000 and $952,000, respectively, in fees from billing and collections services, which are recorded in other operating revenues. The Authority's investment in SMI was $728,503 and $1,018,653 at December 31, 2016 and 2015, respectively.

BHHC was formed to own and operate hospice and home care subsidiary companies. BHHC is the sole member of Judith Karman Bristol Hospice, L.L.C. (JKBH). JKBH provides hospice services to residents of Stillwater and the surrounding area. During 2015, the Authority invested $325,000 in capital contributions to BHHC. The Authority's investment in BHHC was $149,929 and $188,410 at December 31, 2016 and 2015, respectively. Subsequent to year-end, the Authority agreed to purchase the remaining shares of JKBH for approximately $446,000.

Fresenius provides dialysis services to residents of Stillwater and the surrounding area. The Authority's investment in Fresenius was $261,775 at December 31, 2016 and 2015.

UMCSC is a health care supply purchasing and management organization. During 2015, the Authority invested $75,000 in capital contributions to UMCSC. The Authority's investment in UMCSC was $75,000 at December 31, 2016 and 2015.

Note 6: Capital Assets

Capital asset activity for the years ended December 31 was:

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 4,470,073	$ -	$ -	$ -	$ 4,470,073
Land improvements	3,109,399	1,557	-	44,567	3,155,523
Buildings, fixed equipment and leasehold improvements	67,597,943	1,543,156	-	14,865,592	84,006,691
Major moveable equipment	68,718,294	5,784,948	(327,178)	-	74,176,064
Construction in progress	6,801,088	14,044,973	(594,590)	(14,910,159)	5,341,312
	150,696,797	21,374,634	(921,768)	-	171,149,663
Less accumulated depreciation					
Land improvements	1,349,629	46,710	-	-	1,396,339
Buildings, fixed equipment and leasehold improvements	34,643,674	2,544,699	-	-	37,188,373
Major moveable equipment	52,105,420	4,915,479	(310,309)	-	56,710,590
	88,098,723	7,506,888	(310,309)	-	95,295,302
Capital assets, net	$ 62,598,074	$ 13,867,746	$ (611,459)	$ -	$ 75,854,361

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 4,470,073	$ -	$ -	$ -	$ 4,470,073
Land improvements	3,057,729	29,044	-	22,626	3,109,399
Buildings, fixed equipment and leasehold improvements	64,417,609	2,975,024	(79,091)	284,401	67,597,943
Major moveable equipment	64,792,788	4,372,842	(447,336)	-	68,718,294
Construction in progress	434,937	6,673,178	-	(307,027)	6,801,088
	137,173,136	14,050,088	(526,427)	-	150,696,797
Less accumulated depreciation					
Land improvements	1,311,821	37,808	-	-	1,349,629
Buildings, fixed equipment and leasehold improvements	32,246,552	2,483,282	(79,091)	(7,069)	34,643,674
Major moveable equipment	47,706,074	4,831,721	(439,444)	7,069	52,105,420
	81,264,447	7,352,811	(518,535)	-	88,098,723
Capital assets, net	$ 55,908,689	$ 6,697,277	$ (7,892)	$ -	$ 62,598,074

During 2016, the Authority constructed and transferred to the City assets totaling $594,590, which is included in the accompanying statements of revenues, expenses and changes in net position as capital contribution to the City of Stillwater, Oklahoma.

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, 2016 and 2015. 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 $175,000 and any amounts over $1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of $175,000 up to $1,000,000.

The Authority is self-insured for risks related to workers' compensation claims up to $500,000 per occurrence with an annual liability limit of $1,000,000 in the aggregate. In connection with the self-insured workers' compensation policy, the Authority had a $300,000 certificate of deposit held in escrow at a local bank during the years ended December 31, 2016 and 2015. In 2015, the Authority was required to obtain a $250,000 standby letter of credit. No draws were made on the letter of credit through its maturity in 2016.

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 2016 and 2015 is summarized as follows:

	December 31, 2016	
	Employee Health	Workers' Compensation
Balance, beginning of year	$ 2,100,000	$ 177,651
Current year claims incurred and changes in estimates for claims incurred in prior years	9,199,989	107,767
Claims and expenses paid	(9,437,335)	(134,023)
Balance, end of year	$ 1,862,654	$ 151,395

	December 31, 2015	
	Employee Health	Workers' Compensation
Balance, beginning of year	$ 1,080,000	$ 129,392
Current year claims incurred and changes in estimates for claims incurred in prior years	8,796,060	228,014
Claims and expenses paid	(7,776,060)	(179,755)
Balance, end of year	$ 2,100,000	$ 177,651

Note 9: Long-Term Debt

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

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable – Series 2014	$ 12,550,000	$ -	$ 3,070,000	$ 9,480,000	$ 3,125,000
Capital lease obligations	1,520,486	1,829,653	677,367	2,672,772	944,083
Total long-term debt	$ 14,070,486	$ 1,829,653	$ 3,747,367	$ 12,152,772	$ 4,069,083

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable – Series 2014	$ 15,570,000	$ -	$ 3,020,000	$ 12,550,000	$ 3,070,000
Capital lease obligations	648,411	1,185,428	313,353	1,520,486	505,337
Total long-term debt	$ 16,218,411	$ 1,185,428	$ 3,333,353	$ 14,070,486	$ 3,575,337

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. The redemption price is 101% and decreases 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.

The debt service requirements as of December 31, 2016, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
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
	$ 9,724,359	$ 9,480,000	$ 244,359

Revenue Bond Payable – Series 2017

In January 2017, the Authority issued the Series 2017 Hospital Revenue Bond (the 2017 Bond) in the original amount of $35,000,000 dated January 26, 2017, which bears interest annually at 2.160%. The 2017 Bond is payable in annual installments through February 15, 2024. The 2017 Bond outstanding may be redeemed at the Authority's option. The 2017 Bond is secured by the gross revenues of the Authority and is to be used for capital asset acquisitions.

The indenture agreements require that certain funds be established with the trustee. The indenture agreements also require the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio of at least 1.2 to 1.0, maintaining at least 75 days cash on hand and restrictions on incurrence of additional debt.

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2016 and 2015, totaled $3,858,067 and $2,028,415, respectively, net of accumulated depreciation of $1,212,545 and $534,381, respectively. The following is a schedule by year of future minimum lease payments under capital leases, including interest rates between 1.69% and 5.00%, together with the present value of the future minimum lease payments as of December 31, 2016:

Year Ending December 31,	
2017	$ 971,202
2018	817,764
2019	666,840
2020	292,084
Total minimum lease payments	2,747,890
Less amount representing interest	75,118
Present value of future minimum lease payments	$ 2,672,772

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:

	2016	2015
Charity allowances	$ 2,110,000	$ 2,507,000
State Medicaid and other public aid programs	1,737,000	799,000
	$ 3,847,000	$ 3,306,000

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, 2016, were approximately:

2017	$ 1,025,000
2018	877,000
2019	795,000
2020	746,000
2021	759,000
2022–2026	2,319,000
2027	401,000
	$ 6,922,000

Rental expense for the years ended December 31, 2016 and 2015, was approximately $1,969,000 and $1,401,000, 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 2016 and 2015, respectively. Contributions actually made by plan members and the Authority aggregated approximately $1,341,000 and $2,500,000, respectively, during 2016 and $1,290,000 and $2,339,000, respectively, during 2015.

Note 13: Government Acquisitions

The Authority has acquired multiple service lines since 2009 for which the consideration provided exceeded the net position acquired as of the date of acquisition. These service lines were acquired as they were considered strategic additions to the services already provided by the Authority. Prior to 2016, these deferred outflows of resources were classified as goodwill. See *Note 15* for further information.

Cancer Center Acquisition

In September 2016, the Authority acquired the assets and oncology practice of Oklahoma Oncology and Hematology, Inc., and Oklahoma Cancer Specialists and Research Institute, LLC for a total purchase price of $4,376,000, which was paid for in cash. The net position acquired as of the acquisition date totaled $1,376,000, which included buildings and equipment. No contingent consideration was included in the transaction.

The Authority recorded deferred outflows of resources of $3,000,000. As a result of this transaction, which the Authority has elected to amortize over a period of 10 years, amortization expense is estimated to be approximately $300,000 each year through 2026.

Amortization of Deferred Outflows of Resources

Other acquisitions resulting in deferred outflows of resources include:

- The 2009 acquisition of Stillwater Surgery Center, L.L.C., which is being amortized over 15 years. Amortization expense is estimated to be approximately $388,000 annually through 2024
- The 2012 acquisition of OrthoOklahoma P.C., which is being amortized over five years. Amortization expense is estimated to be approximately $632,000 annually through 2017
- The 2014 acquisition of Women First, LLC, which is being amortized over three years. Amortization expense is estimated to be approximately $256,000 annually through 2017

The carrying basis and accumulated amortization of recognized deferred outflows of resources related to government acquisitions at December 31 were:

	2016	2015
Deferred outflows of resources	$ 12,751,437	$ 9,751,437
Accumulated amortization	5,940,634	4,591,475
	$ 6,810,803	$ 5,159,962

The changes in the carrying amount of deferred outflows of resources for the years ended December 31 were:

	2016	2015
Balance as of January 1	$ 9,751,437	$ 9,751,437
Acquisitions during the year	3,000,000	-
Balance as of December 31	$ 12,751,437	$ 9,751,437

Note 14: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by 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.

Note 15: Change in Accounting Principle

In 2016, the Authority changed its method of accounting for the excess of consideration provided over the net position acquired in acquisitions of other entities (goodwill) as a result of early adopting GASB Statement No. 85, *Omnibus 2017*. The impact of the change in accounting principle was to retroactively reclassify reporting amounts previously recorded as goodwill, which resulted from the Authority's acquisition of various entities, to deferred outflows of resources. This change had no impact on the Authority's previously reported net position or change in net position.

Note 16: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Corporate stocks	$ 14,332,792	$ 14,332,792	$ -	$ -
Money market mutual funds	$ 27,508,328	$ 27,508,328	$ -	$ -
Mutual funds – fixed income	$ 7,918,548	$ 7,918,548	$ -	$ -
Mutual funds – domestic equities	$ 7,665,244	$ 7,665,244	$ -	$ -
Mutual funds – international equities	$ 1,926,940	$ 1,926,940	$ -	$ -
U.S. Treasury obligations	$ 2,654,505	$ 2,654,505	$ -	$ -
U.S. agencies obligations	$ 4,455,373	$ 667,165	$ 3,788,208	$ -
Corporate bonds	$ 5,091,891	$ 2,414,102	$ 2,677,789	$ -

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015				
Corporate stocks	$ 11,815,664	$ 11,815,664	$ -	$ -
Money market mutual funds	$ 30,925,147	$ 30,925,147	$ -	$ -
Mutual funds – fixed income	$ 6,468,313	$ 6,468,313	$ -	$ -
Mutual funds – domestic equities	$ 6,053,186	$ 6,053,186	$ -	$ -
Mutual funds – international equities	$ 1,550,505	$ 1,550,505	$ -	$ -
U.S. Treasury obligations	$ 1,988,013	$ 1,988,013	$ -	$ -
U.S. agencies obligations	$ 3,383,851	$ 704,780	$ 2,679,071	$ -
Corporate bonds	$ 5,120,619	$ 2,692,316	$ 2,428,303	$ -

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The Authority had no Level 3 investments at December 31, 2016 and 2015.

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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 financial statements of Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority), a component unit of the City of Stillwater, Oklahoma, which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2017, which contained an *Emphasis of Matter* paragraph regarding a change in accounting principle.

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 of the financial statements, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 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. 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2016-01 to be a material weakness.

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*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We also noted certain matters that we reported to the Authority's management in a separate letter dated May 30, 2017.

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
May 30, 2017

Stillwater Medical Center Authority
d/b/a Stillwater Medical Center
A Component Unit of the City of Stillwater, Oklahoma
Schedule of Findings and Responses
Year Ended December 31, 2016

Reference Number	Finding
2016-01	Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal controls to promote accurate recording and classification of accounting transactions. Condition – Management's procedures for recording and classifying accounting transactions and procedures for preparing general ledger reconciliations did not prevent inaccurate recording of transactions. In addition, procedures for evaluating and recording significant estimates did not produce materially accurate results. Context – Potential material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected in a timely manner. Effect – Material journal entries were made to multiple general ledger accounts during the audit to correct misstatements not identified by management. Cause – Recording and monitoring procedures in the internal control over financial reporting process were not performed accurately. Recommendation – Management should ensure that controls are adequate to properly record accounting entries. Management should also ensure that monthly general ledger reconciliations are completed timely and accurately and all reconciling items are researched and resolved on a timely basis. Management should periodically evaluate the methodologies used to estimate significant estimates in the financial statements to determine if those methodologies used to prepare estimates are still appropriate when compared to historical information. Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to evaluate the current internal controls over the recording and classification of accounting transactions and prepare accurate monthly reconciliations, including resolving any variances.