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, 2018 and 2017

BKD
CPAs & Advisors

Stillwater Medical Center Authority
d/b/a Stillwater Medical Center
A Component Unit of the City of Stillwater, Oklahoma
December 31, 2018 and 2017

Contents

Independent Auditor's Report 1

Management's Discussion and Analysis 3

Financial Statements

Balance Sheets 9

Statements of Revenues, Expenses and Changes in Net Position 10

Statements of Cash Flows 11

Notes to Financial Statements 12

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* – Independent Auditor's Report 40

Schedule of Findings and Responses 42

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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, 2018 and 2017, 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 did not audit the financial statements of SMC Equipment, Inc. (SMC Equipment), which represent 6% of the total assets and deferred outflows of resources and less than 1% of the net position and operating revenues of the Authority as of and for the year ended December 31, 2018. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for SMC Equipment, is based solely on the report of the other auditors. 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. The financial statements of SMC Equipment, a component unit, were not audited in accordance with *Government Auditing Standards*.

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

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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, based on our audits and the report of other auditors, 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated May 31, 2019, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
May 31, 2019

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, 2018 and 2017

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, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and cash equivalents increased by $6,373,991 (36%) in 2018 and decreased by $15,324,635 (47%) in 2017.
- Investments decreased by $12,794,506 (13%) in 2018 and increased by $48,650,681 (104%) in 2017.
- The Authority's net position increased by $18,209,531 (10%) and $23,851,096 (15%) in 2018 and 2017, respectively.
- The Authority reported operating income in 2018 and 2017 of $18,953,416 and $17,358,060, respectively. The operating income in 2018 increased by $1,595,356 (9%) from the operating income reported in 2017. The operating income in 2017 decreased by $535,172 (3%) from the operating income reported in 2016.
- Nonoperating revenues (expenses) decreased by $8,752,352 (135%) in 2018 compared to 2017 and increased by $3,611,969 (125%) in 2017 compared to 2016.

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 $18,209,531 and $23,851,096 in 2018 and 2017, respectively, as shown in Table 1.

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

	2018	2017	2016
Assets			
Cash and cash equivalents	$ 23,973,994	$ 17,600,003	$ 32,924,638
Patient accounts receivable, net	25,861,089	22,086,048	20,281,637
Investments	82,640,822	95,435,328	46,784,647
Other current assets	8,707,594	9,037,570	7,321,319
Capital assets, net	105,140,940	92,410,707	75,854,361
Other assets	20,330,320	4,338,713	3,389,692
Total assets	266,654,759	240,908,369	186,556,294
Deferred Outflows of Resources	4,971,371	5,750,198	6,810,803
Total assets and deferred outflows of resources	$ 271,626,130	$ 246,658,567	$ 193,367,097
Liabilities			
Long-term debt (including current portion)	$ 47,539,571	$ 40,651,100	$ 12,152,772
Other current liabilities	17,440,443	17,570,882	16,628,836
Total liabilities	64,980,014	58,221,982	28,781,608
Net Position			
Net investment in capital assets	86,620,153	79,932,955	62,393,006
Restricted – expendable	1,896,263	2,136,962	2,245,834
Unrestricted	118,129,700	106,366,668	99,946,649
Total net position	206,646,116	188,436,585	164,585,489
Total liabilities and net position	$ 271,626,130	$ 246,658,567	$ 193,367,097

A significant change in the Authority's assets in 2018 is the increase in cash and cash equivalents of $6,373,991 (36%). This change is primarily driven by net cash provided by operating activities of $26,300,673 offset by net cash used in capital and related financing activities of $23,111,734, including the purchase of capital assets of $18,844,088. Investments, including assets limited as to use, decreased by $12,794,506 (13%) as a result of decline in market returns and the Authority utilizing the investments restricted for specific capital acquisitions. Capital assets increased by $12,730,233 (14%) primarily due to ongoing construction projects and the purchase of equipment. Other assets increased by $15,991,607 (368%) primarily due to issuance of a note receivable in the amount of $10,758,400 and the acquisition of an equity interest in Bushwood, LLC of $6,285,000 during 2018.

A significant change in the Authority's assets in 2017 is the decrease in cash and cash equivalents of $15,324,635 (47%). This change is primarily driven by net cash provided by operating activities of $26,270,781, net cash used in investing activities of $42,667,992 and net cash provided by capital and related financing activities of $932,627, including the issuance of long-term debt of $35,000,000 and the purchase of capital assets of $25,178,471. Investments, including assets limited as to use, increased by $48,650,681 (104%) as a result of significant improvements in market returns as well as the incurrence of $35,000,000 in debt during the year, approximately $28,417,000 of which is restricted for capital acquisitions. Capital assets increased $16,556,346 (22%) primarily due to ongoing construction projects and the purchase of equipment.

Operating Results and Changes in the Authority's Net Position

In 2018, the Authority's net position increased by $18,209,531 as shown in Table 2. This increase is made up of several different components and represents a decrease of $5,641,565 (24%) compared with the increase in net position for 2017 of $23,851,096. The Authority's change in net position increased from $21,712,145 in 2016 to $23,851,096 in 2017, an increase of $2,138,951 (10%).

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue	$ 202,909,391	$ 176,736,295	$ 157,825,578
Gain on investment in joint venture	1,952,838	1,856,397	868,925
Other	4,046,253	5,765,318	5,073,672
Total operating revenues	208,908,482	184,358,010	163,768,175
Operating Expenses			
Salaries, wages and employee benefits	99,153,828	89,596,822	79,526,025
Purchased services and professional fees	20,907,738	15,901,418	15,839,148
Supplies and other expenses	59,675,148	51,501,839	41,653,719
Depreciation and amortization	10,218,352	9,999,871	8,856,051
Total operating expenses	189,955,066	166,999,950	145,874,943
Operating Income	18,953,416	17,358,060	17,893,232
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	333,284	139,949	20,909
Gain on investments in joint ventures	392,266	759,617	90,898
Investment return	(2,138,317)	6,408,994	2,991,155
Interest expense and financing costs	(846,569)	(815,524)	(221,895)
Total nonoperating revenues (expenses)	(2,259,336)	6,493,036	2,881,067
Capital Gifts	1,515,451	-	1,532,436
Capital Contribution to the City of Stillwater, Oklahoma	-	-	(594,590)
Increase in Net Position	$ 18,209,531	$ 23,851,096	$ 21,712,145

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 2018 increased by $1,595,356 (9%) as compared to 2017. The primary components of the increased operating income are:

- An increase in net patient service revenue of $26,173,096 (15%) as a result of higher inpatient, outpatient and clinic volumes during 2018
- An increase in salaries, wages and employee benefits of $9,557,006 (11%) 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 $8,173,309 (16%) as a result of the increased use of supplies due to corresponding higher patient volumes

Operating income for 2017 decreased by $535,172 (3%) as compared to 2016. The primary components of the decreased operating income are:

- An increase in net patient service revenue of $18,910,717 (12%) as a result of higher inpatient, outpatient and clinic volumes during 2017
- An increase in salaries, wages and employee benefits of $10,070,797 (13%) 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 $9,848,120 (24%) 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 gain on investments in joint ventures, investment return, noncapital grants and gifts, and interest expense and financing costs. In 2018, the Authority's investment return decreased by $8,547,311 compared to 2017. In 2017, the Authority's investment return increased by $3,417,839 compared to 2016. In 2017, improvements in investment returns related primarily to higher performance in investment markets, whereas in 2018, decline in the market and the decreased balance of the Authority's restricted investments resulted in significantly less investment return.

The Authority's Cash Flows

In 2018, net cash provided by operating activities decreased by $240,761 (1%) compared to 2017. In 2017, net cash provided by operating activities increased by $2,872,183 (12%) compared to 2016. These changes are attributable to increases in payments from patients offsetting increases in payments to suppliers, contractors and employees. 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.

Capital Asset and Debt Administration

Capital Assets

At the end of 2018, the Authority had $105,140,940 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2018, the Authority invested $14,916,904 into ongoing construction projects and purchased new equipment and infrastructure improvements costing $7,520,861. Of this amount, $973,709 was acquired through incursion of capital lease obligations.

At the end of 2017, the Authority had $92,410,707 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2017, the Authority invested $13,962,828 into ongoing construction projects and purchased new equipment and infrastructure improvements costing $11,890,484. Of this amount, $1,740,090 was acquired through incursion of capital lease obligations.

Debt

At December 31, 2018 and 2017, the Authority had $47,539,571 and $40,651,100, respectively, in promissory notes, revenue bonds and capital lease obligations outstanding as discussed in *Note 9* to the financial statements. The Authority incurred $16,973,709 and $36,740,090 of new debt in 2018 and 2017, respectively.

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, 2018 and 2017

Assets and Deferred Outflows of Resources

	2018	2017
Current Assets		
Cash and cash equivalents	$ 23,973,994	$ 17,600,003
Short-term investments	25,029,136	34,271,423
Restricted cash and investments – current	1,707,511	1,963,825
Patient accounts receivable, net of allowance; 2018 – $4,702,000, 2017 – $4,434,000	25,861,089	22,086,048
Supplies	5,389,683	5,508,089
Estimated amounts due from third-party payers	285,000	-
Prepaid expenses and other	3,032,911	3,529,481
Total current assets	85,279,324	84,958,869
Noncurrent Cash and Investments		
Held by trustee for debt service	1,624,226	1,900,855
Held by trustee for specific operating activities	300,000	300,000
Held by trustee for specific capital acquisition	31,473,232	28,416,682
	33,397,458	30,617,537
Less amount required to meet current obligations	1,707,511	1,963,825
	31,689,947	28,653,712
Other long-term investments	24,214,228	30,546,368
Noncurrent cash and investments, net	55,904,175	59,200,080
Capital Assets, Net	105,140,940	92,410,707
Other Assets		
Investments in joint ventures	8,827,421	3,034,305
Other	11,502,899	1,304,408
Total other assets	20,330,320	4,338,713
Deferred Outflows of Resources	4,971,371	5,750,198
Total assets and deferred outflows of resources	$ 271,626,130	$ 246,658,567

See Notes to Financial Statements

Liabilities and Net Position

	2018	2017
Current Liabilities		
Current maturities of long-term debt	$ 9,537,269	$ 9,794,271
Accounts payable	7,069,563	7,210,444
Accrued expenses	10,370,880	10,325,438
Estimated amounts due to third-party payors	-	35,000
Total current liabilities	26,977,712	27,365,153
Long-Term Debt	38,002,302	30,856,829
Total liabilities	64,980,014	58,221,982
Net Position		
Net investment in capital assets	86,620,153	79,932,955
Restricted – expendable for		
Debt service	1,596,263	1,836,962
Specific operating activities	300,000	300,000
Unrestricted	118,129,700	106,366,668
Total net position	206,646,116	188,436,585
Total liabilities and net position	$ 271,626,130	$ 246,658,567

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, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – $18,240,145, 2017 – $17,747,231	$ 202,909,391	$ 176,736,295
Gain on investment in joint venture	1,952,838	1,856,397
Other	4,046,253	5,765,318
Total operating revenues	208,908,482	184,358,010
Operating Expenses		
Salaries and wages	79,926,083	71,473,094
Employee benefits	19,227,745	18,123,728
Purchased services and professional fees	20,907,738	15,901,418
Supplies and other expenses	59,509,423	50,805,034
Depreciation and amortization	10,218,352	9,999,871
Loss on sale of capital assets	165,725	696,805
Total operating expenses	189,955,066	166,999,950
Operating Income	18,953,416	17,358,060
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	333,284	139,949
Gain on investments in joint ventures	392,266	759,617
Investment return	(2,138,317)	6,408,994
Interest expense and financing costs	(846,569)	(815,524)
Total nonoperating revenues (expenses)	(2,259,336)	6,493,036
Excess of Revenues over Expenses Before Capital Gifts	16,694,080	23,851,096
Capital Gifts	1,515,451	-
Increase in Net Position	18,209,531	23,851,096
Net Position, Beginning of Year	188,436,585	164,585,489
Net Position, End of Year	$ 206,646,116	$ 188,436,585

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, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	$ 201,918,178	$ 174,966,884
Payments to suppliers and contractors	(82,269,404)	(65,506,887)
Payments to employees	(99,124,530)	(90,556,147)
Other receipts and payments, net	5,505,776	7,366,931
Net cash provided by operating activities	26,030,020	26,270,781
Noncapital Financing Activities		
Noncapital grants and gifts	15,726	139,949
Net cash provided by noncapital financing activities	15,726	139,949
Capital and Related Financing Activities		
Capital gifts	1,515,451	-
Proceeds from issuance of long-term debt	16,000,000	35,000,000
Payment of debt issuance costs	(159,137)	-
Proceeds from disposal of capital assets	102,305	117,916
Principal paid on long-term debt	(10,085,238)	(8,241,762)
Interest paid on long-term debt	(882,627)	(765,056)
Purchase of capital assets	(18,844,088)	(25,178,471)
Issuance of note receivable	(10,758,400)	-
Net cash provided by (used in) capital and related financing activities	(23,111,734)	932,627
Investing Activities		
Purchases of restricted assets whose use is limited under bond agreements	(6,744,810)	(8,059,232)
Proceeds from disposition of restricted assets whose use is limited under bond agreements	7,021,439	8,117,636
Purchases of restricted assets whose use is limited for capital acquisitions	(28,395,356)	(75,554,720)
Proceeds from disposition of restricted assets whose use is limited for capital acquisitions	25,338,806	47,138,038
Purchases of investments	(7,570,234)	(56,853,250)
Proceeds from disposition of investments	18,516,460	35,028,620
Advances to and investments in joint ventures	60,000	19,297
Cash acquired from transfer of Perry Memorial Hospital	373,990	-
Acquisition of BHHC	-	(445,602)
Investment income received	2,489,884	7,941,221
Acquisition of SMI	(1,365,200)	-
Acquisition of Bushwood	(6,285,000)	-
Net cash provided by (used in) investing activities	3,439,979	(42,667,992)

	2018	2017
Increase (Decrease) in Cash and Cash Equivalents	$ 6,373,991	$ (15,324,635)
Cash and Cash Equivalents, Beginning of Year	17,600,003	32,924,638
Cash and Cash Equivalents, End of Year	$ 23,973,994	$ 17,600,003
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 18,953,416	$ 17,358,060
Depreciation and amortization	10,218,352	9,999,871
Accrued self-insurance costs	(108,891)	(650,584)
Loss on sale of capital assets	165,725	696,805
Provision for uncollectible accounts	18,240,145	17,747,231
Changes in operating assets and liabilities		
Patient accounts receivable	(18,844,889)	(19,551,642)
Supplies, prepaid expenses and other assets	1,748,254	(1,820,097)
Estimated amounts due to/from third-party payors	(386,469)	35,000
Change in investments in joint ventures	(493,315)	(254,784)
Accounts payable and accrued expenses	(3,462,308)	2,710,921
Net cash provided by operating activities	$ 26,030,020	$ 26,270,781
Noncash Investing, Capital and Financing Activities		
Capital asset purchases in accounts payable	$ 2,352,247	$ 243,334
Capital lease obligations incurred for equipment	$ 973,709	$ 1,740,090

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

Nature of Operations

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

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

Effective April 1, 2018, the Authority entered into a lease agreement with Perry Memorial Hospital Authority (Perry Authority) to assume all operations of Perry Memorial Hospital (Perry), a 26-bed hospital located in Perry, Oklahoma. The initial lease term covers a period of five years. The lease also includes four additional five-year extension periods. Perry primarily earns revenues by providing inpatient, outpatient, emergency and home health services to patients in Perry, Oklahoma.

Reporting Entity

The accompanying financial statements include the accounts of the Authority and its blended component unit, SMC Equipment, Inc. (SMC Equipment), an entity for which the Authority is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities; thus, the entity's blended component unit is appropriately presented as a fund of the primary government.

SMC Equipment is a corporation organized in 2018 to lease various medical and facility equipment to the Authority. Separate financial statements for SMC Equipment can be obtained by contacting the Authority's administrative office.

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, 2018 and 2017, 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 Return

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

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

Patient Accounts Receivable

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

Supplies

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

Capital Asset Impairment

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

Deferred Outflows of Resources

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

Compensated Absences

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

Net Position

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

Charity Care

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

Income Taxes

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

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare & Medicaid Services approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2025. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee 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:

	2018	2017
SHOPP funds received	$ 5,419,000	$ 6,852,000
SHOPP assessment fees paid	4,633,000	4,552,000
Net benefit under SHOPP	$ 786,000	$ 2,300,000

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 expected to be consistent with 2018. 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.

Revisions

Certain immaterial revisions have been made to the 2017 financial statements for allocations between the current and noncurrent portions of restricted cash and investments in the amount of $1,607,040. These revisions did not have a significant impact on the financial statements and no effect on net position.

Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through December 31, 2015.

- **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 77% and 72% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, 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 Return

Deposits

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

At December 31, 2018 and 2017, approximately $4,861,000 and $2,127,000 of the Authority's bank balances of approximately $16,754,000 and $24,445,000, respectively, were uninsured and uncollateralized.

Investments

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

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

		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
2018					
U.S. Treasury obligations	$ 69,687	$ 69,687	$ -	$ -	$ -
Money market mutual funds	41,939,747	41,939,747	-	-	-
Mutual funds – fixed income	24,214,227	-	16,365,689	7,848,538	-
Mutual funds – domestic equities	18,561,691	18,561,691	-	-	-
Mutual funds – international equities	6,207,583	6,207,583	-	-	-
Total investments	$ 90,992,935	$ 66,778,708	$ 16,365,689	$ 7,848,538	$ -
2017					
U.S. Treasury obligations	$ 2,040,361	$ 2,040,361	$ -	$ -	$ -
U.S. agencies obligations	135,918	-	-	-	135,918
Money market mutual funds	22,982,139	22,982,139	-	-	-
Mutual funds – fixed income	30,410,451	-	21,290,286	9,120,165	-
Mutual funds – domestic equities	25,314,853	25,314,853	-	-	-
Mutual funds – international equities	8,576,199	8,576,199	-	-	-
Total investments	$ 89,459,921	$ 58,913,552	$ 21,290,286	$ 9,120,165	$ 135,918

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy limits its fixed income investment portfolio to an average overall portfolio duration no greater than 7.5 years. The money market mutual funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year. Maturities of mutual funds – fixed income are presented based on the average maturity of the underlying securities in the fund.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority's policy to limit its domestic fixed income investments to a credit rating of no less than investment grade and an overall weighted-average rating of A by Standard & Poor's (S & P), Moody's or Fitch.

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

Investments	Moody's	S & P
2018		
Money market mutual funds	Aaa-mf	AAAm
Mutual funds	Not Rated	Not Rated
2017		
U.S. agencies obligations	Aaa	AA+
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 the 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, 2018 and 2017, 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:

	2018	2017
Carrying value		
Deposits	$ 15,621,881	$ 23,575,410
Investments	90,992,935	89,459,921
	$ 106,614,816	$ 113,035,331
Included in the following balance sheet captions		
Cash and cash equivalents	$ 23,973,994	$ 17,600,003
Short-term investments	25,029,136	34,271,423
Restricted cash and investments – current	1,707,511	1,963,825
Noncurrent cash and investments, net	55,904,175	59,200,080
	$ 106,614,816	$ 113,035,331

Investment Return

Investment return for the years ended December 31 consisted of:

	2018	2017
Interest, dividends and realized gain on sales of investments	$ 2,489,884	$ 7,941,221
Net decrease in fair value of investments	(4,628,201)	(1,532,227)
	$ (2,138,317)	$ 6,408,994

Note 4: Patient Accounts Receivable

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

	2018	2017
Medicare	$ 7,331,044	$ 4,944,579
Medicaid	1,288,328	1,029,868
Other third-party payors	11,750,630	12,517,977
Patients	10,193,087	8,027,624
	30,563,089	26,520,048
Less allowance for uncollectible accounts	4,702,000	4,434,000
	$ 25,861,089	$ 22,086,048

Note 5: Investments in Joint Ventures

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

	2018	2017
Fresenius Medical Care – Stillwater, LLC	9%	9%
LifeCare Health Services, LLC	10%	10%
Tecumseh Health Reciprocal Risk Retention Group	4%	4%
Upper Midwest Consolidated Services Center	1%	1%
Bushwood, LLC	50%	0%
Stillwater Medical Imaging, LLC	100%	66%

In addition, at December 31, 2016, the Authority had a 50% ownership interest in Bristol Hospice and Homecare – Stillwater, LLC (BHHC). During 2017, the Authority acquired the remaining 50% ownership interest in BHHC.

The financial position and results of operations from the unaudited financial statements of the significant joint ventures for the fiscal years ended December 31 are summarized below:

	2018		
	Tecumseh	Bushwood	LifeCare
Current assets	$ 53,629,283	$ 123,631	$ 6,855,297
Property and other long-term assets, net	-	4,754,571	304,014
Total assets	$ 53,629,283	$ 4,878,202	$ 7,159,311
Total liabilities	$ 19,790,296	$ -	$ 303,396
Partners' equity	33,838,987	4,878,202	6,855,915
Total liabilities and partners' equity	$ 53,629,283	$ 4,878,202	$ 7,159,311
Revenues	$ 11,549,386	$ 184,441	$ 2,188,190
Excess of revenues over expenses	$ 6,280,005	$ 184,417	$ 416,456

	2017		
	Tecumseh	SMI	LifeCare
Current assets	$ 53,083,540	$ 3,097,882	$ 6,529,137
Property and other long-term assets, net	-	196,739	479,599
Total assets	$ 53,083,540	$ 3,294,621	$ 7,008,736
Total liabilities	$ 20,235,243	$ 239,121	$ 284,484
Partners' equity	32,848,297	3,055,500	6,724,252
Total liabilities and partners' equity	$ 53,083,540	$ 3,294,621	$ 7,008,736
Revenues	$ 9,259,343	$ 3,955,588	$ 2,148,195
Excess of revenues over expenses	$ 5,328,231	$ 2,934,088	$ 392,928

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 Tecumseh Health Reciprocal Risk Retention Group (Tecumseh) (see *Note 7*). For the years ended December 31, 2018 and 2017, the Authority paid approximately $303,000 and $276,000 to Tecumseh, respectively, for the coverage. The Authority's investment in Tecumseh was $1,348,139 and $1,110,642 at December 31, 2018 and 2017, respectively.

SMI owned and operated MRI, CT and other imaging equipment. The Authority utilized SMI to provide imaging services for its patients. The equipment is located within Stillwater Medical Center, and the Authority managed the operations and provided all staffing and supplies for SMI. The Authority performed all billing and collection services on behalf of SMI in exchange for a percentage of cash collections. SMI functioned as if it were a department within the Authority. As a result, management had elected to record the gain on investment in SMI within operating revenues. Included in accrued expenses of the Authority was approximately $705,000 due to the joint venture at December 31, 2017. During the years ended December 31, 2018 and 2017, the Authority earned approximately $904,000 and $1,202,000, respectively, in fees from billing and collections services, which are recorded in other operating revenues. The Authority's investment in SMI was $983,287 at December 31, 2017. During 2018, the Authority purchased the remaining shares of SMI for $1,365,200 and is treating its ongoing operations as a department of the Authority.

LifeCare Health Services, LLC (LifeCare) is a joint venture between certain hospitals in Oklahoma organized to collaborate and share expenses and expertise to expand or enhance health care services in the communities served by each participating hospital in furtherance of their independent missions. The Authority's investment in LifeCare was $643,706 and $603,601 at December 31, 2018 and 2017, respectively.

Effective August 15, 2018, the Authority acquired a 50% equity interest in Bushwood, LLC (Bushwood) for $6,285,000. Bushwood owns two buildings in Stillwater, Oklahoma, an ambulatory surgery center and a medical office building, that are 100% leased by the Authority. For the years ended December 31, 2018 and 2017, the Authority paid approximately $721,000 and $708,000, respectively, in rent for the right to utilize the building space. The Authority's investment in Bushwood was $6,339,664 and $0 at December 31, 2018 and 2017, 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. During 2017, the Authority purchased the remaining shares of BHHC for $600,428 and is treating its ongoing operations as a department of the Authority.

Fresenius Medical Care – Stillwater, LLC (Fresenius) provides dialysis services to residents of Stillwater and the surrounding area. The Authority's investment in Fresenius was $261,775 at December 31, 2018 and 2017.

Upper Midwest Consolidated Services Center (UMCSC) is a health care supply purchasing and management organization. The Authority's investment in UMCSC was $75,000 at December 31, 2018 and 2017.

Note 6: Capital Assets

Capital assets activity for the years ended December 31 was:

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 4,470,073	$ -	$ -	$ -	$ 4,470,073
Land improvements	3,389,240	-	-	655,087	4,044,327
Buildings, fixed equipment and leasehold improvements	95,158,690	252,023	(523,361)	8,630,845	103,518,197
Major moveable equipment	79,088,150	7,268,838	(639,119)	-	85,717,869
Construction in progress	11,951,228	14,916,904	-	(9,285,932)	17,582,200
	194,057,381	22,437,765	(1,162,480)	-	215,332,666
Less accumulated depreciation					
Land improvements	1,462,385	103,713	-	-	1,566,098
Buildings, fixed equipment and leasehold improvements	40,248,572	3,614,210	(333,723)	-	43,529,059
Major moveable equipment	59,935,717	5,721,579	(560,727)	-	65,096,569
	101,646,674	9,439,502	(894,450)	-	110,191,726
Capital assets, net	$ 92,410,707	$ 12,998,263	$ (268,030)	$ -	$ 105,140,940

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 4,470,073	$ -	$ -	$ -	$ 4,470,073
Land improvements	3,155,523	-	-	233,717	3,389,240
Buildings, fixed equipment and leasehold improvements	84,006,691	4,093,885	(52,481)	7,110,595	95,158,690
Major moveable equipment	74,176,064	7,796,599	(2,893,113)	8,600	79,088,150
Construction in progress	5,341,312	13,962,828	-	(7,352,912)	11,951,228
	171,149,663	25,853,312	(2,945,594)	-	194,057,381
Less accumulated depreciation					
Land improvements	1,396,339	66,046	-	-	1,462,385
Buildings, fixed equipment and leasehold improvements	37,188,373	3,110,623	(50,424)	-	40,248,572
Major moveable equipment	56,710,590	5,305,576	(2,080,449)	-	59,935,717
	95,295,302	8,482,245	(2,130,873)	-	101,646,674
Capital assets, net	$ 75,854,361	$ 17,371,067	$ (814,721)	$ -	$ 92,410,707

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 $90,000 and $58,000 has been made as of December 31, 2018 and 2017, respectively. It is reasonably possible that this estimate could change materially in the near term.

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

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. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of $175,000.

The Authority is self-insured for risks related to workers' compensation claims up to $550,000 per occurrence with an annual liability limit of $1,000,000 in the aggregate. In connection with the self-insured workers' compensation policy, the Authority had a $300,000 certificate of deposit held in escrow at a local bank during the years ended December 31, 2018 and 2017. No draws were made on the certificate of deposit held in escrow through 2018.

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 2018 and 2017 is summarized as follows:

	Employee Health	Workers' Compensation
2018		
Balance, beginning of year	$ 1,300,495	$ 62,970
Current year claims incurred and changes in estimates for claims incurred in prior years	8,726,063	166,994
Claims and expenses paid	(8,855,269)	(146,679)
Balance, end of year	$ 1,171,289	$ 83,285
2017		
Balance, beginning of year	$ 1,862,654	$ 151,395
Current year claims incurred and changes in estimates for claims incurred in prior years	8,816,237	32,504
Claims and expenses paid	(9,378,396)	(120,929)
Balance, end of year	$ 1,300,495	$ 62,970

Note 9: Long-Term Debt

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

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable – Series 2014	$ 6,355,000	$ -	$ 3,150,000	$ 3,205,000	$ 3,205,000
Revenue bond payable – Series 2017	30,833,334	-	5,000,000	25,833,334	5,000,000
SMC Equipment promissory notes	-	16,000,000	-	16,000,000	-
Capital lease obligations	3,462,766	973,709	1,935,238	2,501,237	1,332,269
Total long-term debt	$ 40,651,100	$ 16,973,709	$ 10,085,238	$ 47,539,571	$ 9,537,269

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable – Series 2014	$ 9,480,000	$ -	$ 3,125,000	$ 6,355,000	$ 3,150,000
Revenue bond payable – Series 2017	-	35,000,000	4,166,666	30,833,334	5,000,000
Capital lease obligations	2,672,772	1,740,090	950,096	3,462,766	1,644,271
Total long-term debt	$ 12,152,772	$ 36,740,090	$ 8,241,762	$ 40,651,100	$ 9,794,271

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 at 1.69%. The 2014 Bonds are payable in annual installments through May 15, 2019, with interest payable semiannually. The 2014 Bonds outstanding may be redeemed at the Authority's option after May 16, 2017, at 100%. The 2014 Bonds are secured by the gross revenues of the Authority, certain 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.

Revenue Bond Payable – Series 2017

The Series 2017 revenue bond payable consists of a Hospital Revenue Bond (the 2017 Bond) in the original amount of $35,000,000 dated January 26, 2017, which bears interest annually at 2.16%. The 2017 Bond is payable in monthly principal and interest installments through February 15, 2024. The 2017 Bond outstanding may be redeemed at the Authority's option at a premium. The 2017 Bond is secured by the gross revenues of the Authority and the assets held by trustee and is to be used for capital asset acquisitions.

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 and capital acquisition in the accompanying balance sheets. The indenture agreements also require the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio of at least 1.2 to 1.0, maintaining at least 75 days cash on hand and restrictions on incurrence of additional debt.

SMC Equipment Promissory Notes

SMC Equipment entered into two promissory notes payable to MMOK Sub VII (the Lender) with principal balances of $10,758,400 and $5,241,600, combined in the long-term debt schedule above. These notes financed the acquisition of certain major equipment, which is to be leased back to the Authority upon acquisition. The notes are secured by all of the assets of SMC Equipment. These notes payable were effective August 3, 2018, will mature on August 3, 2030, and bear interest annually at 1.67%. These promissory notes are payable in quarterly interest installments through September 1, 2025. Commencing December 1, 2025, SMC Equipment will pay equal installments of principal and interest in amounts sufficient to fully amortize the principal balance of the loans as of the maturity date. SMC Equipment is not permitted to prepay any portion of the principal of the loans until September 25, 2025.

Concurrently, the Authority loaned $10,758,400 to Stillwater NMTC, LLC. This note receivable is included with other assets on the accompanying balance sheets. The note receivable is effective August 3, 2018, will mature August 3, 2030, and bears interest at 1.0%. These notes receivable are payable in quarterly interest installments through September 1, 2025.

At the end of the seven-year term, a put/call agreement may be exercised whereby Simmons NMTC Holding, LLC's (Simmons) interest in Stillwater NMTC, LLC (member of the Lender) is sold to the Authority under terms defined in the put/call agreement.

The debt service requirements for the Series 2014 and Series 2017 Revenue Bonds and SMC Equipment Promissory Notes are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	$ 9,008,429	$ 8,205,000	$ 803,429
2020	5,668,196	5,000,000	668,196
2021	5,560,196	5,000,000	560,196
2022	5,452,196	5,000,000	452,196
2023–2027	14,168,643	12,868,296	1,300,347
2028–2030	9,191,594	8,965,038	226,556
	$ 49,049,254	$ 45,038,334	$ 4,010,920

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, 2018 and 2017, totaled $6,631,688 and $5,584,459, respectively, net of accumulated depreciation of $3,622,813 and $2,095,772, respectively.

The following is a schedule by year of future minimum lease payments under capital leases, including interest rates between 1.69% and 2.16%, together with the present value of the future minimum lease payments:

Year Ending December 31,	
2019	$ 1,352,749
2020	978,057
2021	183,988
2022	15,979
Total minimum lease payments	2,530,773
Less amount representing interest	29,536
Present value of future minimum lease payments	$ 2,501,237

Note 10: Community Support

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

At December 31, 2018 and 2017, the estimated uncompensated costs associated with charity care services were approximately $3,248,000 and $2,768,000, respectively. The cost of uncompensated care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

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

Note 11: Operating Leases

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, 2018, were approximately:

2019	$ 733,000
2020	746,000
2021	759,000
2022	773,000
2023	378,000
2024–2027	1,569,000
	$ 4,958,000

Rental expense for the years ended December 31, 2018 and 2017, was approximately $1,314,000 and $1,421,000, 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 2018 and 2017, respectively. Contributions actually made by plan members and the Authority aggregated approximately $1,755,000 and $3,298,000, respectively, during 2018 and $1,546,000 and $2,958,000, respectively, during 2017.

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.

Bristol Hospice and Homecare – Stillwater, LLC Acquisition

In May 2017, the Authority acquired the remaining 50% equity in BHHC for a total purchase price of approximately $450,000, which was paid for in cash. No contingent consideration was included in the transaction.

The Authority recorded deferred outflows of resources of approximately $450,000 as a result of the transaction, which the Authority has elected to amortize over a period of five years. Amortization expense is estimated to be approximately $90,000 each year through 2021 and approximately $45,000 in 2022.

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 approximately $388,000 annually through 2024
- The 2012 acquisition of OrthoOklahoma P.C., which was being amortized over five years. Amortization expense was approximately $632,000 annually through 2017
- The 2014 acquisition of Women First, LLC, which was amortized over three years. Amortization expense was approximately $256,000 annually through 2016 and approximately $128,000 in 2017
- The 2016 acquisition of assets and the oncology practice of Oklahoma Oncology and Hematology, Inc., and Oklahoma Cancer Specialists, which is being amortized over 10 years. Amortization expense is estimated to be approximately $300,000 annually through 2026

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

	2018	2017
Deferred outflows of resources	$ 13,204,573	$ 13,204,573
Accumulated amortization	8,233,202	7,454,375
	$ 4,971,371	$ 5,750,198

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

	2018	2017
Balance as of January 1	$ 13,204,573	$ 12,751,437
Acquisitions during the year	-	453,136
Balance as of December 31	$ 13,204,573	$ 13,204,573

Note 14: Contingencies

Litigation

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

Note 15: Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

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

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

Recurring Measurements

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

		Fair Value 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)
2018				
Money market mutual funds	$ 41,939,747	$ 41,939,747	$ -	$ -
Mutual funds – fixed income	$ 24,214,227	$ 24,214,227	$ -	$ -
Mutual funds – domestic equities	$ 18,561,691	$ 18,561,691	$ -	$ -
Mutual funds – international equities	$ 6,207,583	$ 6,207,583	$ -	$ -
U.S. Treasury obligations	$ 69,687	$ 69,687	$ -	$ -

	Fair Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
Money market mutual funds	$ 22,982,139	$ 22,982,139	$ -	$ -
Mutual funds – fixed income	$ 30,410,451	$ 30,410,451	$ -	$ -
Mutual funds – domestic equities	$ 25,314,853	$ 25,314,853	$ -	$ -
Mutual funds – international equities	$ 8,576,199	$ 8,576,199	$ -	$ -
U.S. Treasury obligations	$ 2,040,361	$ 2,040,361	$ -	$ -
U.S. agencies obligations	$ 135,918	$ -	$ 135,918	$ -

Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy. The Authority had no Level 3 investments at December 31, 2018 and 2017.

Note 16: Combining Component Unit Information

The following tables include combining balance sheet information for the Authority and its component unit as of December 31, 2018:

	Stillwater Medical Center Authority	SMC Equipment, Inc.	Eliminations	Combined Balance
Assets				
Current Assets				
Cash and cash equivalents	$ 23,932,567	$ 41,427	$ -	$ 23,973,994
Short-term investments	25,029,136	-	-	25,029,136
Restricted cash and investments – current	1,707,511	-	-	1,707,511
Patient accounts receivable, net	25,861,089	-	-	25,861,089
Supplies	5,389,683	-	-	5,389,683
Estimated amounts due from third-party payers	285,000	-	-	285,000
Prepaid expenses and other	3,032,911	-	-	3,032,911
Total current assets	85,237,897	41,427	-	85,279,324
Noncurrent Cash and Investments				
Held by trustee for debt service	1,624,226	-	-	1,624,226
Held by trustee for specific operating activities	300,000	-	-	300,000
Held by trustee for specific capital acquisition	16,431,889	15,041,343	-	31,473,232
	18,356,115	15,041,343	-	33,397,458
Less amount required to meet current obligations	1,707,511	-	-	1,707,511
	16,648,604	15,041,343	-	31,689,947
Other long-term investments	24,214,228	-	-	24,214,228
Noncurrent cash and investments, net	40,862,832	15,041,343	-	55,904,175
Capital Assets, Net	104,080,082	1,060,858	-	105,140,940
Other Assets				
Investments in joint ventures	8,668,284	159,137	-	8,827,421
Other	11,502,899	-	-	11,502,899
Total other assets	20,171,183	159,137	-	20,330,320
Deferred Outflows of Resources	4,971,371	-	-	4,971,371
Total assets and deferred outflows of resources	$ 255,323,365	$ 16,302,765	$ -	$ 271,626,130

	Stillwater Medical Center Authority	SMC Equipment, Inc.	Eliminations	Combined Balance
Liabilities and Net Position				
Current Liabilities				
Current maturities of long-term debt	$ 9,537,269	$ -	$ -	$ 9,537,269
Accounts payable	7,069,563	-	-	7,069,563
Accrued expenses	10,318,701	52,179	-	10,370,880
Total current liabilities	26,925,533	52,179	-	26,977,712
Long-Term Debt	22,002,302	16,000,000	-	38,002,302
Total liabilities	48,927,835	16,052,179	-	64,980,014
Net Position				
Net investment in capital assets	86,620,153	-	-	86,620,153
Restricted – expendable for				
Debt service	1,596,263	-	-	1,596,263
Specific operating activities	300,000	-	-	300,000
Unrestricted	117,879,114	250,586	-	118,129,700
Total net position	206,395,530	250,586	-	206,646,116
Total liabilities and net position	$ 255,323,365	$ 16,302,765	$ -	$ 271,626,130

The following table includes combining statements of revenues, expenses and changes in net position information for the Authority and its component unit for the year ended December 31, 2018:

	Stillwater Medical Center Authority	SMC Equipment, Inc.	Eliminations	Combined Balance
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts; $18,240,145	$ 202,909,391	$ -	$ -	$ 202,909,391
Gain on investment in joint venture	1,952,838	-	-	1,952,838
Other	4,046,253	-	-	4,046,253
Total operating revenues	208,908,482	-	-	208,908,482
Operating Expenses				
Salaries and wages	79,926,083	-	-	79,926,083
Employee benefits	19,227,745	-	-	19,227,745
Purchased services and professional fees	20,907,738	-	-	20,907,738
Supplies and other expenses	59,509,423	-	-	59,509,423
Depreciation and amortization	10,218,352	-	-	10,218,352
Loss on sale of capital assets	165,725	-	-	165,725
Total operating expenses	189,955,066	-	-	189,955,066
Operating Income	18,953,416	-	-	18,953,416
Nonoperating Revenues (Expenses)				
Noncapital grants and gifts	6,784	326,500	-	333,284
Gain on investments in joint ventures	392,266	-	-	392,266
Investment return	(2,171,074)	32,757	-	(2,138,317)
Interest expense and financing costs	(737,898)	(108,671)	-	(846,569)
Total nonoperating revenues (expenses)	(2,509,922)	250,586	-	(2,259,336)
Excess of Revenues over Expenses Before Capital Gifts	16,443,494	250,586	-	16,694,080
Capital Gifts	1,515,451	-	-	1,515,451
Increase in Net Position	17,958,945	250,586	-	18,209,531
Net Position, Beginning of Year	188,436,585	-	-	188,436,585
Net Position, End of Year	$ 206,395,530	$ 250,586	$ -	$ 206,646,116

The following table includes condensed combining statements of cash flows information for the Authority and its component unit for the year ended December 31, 2018:

	Stillwater Medical Center Authority	SMC Equipment, Inc.	Eliminations	Combined Balance
Net Cash Provided by Operating Activities	$ 25,977,841	$ 52,179	$ -	$ 26,030,020
Net Cash Provided by (Used in) Noncapital Financing Activities	(310,774)	326,500	-	15,726
Net Cash Provided by (Used in) Capital and Related Financing Activities	(37,783,068)	14,671,334	-	(23,111,734)
Net Cash Provided by (Used in) Investing Activities	18,448,565	(15,008,586)	-	3,439,979
Change in Cash and Cash Equivalents	6,332,564	41,427	-	6,373,991
Cash and Cash Equivalents, Beginning of Year	17,600,003	-	-	17,600,003
Cash and Cash Equivalents, End of Year	$ 23,932,567	$ 41,427	$ -	$ 23,973,994

Note 17: Transfer of Operations of Perry Memorial Hospital

Effective April 1, 2018, the Authority entered into a lease agreement with Perry Authority to assume all operations of Perry. The Authority will operate and maintain Perry and account for its operations. The transfer included all assets of Perry except for the capital assets, which remained the property of Perry Authority, including cash, accounts receivable, inventories and other assets. In addition, the Authority assumed accounts payable, accrued liabilities and a capital lease of Perry. At the transfer date, the value of the assets transferred and liabilities assumed each approximated $1,328,000.

Note 18: Subsequent Events

Subsequent to year-end, the Authority entered into a purchase agreement with Hightower & Grellner, LLC d/b/a Pipeline Crossroads Clinic (Pipeline) to purchase all of its assets and operations effective January 1, 2019, for a purchase price of $3,261,984. Pipeline primarily earns revenues by providing urgent care services to the Payne and Creek County areas.

Subsequent to year-end, the Authority entered into two debt agreements.

Note Payable – Series 2019A

The Series 2019A note payable consists of a note payable (the 2019A Note) in the original amount of $4,500,000 dated February 14, 2019, which bears interest annually at 3.5%. The 2019A Note is payable in monthly principal and interest installments through February 1, 2022.

Revenue Bond Payable – Series 2019B

The Series 2019B revenue bond payable consists of a hospital revenue bond (the 2019B Bond) in the original amount of $12,000,000 dated April 2, 2019, which bears interest annually at 3.18%. The 2019B Bond is payable in monthly principal and interest installments through May 1, 2029.

With respect to both the 2019A Note and the 2019B Bond, the indenture agreements 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.

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Stillwater Medical Center Authority d/b/a Stillwater Medical Center (the Authority), a component unit of the City of Stillwater, Oklahoma, which comprise the balance sheet as of December 31, 2018, 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 31, 2019, which contained references to the report of another auditor who audited the financial statements of SMC Equipment, Inc. (SMC Equipment), as described in our report of the Authority's financial statements. This report does not include the results of the other auditor's testing of internal control or compliance and other matters that are reported separately by that auditor.

Internal Control over Financial Reporting

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

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

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

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*.

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 31, 2019

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, 2018

Reference Number	Finding
	No matters are reportable.