Stillwater Medical Center Authority

A Component Unit of the City of Stillwater, Oklahoma

Auditor’s Reports and Financial Statements

December 31, 2012 and 2011

BKD LLP
CPAs & Advisors

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
December 31, 2012 and 2011

Contents

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Stillwater Medical Center Authority
Stillwater, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Stillwater Medical Center Authority (the Authority), a component unit of the City of Stillwater, Oklahoma, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Stillwater Medical Center Authority as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary combining schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BKD, LLP

Tulsa, Oklahoma
May 30, 2013

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Management's Discussion and Analysis
Years Ended December 31, 2012 and 2011

Introduction

This management's discussion and analysis of the financial performance of Stillwater Medical Center Authority (the Authority) provides an overview of the Authority's financial activities for the years ended December 31, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and cash equivalents decreased in 2012 by $7,634,866 (44.0%) and increased in 2011 by $2,463,269 (16.5%).
- The Authority's net position increased in 2012 and 2011 by $15,373,168 (17.7%) and $12,318,908 (16.6%), respectively.
- The Authority reported operating income in 2012 and 2011 of $12,850,592 and $12,692,414, respectively. The operating income in 2012 increased by $158,178 (1.2%) over the operating income reported in 2011. The operating income in 2011 increased by $6,757,983 (113.9%) from the operating income reported in 2010.
- Net nonoperating revenues increased by $2,971,082 (662.4%) in 2012 compared to 2011 and decreased by $1,014,987 (179.2%) in 2011 compared to 2010.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased by $15,373,168 (17.7%) in 2012 over 2011 and increased by $12,318,908 (16.6%) in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2012	2011	2010
Assets			
Cash and cash equivalents	$ 9,726,493	$ 17,361,359	$ 14,898,090
Patient accounts receivable, net	12,590,472	11,536,078	9,929,422
Investments	43,011,122	29,546,075	23,285,580
Other current assets	5,710,137	3,611,061	2,977,481
Capital assets, net	48,678,605	40,955,235	39,855,937
Other noncurrent assets	10,219,576	7,307,884	8,196,056
Total assets	$ 129,936,405	$ 110,317,692	$ 99,142,566
Liabilities			
Long-term debt (including current portion)	$ 14,719,883	$ 15,127,818	$ 16,583,036
Other current and noncurrent liabilities	13,154,240	8,500,760	8,189,324
Total liabilities	27,874,123	23,628,578	24,772,360
Net Position			
Net investment in capital assets	30,418,161	25,605,624	23,233,892
Restricted – expendable	3,376,721	3,298,976	3,038,518
Restricted – nonexpendable	1,507,793	1,397,505	1,248,884
Unrestricted	66,759,607	56,387,009	46,848,912
Total net position	102,062,282	86,689,114	74,370,206
Total liabilities and net position	$ 129,936,405	$ 110,317,692	$ 99,142,566

A significant change in the Authority's assets in 2012 is the decrease in cash and cash equivalents of $7,634,866 (44.0%) as a result of moving additional cash reserves and cash generated from operations into investment accounts, which increased $13,465,047 (45.6%). Patient accounts receivable, net increased $1,054,394 (9.1%) as a result of increased net patient service revenue.

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

Operating Results and Changes in the Authority's Net Position

In 2012, the Authority's net position increased by $15,373,168 as shown in Table 2. This increase is made up of several different components and represents an increase of $3,054,260 (24.8%) compared with the increase in net position for 2011 of $12,318,908. The Authority's change in net position increased from $6,500,912 in 2010 to $12,318,908 in 2011, an increase of $5,817,996 or 89.5%.

Table 2: Operating Results and Changes in Net Position

	2012	2011	2010
Operating Revenues			
Net patient service revenue	$ 100,554,781	$ 93,440,137	$ 83,909,797
Gain on investment in joint ventures	1,312,868	727,583	1,763,980
Other operating revenues	5,859,999	5,070,747	4,793,532
Total operating revenues	107,727,648	99,238,467	90,467,309
Operating Expenses			
Salaries, wages and employee benefits	49,087,742	45,068,393	41,447,821
Purchased services and professional fees	10,688,881	10,865,449	12,843,845
Supplies and other expenses	29,308,141	25,400,842	25,049,867
Depreciation and amortization	5,792,292	5,211,369	5,191,345
Total operating expenses	94,877,056	86,546,053	84,532,878
Operating Income	12,850,592	12,692,414	5,934,431
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	22,273	323	-
Gain on investment in joint ventures	159,125	70,022	114,135
Investment income	3,160,563	383,282	1,411,189
Interest expense	(819,385)	(902,133)	(958,843)
Total nonoperating revenues (expenses)	2,522,576	(448,506)	566,481
Gifts to Purchase Capital Assets and Other Capital Gifts	-	75,000	-
Increase in Net Position	$ 15,373,168	$ 12,318,908	$ 6,500,912

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 and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported an operating income.

Operating income for 2012 increased by $158,178 (1.2%) as compared to 2011. The primary components of the increased operating income are:

- An increase in net patient service revenue of $7,114,644 (7.6%) as a result of receiving approximately $4,510,000 in Supplemental Hospital Offset Payment Program (SHOPP) funds and as a result of increases in the Authority's standard prices.

- An increase in other operating revenue of $789,252 (15.6%) primarily as a result of revenue earned from Medicare and Medicaid incentive funds related to implementation of electronic health records.

- An increase in salaries, wages and employee benefits of $4,019,349 (8.9%) as a result of pay increases of 3% with market adjustment of 1.8%. The Authority also experienced higher self-funded health plan payouts in 2012 compared to 2011. In addition, the Authority experienced an increase in therapy staffing that had been outsourced in previous years.

- An increase in supplies and other expenses of $3,907,299 (15.4%) as a result of approximately $2,483,000 in funds paid for the SHOPP assessment fee and as a result of overall cost increases of medical and pharmaceutical supplies.

Operating income for 2011 increased by $6,757,983 (113.9%) as compared to 2010. The primary components of the increased operating income are:

- An increase in net patient service revenue of $9,530,340 (11.4%) as a result of increases in admissions of 3.9%, emergency room visits of 3.7%, births of 2.9% and outpatient surgeries of 18.5%.

- An increase in other operating revenue of $1,112,583 (23.2%) primarily as a result of increased contributions received by the Stillwater Medical Center Foundation and the receipt of Medicaid incentive funds related to implementation of electronic health records.

- An increase in salaries, wages and employee benefits of $3,623,395 (8.7%) as a result of pay increases of 3% with market adjustments of 1.7%. Turnover rate increased 6.29% from 2010. The Authority added 19 full-time equivalent employees to accommodate volume changes mainly in nursing. The Authority also experienced higher self-funded health plan payouts in 2011 compared to 2010.

- A decrease in purchased services and professional fees of $1,049,902 (8.2%) as a result of contracting out professional services in the emergency department.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of the Authority's investment in joint ventures, investment income and interest expense. In 2012, the Authority's investment income increased by $2,777,281 as compared to 2011 due to increases in the total volume of investments and due to greater performance in investment markets. Due to market volatility during 2011, the Authority's investment income decreased by $1,027,907 as compared to 2010.

The Authority's Cash Flows

Net cash provided by operating activities increased in 2012 by $1,149,359 (7.0%) from 2011. The increase is attributable to operating revenue increasing at a higher level than the increases to operating expenses.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the Authority had $48,678,605 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2012, the Authority purchased new equipment and infrastructure improvements costing $12,990,035. At the end of 2011, the Authority had $40,955,235 invested in capital assets, net of accumulated depreciation, and purchased new equipment and infrastructure improvements costing $5,936,819.

Debt

At December 31, 2012 and 2011, the Authority had $14,719,883 and $15,127,818, respectively, in revenue bonds and capital lease obligations outstanding as discussed in *Note 9* to the financial statements. The Authority issued $727,503 of new debt in 2012 and did not issue new debt in 2011.

Contacting the Authority's Financial Management

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

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Balance Sheets
December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	$ 9,726,493	$ 17,361,359
Short-term investments	29,721,713	18,845,833
Restricted cash and investments – current	1,006,704	967,748
Patient accounts receivable, net of allowance; 2012 – $4,530,000, 2011 – $4,890,000	12,590,472	11,536,078
Supplies	2,334,357	1,876,017
Estimated amounts due from third-party payers	285,000	-
Prepaid expenses and other	3,090,780	1,735,044
Total current assets	58,755,519	52,322,079
Noncurrent Cash and Investments		
Held by trustee for debt service	2,686,088	2,617,822
Less amount required to meet current obligations	1,006,704	967,748
	1,679,384	1,650,074
Other long-term investments	10,603,321	8,082,420
Noncurrent cash and investments, net	12,282,705	9,732,494
Capital Assets, Net	48,678,605	40,955,235
Investments in Joint Ventures	2,022,685	1,850,970
Other Assets		
Deferred financing costs, net	282,896	315,719
Goodwill, net	7,819,376	5,046,576
Other	94,619	94,619
Total other assets	8,196,891	5,456,914
Total assets	$ 129,936,405	$ 110,317,692

Liabilities and Net Position

	2012	2011
Current Liabilities		
Current maturities of long-term debt	$ 911,692	$ 1,135,439
Accounts payable	5,087,982	2,010,199
Accrued expenses	8,066,258	6,240,561
Estimated amounts due to third-party payers	-	250,000
Total current liabilities	14,065,932	9,636,199
Long-Term Debt	13,808,191	13,992,379
Total liabilities	27,874,123	23,628,578
Net Position		
Net investment in capital assets	30,418,161	25,605,624
Restricted – expendable for		
Debt service	2,629,384	2,550,074
Specific operating activities	747,337	748,902
Restricted – nonexpendable permanent endowments	1,507,793	1,397,505
Unrestricted	66,759,607	56,387,009
Total net position	102,062,282	86,689,114
Total liabilities and net position	$ 129,936,405	$ 110,317,692

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – $8,368,682, 2011 – $7,145,893	$ 100,554,781	$ 93,440,137
Gain on investment in joint ventures	1,312,868	727,583
Other	5,859,999	5,070,747
Total operating revenues	107,727,648	99,238,467
Operating Expenses		
Salaries and wages	38,450,599	35,851,488
Employee benefits	10,637,143	9,216,905
Purchased services and professional fees	10,688,881	10,865,449
Supplies and other expenses	29,294,032	25,373,129
Depreciation and amortization	5,792,292	5,211,369
Loss on sale of capital assets	14,109	27,713
Total operating expenses	94,877,056	86,546,053
Operating Income	12,850,592	12,692,414
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	22,273	323
Gain on investment in joint ventures	159,125	70,022
Investment income	3,160,563	383,282
Interest expense	(819,385)	(902,133)
Total nonoperating revenues (expenses)	2,522,576	(448,506)
Excess of Revenues over Expenses Before Capital Gifts	15,373,168	12,243,908
Gifts to Purchase Capital Assets and Other Capital Gifts	-	75,000
Increase in Net Position	15,373,168	12,318,908
Net Position, Beginning of Year	86,689,114	74,370,206
Net Position, End of Year	$ 102,062,282	$ 86,689,114

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 99,627,172	$ 91,933,481
Payments to suppliers and contractors	(40,077,480)	(36,843,970)
Payments to employees	(49,087,742)	(45,071,216)
Other receipts and payments, net	7,034,905	6,329,201
Net cash provided by operating activities	17,496,855	16,347,496
Noncapital Financing Activities		
Noncapital gifts	22,273	323
Net cash provided by noncapital financing activities	22,273	323
Capital and Related Financing Activities		
Capital grants and gifts	-	75,000
Proceeds from disposal of capital assets	31,287	20,139
Principal paid on long-term debt	(1,173,747)	(1,493,526)
Interest paid on long-term debt	(792,121)	(860,538)
Purchase of capital assets	(8,619,404)	(5,754,712)
Net cash used in capital and related financing activities	(10,553,985)	(8,013,637)
Investing Activities		
Change in restricted assets whose use is limited under bond agreements, net	(68,266)	20,370
Change in investments, net	(11,234,482)	(6,615,700)
Dividends received from investments in joint ventures	125,372	6,300
Purchase of Ortho-Oklahoma	(4,210,897)	-
Purchase of Randall Respiratory	(210,000)	-
Investment income received	998,264	718,117
Net cash used in investing activities	(14,600,009)	(5,870,913)
Increase (Decrease) in Cash and Cash Equivalents	(7,634,866)	2,463,269
Cash and Cash Equivalents, Beginning of Year	17,361,359	14,898,090
Cash and Cash Equivalents, End of Year	$ 9,726,493	$ 17,361,359

	2012	2011
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 12,850,592	$ 12,692,414
Depreciation and amortization	5,792,292	5,211,369
Loss on sale of capital assets	14,109	27,713
Provision for uncollectible accounts	8,368,682	7,145,893
Changes in operating assets and liabilities		
Patient accounts receivable	(8,761,291)	(8,752,549)
Supplies, prepaid expenses and other	(1,685,598)	(741,686)
Estimated amounts due to third-party payers	(535,000)	100,000
Change in investment in joint ventures	(137,962)	530,871
Accounts payable and accrued expenses	1,591,031	133,471
Net cash provided by operating activities	$ 17,496,855	$ 16,347,496
Supplemental Cash Flows Information		
Capital asset purchases in accounts payable	$ 3,540,561	$ 221,793
Prepaid expenses in accounts payable	$ 4,725	$ -
Capital lease obligations incurred for equipment	$ 727,503	$ -

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

Nature of Operations and Reporting Entity

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

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

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

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution.

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 time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. The investments in joint ventures are reported on the cost and equity methods of accounting (see *Note 5* for additional information on joint ventures). All other investments are carried at fair value. Fair value is determined using quoted market prices.

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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

Deferred Financing Costs

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

Compensated Absences

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

Net Position

Net position of the Authority is classified in four components. Net investments 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. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Authority, such as permanent endowments. 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 (the Code) and a similar provision of state law. The Foundation is generally exempt from income taxes under Section 501 of the Code. The Foundation is also exempt from state income taxes under a similar provision of Oklahoma state statutes. However, the Authority and the Foundation are subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

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

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

The Authority completed the first-year requirements under the Medicaid program in 2011 and recorded revenue of approximately $322,000 and $400,000 in 2012 and 2011, respectively. In 2012, the Authority completed the first-year requirements under the Medicare program and has recorded revenue of approximately $1,743,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net position.

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services (CMS) approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation. As final approval by CMS was not obtained as of December 31, 2011, the accompanying 2011 financial statements do not include any activity related to the SHOPP program. During the current year, the Authority received approximately $4,510,000 in SHOPP funds and paid the SHOPP assessment fee of approximately $2,483,000. Approximately $1,496,000 of the funds received and $828,000 of the assessment paid were related to the retroactive period July 1, 2011 through December 31, 2011. The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation and home health services are paid at prospectively determined rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through December 31, 2010.

- **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 43% and 36% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, approximately $8,891,000 and $16,611,000 of the Authority’s bank balances of $16,312,000 and $21,162,000, respectively, were uninsured and uncollateralized. These amounts exclude deposits held by the Authority’s blended component unit with bank balances of approximately $888,000 and $1,393,000 at December 31, 2012 and 2011, respectively. As a nongovernmental entity, the blended component unit is not subject to collateralization requirements. At December 31, 2012, the blended component unit’s cash accounts exceeded federally insured limits by $127,000.

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, 2012 and 2011, the Authority had the following investments and maturities:

	December 31, 2012				
		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
Guaranteed income contract	$ 1,245,000	$ -	$ -	$ 1,245,000	$ -
U.S. Treasury obligations	205,891	-	-	54,883	151,008
U.S. agencies obligations	4,896,875	-	830,974	275,512	3,790,389
Corporate bonds	5,122,820	101,982	673,719	3,149,143	1,197,976
Money market mutual funds	2,372,918	2,372,918	-	-	-
Municipal bonds	10,877	-	-	10,877	-
Mutual funds	10,424,439	10,424,439	-	-	-
	24,278,820	$ 12,899,339	$ 1,504,693	$ 4,735,415	$ 5,139,373
Corporate stocks	10,911,144				
Accrued investment income	95,438				
	$ 35,285,402				

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

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Authority's policy to limit its domestic fixed income investments to a credit rating of no less than investment grade and an overall, weighted-average rating of A by Standard & Poor's (S & P), Moody's or Fitch. At December 31, 2012 and 2011, the Authority's investments not directly guaranteed by the U.S. government were rated as follows:

	2012	
Investments	**Moody's**	**S & P**
Guaranteed investment contract	Not Rated	Not Rated
U.S. agencies obligations	AA+	AAA
Corporate bonds	C–Aaa	BBB–AA+
Money market mutual funds	A3–Aaa	AAA–AAAm
Municipal bonds	Aa3	AAA
Mutual funds	Not Rated	Not Rated

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

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

Concentration of Credit Risk – The Authority limits exposure of the portfolio to any one issuer, other than U.S. government or its agencies, to 10% of the market value of the fixed income portfolio and to 5% of the market value of the equity portfolio. At December 31, 2012 and 2011, 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:

	2012	2011
Carrying value		
Deposits	$ 17,452,213	$ 21,628,573
Investments	35,285,402	25,278,861
	$ 52,737,615	$ 46,907,434
Included in the following balance sheet captions		
Cash and cash equivalents	$ 9,726,493	$ 17,361,359
Short-term investments	29,721,713	18,845,833
Restricted cash and investments – current	1,006,704	967,748
Noncurrent cash and investments	12,282,705	9,732,494
	$ 52,737,615	$ 46,907,434

Investment Income (Loss)

Investment income (loss) for the years ended December 31, 2012 and 2011, consisted of:

	2012	2011
Interest, dividends and realized gain on sales of investments	$ 1,042,952	$ 630,136
Net increase (decrease) in fair value of investments	2,117,611	(246,854)
	$ 3,160,563	$ 383,282

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, 2012 and 2011, consisted of:

	2012	2011
Medicare	$ 2,721,769	$ 2,738,835
Medicaid	982,513	515,355
Other third-party payers	7,591,599	8,227,223
Patients	5,824,591	4,944,665
	17,120,472	16,426,078
Less allowance for uncollectible accounts	4,530,000	4,890,000
	$ 12,590,472	$ 11,536,078

Note 5: Investments in Joint Ventures

The investments in joint ventures relate to a 10% ownership in Heartland Healthcare Reciprocal Risk Retention Group (Heartland), which is accounted for using the equity method of accounting; a 62% ownership in Stillwater Medical Imaging, LLC, which is accounted for using the equity method (as the Authority only controls 50% of the entity); a 50% ownership in Women First, LLC, which is accounted for using the equity method; and a 9% ownership in Fresenius Medical Care – Stillwater, LLC, which is accounted for using the cost method. Financial position and results of operations from Heartland's audited financial statements and the unaudited financial statements of the remaining joint venture entities for the fiscal years ended December 31, 2012 and 2011, are summarized below:

	December 31, 2012			
	(Audited) Heartland	Stillwater Medical Imaging, LLC	Fresenius Medical Care – Stillwater, LLC	Women First, LLC
Current assets	$ 14,419,907	$ 1,832,683	$ 559,821	$ 263,598
Property and other long-term assets, net	57,000	782,949	2,160,484	174,098
Total assets	$ 14,476,907	$ 2,615,632	$ 2,720,305	$ 437,696
Total liabilities	$ 6,135,395	$ 630,096	$ 305,639	$ 152,402
Partners' equity	8,341,512	1,985,536	2,414,666	285,294
Total liabilities and partners' equity	$ 14,476,907	$ 2,615,632	$ 2,720,305	$ 437,696
Revenues	$ 4,389,416	$ 3,146,745	$ 1,740,729	$ 454,033
Excess of revenues over expenses	$ 1,224,750	$ 1,863,064	$ 316,426	$ 330,442

	December 31, 2011			
	(Audited) Heartland	Stillwater Medical Imaging, LLC	Fresenius Medical Care – Stillwater, LLC	Women First, LLC
Current assets	$ 13,383,330	$ 1,699,478	$ 843,956	$ 209,668
Property and other long-term assets, net	101,999	393,244	2,319,475	274,691
Total assets	$ 13,485,329	$ 2,092,722	$ 3,163,431	$ 484,359
Total liabilities	$ 5,361,419	$ 266,955	$ 270,191	$ 279,507
Partners' equity	8,123,910	1,825,767	2,893,240	204,852
Total liabilities and partners' equity	$ 13,485,329	$ 2,092,722	$ 3,163,431	$ 484,359
Revenues	$ 3,694,714	$ 2,566,538	$ 1,747,552	$ 310,918
Excess of revenues over expenses	$ 1,156,919	$ 1,003,345	$ 476,690	$ 184,429

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, 2012 and 2011, the Authority paid approximately $173,000 and $181,700, respectively, to Heartland for the coverage. The Authority's investment in Heartland was $773,702 and $739,949 at December 31, 2012 and 2011, respectively.

Stillwater Medical Imaging, LLC (SMI) owns and operates MRI, CT and other imaging equipment. The Authority utilizes SMI to provide imaging services for its patients. The equipment is located within Stillwater Medical Center, and the Authority manages the operations and provides all staffing and supplies for SMI. The Authority performs all billing and collection services on behalf of SMI in exchange for a percentage of cash collections. SMI functions as if it were a department within the Authority. As a result, management has elected to record the gain on investment in SMI with other operating revenues. Included in accrued expenses of the Authority at December 31, 2012, is approximately $460,000 due from the joint venture. Included in accrued expenses of the Authority at December 31, 2011, is approximately $357,000 due to the joint venture. During the years ended December 31, 2012 and 2011, the Authority earned approximately $966,000 and $941,000, respectively, in fees from billing and collections services. The Authority's investment in SMI was $860,941 and $763,201 at December 31, 2012 and 2011, respectively.

Fresenius Medical Care – Stillwater, LLC (Fresenius) provides dialysis services to residents of Stillwater and the surrounding area. The Authority did not have any transactions with Fresenius during the year. The Authority's investment in Fresenius was $245,395 at December 31, 2012 and 2011.

Women First, LLC (Women First) was organized to provide digital mammography and bone density services to the patients of the Authority. The equipment is located within Stillwater Medical Center, and the Authority manages the operations and provides all staffing and supplies for Women First. Women First functions as if it were a department within the Authority. As a result, management has elected to record the gain on investment in Women First with other operating revenues. Included in accrued expenses of the Authority at December 31, 2012 and 2011, are approximately $44,000 and $54,000, respectively, due to the joint venture. During the years ended December 31, 2012 and 2011, Women First reimbursed the Authority approximately $154,000 and $366,000, respectively, for expenses the Authority incurred to manage its operations. The Authority's investment in Women First was $142,647 and $102,425 at December 31, 2012 and 2011, respectively.

Note 6: Capital Assets

Capital assets activity for the years ended December 31, 2012 and 2011, was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 2,115,409	$ -	$ -	$ -	$ 2,115,409
Land improvements	1,317,931	-	-	26,043	1,343,974
Buildings and fixed equipment	51,203,554	366,330	(213,810)	872,197	52,228,271
Major moveable equipment	50,804,849	8,488,962	(1,826,958)	(183,600)	57,283,253
Construction in progress	754,961	4,134,743	-	(714,640)	4,175,064
	106,196,704	12,990,035	(2,040,768)	-	117,145,971
Less accumulated depreciation					
Land improvements	1,217,014	57,818	-	-	1,274,832
Buildings and fixed equipment	26,519,516	1,847,065	(198,434)	-	28,168,147
Major moveable equipment	37,504,939	3,316,386	(1,796,938)	-	39,024,387
	65,241,469	5,221,269	(1,995,372)	-	68,467,366
	$ 40,955,235	$ 7,768,766	$ (45,396)	$ -	$ 48,678,605

	2011				
	Beginning Balance	**Additions**	**Disposals**	**Transfers**	**Ending Balance**
Land	$ 2,115,409	$ -	$ -	$ -	$ 2,115,409
Land improvements	1,462,807	11,737	(156,613)	-	1,317,931
Buildings and fixed equipment	47,212,772	230,784	(378,069)	4,138,067	51,203,554
Major moveable equipment	47,696,820	3,503,008	(394,979)	-	50,804,849
Construction in progress	2,701,738	2,191,290	-	(4,138,067)	754,961
	101,189,546	5,936,819	(929,661)	-	106,196,704
Less accumulated depreciation					
Land improvements	1,314,893	58,429	(156,308)	-	1,217,014
Buildings and fixed equipment	24,984,693	1,912,892	(378,069)	-	26,519,516
Major moveable equipment	35,034,023	2,818,348	(347,432)	-	37,504,939
	61,333,609	4,789,669	(881,809)	-	65,241,469
	$ 39,855,937	$ 1,147,150	$ (47,852)	$ -	$ 40,955,235

Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Authority's claims experience, an accrual of approximately $157,000 has been made as of December 31, 2012 and 2011. It is reasonably possible that this estimate could change materially in the near term.

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

Note 8: Self-Insured Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's employee health insurance plan. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of approximately $100,000 and any amounts over $1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount of $100,000 up to $1,000,000.

The Authority is self-insured for risks related to workers' compensation claims up to $400,000 per occurrence with an annual liability limit of $1,000,000 in the aggregate.

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

Activity in the Authority's accrued employee health and workers' compensation claims liability during 2012 and 2011 is summarized as follows:

	December 31, 2012	
	Employee Health	Workers' Compensation
Balance, beginning of year	$ 600,000	$ 292,681
Current year claims incurred and changes in estimates for claims incurred in prior years	5,557,230	143,280
Claims and expenses paid	(4,070,230)	(234,806)
Balance, end of year	$ 2,087,000	$ 201,155

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

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended December 31, 2012 and 2011:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 2003 Hospital Revenue Bonds (A)	$ 7,000,000	$ -	$ -	$ 7,000,000	$ -
Series 2005 Hospital Revenue Bonds (B)	8,135,000	-	900,000	7,235,000	950,000
Capital lease obligations	273,747	727,503	273,747	727,503	-
Total long-term debt	15,408,747	727,503	1,173,747	14,962,503	950,000
Loss on bond defeasance	(430,489)	-	(58,703)	(371,786)	(58,703)
Original issue premium	149,560	-	20,394	129,166	20,395
Total long-term obligations	$ 15,127,818	$ 727,503	$ 1,135,438	$ 14,719,883	$ 911,692

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

Revenue Bonds Payable – Series 2003

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

Revenue Bonds Payable – Series 2005

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

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the accompanying balance sheets. The indenture agreements also require the Authority to comply with certain restrictive covenants, including minimum insurance coverage, maintaining a historical debt service coverage ratio of at least 1.1 to 1.0 and restrictions on incurrence of additional debt.

The debt service requirements as of December 31, 2012, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2013	$ 1,690,788	$ 950,000	$ 740,788
2014	1,679,862	990,000	689,862
2015	1,686,312	1,050,000	636,312
2016	1,679,875	1,100,000	579,875
2017	1,677,125	1,155,000	522,125
2018–2022	8,453,095	6,700,000	1,753,095
2023	2,418,811	2,290,000	128,811
	$ 19,285,868	$ 14,235,000	$ 5,050,868

Capital Lease Obligations

The Authority is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2012 and 2011, totaled $727,503 and $3,099,762, net of accumulated depreciation of $36,381 and $1,691,307, respectively. The capital lease defers principal and interest payments for the first 36 months. Principal and accrued interest payments will be paid over 12 months beginning in June 2015. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 1.89% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2015	$ 453,411
2016	323,865
Total minimum lease payments	777,276
Less amount representing interest	49,773
Present value of future minimum lease payments	$ 727,503

Note 10: Restricted Net Position

At December 31, 2012 and 2011, restricted net position was available for the following purposes:

	2012	2011
Debt service	$ 2,629,384	$ 2,550,074
Specific operating activities	747,337	748,902
	3,376,721	3,298,976
Restricted – nonexpendable permanent endowments	1,507,793	1,397,505
Total restricted net position	$ 4,884,514	$ 4,696,481

At December 31, 2012 and 2011, $209,699 of unrestricted net position have been designated by the Authority’s Board of Trustees for capital acquisitions. Designated net position remains under control of the Board of Trustees, which may, at its discretion, later use this net position for other purposes.

Note 11: Charity Care and Uncompensated Care

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

Uncompensated charges relating to these services are approximately as follows:

	2012	2011
Charity allowances	$ 6,050,000	$ 5,178,000
State Medicaid and other public aid programs	15,122,000	16,623,000
	$ 21,172,000	$ 21,801,000

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

Note 12: Operating Leases

Noncancellable operating leases for equipment and building space expire in various years through December 2022. 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, 2012, were approximately:

2013	$ 932,000
2014	955,000
2015	964,000
2016	974,000
2017	936,000
2018–2022	2,116,000
Future minimum lease payments	$ 6,877,000

Rental expense for the years ended December 31, 2012 and 2011, was approximately $1,268,000 and $1,354,000, respectively.

Note 13: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 3% and 6% for 2012 and 2011, respectively. Contributions actually made by plan members and the Authority aggregated approximately $891,000 and $1,794,000 during 2012 and $817,000 and $1,650,000 during 2011, respectively.

Note 14: Business Acquisitions

On December 31, 2012, the Authority acquired 100% of the assets of OrthoOklahoma, P.C. and W. S. & J. Management, L.L.C. (Ortho-Oklahoma). The purchase price of approximately $4,210,000 was paid in cash. The results of Ortho-Oklahoma's operations will be included in the consolidated financial statements starting on that date. Ortho-Oklahoma is an orthopedic medical practice providing orthopedic surgery services to patients of the surrounding geographic area. As a result of the acquisition, the Authority will have an opportunity to increase procedure volumes through expansion of its orthopedic services.

The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. The excess of purchase price over the fair value of the assets was applied to goodwill.

Patient accounts receivable, net	$ 661,785
Other current assets	63,753
Property, plant and equipment	324,359
Total assets acquired	1,049,897
Total liabilities assumed	-
Net assets acquired	$ 1,049,897

The fair value of the transaction purchase price was determined based on a third-party appraisal at the date of acquisition.

Note 15: Acquired Goodwill

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

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

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2012 and 2011, were:

	2012	2011
Goodwill	$ 8,983,976	$ 5,822,976
Accumulated amortization	1,164,600	776,400
	$ 7,819,376	$ 5,046,576

The changes in the carrying amount of goodwill for the year ended December 31, 2012, were:

Balance as of January 1	$ 5,822,976
Goodwill acquired during the year	3,161,000
Balance as of December 31	$ 8,983,976

Note 16: Risks and Uncertainties

Litigation

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

Patient Protection and Affordable Care Act (PPACA)

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

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

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

Subsequent Event

On March 1, 2013, certain provisions of the federal government's *Budget Control Act of 2011* went into effect. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with date-of-service or dates-of-discharge on or after April 1, 2013. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Authority.

Supplementary Information

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Combining Schedule – Balance Sheet Information
December 31, 2012

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Assets					
Current Assets					
Cash and cash equivalents	$ 9,190,279	$ 536,214	$ 9,726,493	$ -	$ 9,726,493
Short-term investments	26,713,922	3,007,791	29,721,713	-	29,721,713
Restricted cash and investments – current	1,006,704	-	1,006,704	-	1,006,704
Patient accounts receivable, net of allowance	12,590,472	-	12,590,472	-	12,590,472
Supplies	2,334,357	-	2,334,357	-	2,334,357
Estimated amounts due from third-party payers	285,000	-	285,000	-	285,000
Prepaid expenses and other	2,911,172	179,608	3,090,780	-	3,090,780
Total current assets	55,031,906	3,723,613	58,755,519	-	58,755,519
Noncurrent Cash and Investments					
Held by trustee for debt service	2,686,088	-	2,686,088	-	2,686,088
Less amount required to meet current obligations	1,006,704	-	1,006,704	-	1,006,704
	1,679,384	-	1,679,384	-	1,679,384
Other long-term investments	10,123,604	479,717	10,603,321	-	10,603,321
Noncurrent cash and investments, net	11,802,988	479,717	12,282,705	-	12,282,705
Capital Assets, Net	48,678,605	-	48,678,605	-	48,678,605
Investments in Joint Ventures	2,022,685	-	2,022,685	-	2,022,685
Other Assets					
Deferred financing costs, net	282,896	-	282,896	-	282,896
Goodwill, net	7,819,376	-	7,819,376	-	7,819,376
Other	-	94,619	94,619	-	94,619
Total other assets	8,102,272	94,619	8,196,891	-	8,196,891
Total assets	$ 125,638,456	$ 4,297,949	$ 129,936,405	$ -	$ 129,936,405

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Liabilities and Net Position					
Current Liabilities					
Current maturities of long-term debt	$ 911,692	$ -	$ 911,692	$ -	$ 911,692
Accounts payable	5,087,982	-	5,087,982	-	5,087,982
Accrued expenses	8,066,258	-	8,066,258	-	8,066,258
Total current liabilities	14,065,932	-	14,065,932	-	14,065,932
Long-Term Debt	13,808,191	-	13,808,191	-	13,808,191
Total liabilities	27,874,123	-	27,874,123	-	27,874,123
Net Position					
Net investment in capital assets	30,418,161	-	30,418,161	-	30,418,161
Restricted – expendable for					
Debt service	2,629,384	-	2,629,384	-	2,629,384
Specific operating activities	-	747,337	747,337	-	747,337
Restricted – nonexpendable permanent endowments	-	1,507,793	1,507,793	-	1,507,793
Unrestricted	64,716,788	2,042,819	66,759,607	-	66,759,607
Total net position	97,764,333	4,297,949	102,062,282	-	102,062,282
Total liabilities and net position	$ 125,638,456	$ 4,297,949	$ 129,936,405	$ -	$ 129,936,405

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Combining Schedule – Balance Sheet Information
December 31, 2011

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

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance

Liabilities and Net Position

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

Stillwater Medical Center Authority
A Component Unit of the City of Stillwater, Oklahoma
Combining Schedule – Statement of Revenues, Expenses and Changes in Net Position Information
Year Ended December 31, 2012

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	$ 100,554,781	$ -	$ 100,554,781	$ -	$ 100,554,781
Gain on investment in joint ventures	1,312,868	-	1,312,868	-	1,312,868
Other	5,522,662	479,606	6,002,268	(142,269)	5,859,999
Total operating revenues	107,390,311	479,606	107,869,917	(142,269)	107,727,648
Operating Expenses					
Salaries and wages	38,589,759	-	38,589,759	(139,160)	38,450,599
Employee benefits	10,637,143	-	10,637,143	-	10,637,143
Purchased services and professional fees	10,688,881	-	10,688,881	-	10,688,881
Supplies and other expenses	28,990,479	306,662	29,297,141	(3,109)	29,294,032
Depreciation and amortization	5,792,292	-	5,792,292	-	5,792,292
Loss on sale of capital assets	14,109	-	14,109	-	14,109
Total operating expenses	94,712,663	306,662	95,019,325	(142,269)	94,877,056
Operating Income	12,677,648	172,944	12,850,592	-	12,850,592
Nonoperating Revenues (Expenses)					
Noncapital grants and gifts	22,273	-	22,273	-	22,273
Gain on investment in joint ventures	159,125	-	159,125	-	159,125
Investment income	2,883,089	277,474	3,160,563	-	3,160,563
Interest expense	(819,385)	-	(819,385)	-	(819,385)
Total nonoperating revenues (expenses)	2,245,102	277,474	2,522,576	-	2,522,576
Excess of Revenues over Expenses Before Capital Gifts	14,922,750	450,418	15,373,168	-	15,373,168
Gifts to Purchase Capital Assets and Other Capital Gifts	-	-	-	-	-
Increase in Net Position	14,922,750	450,418	15,373,168	-	15,373,168
Net Position, Beginning of Year	82,841,583	3,847,531	86,689,114	-	86,689,114
Net Position, End of Year	$ 97,764,333	$ 4,297,949	$ 102,062,282	$ -	$ 102,062,282

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

	Stillwater Medical Center Authority	Stillwater Medical Center Foundation, Inc.	Total	Eliminations	Combined Balance
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts	$ 93,440,137	$ -	$ 93,440,137	$ -	$ 93,440,137
Gain on investment in joint ventures	727,583	-	727,583	-	727,583
Other	3,989,504	1,217,881	5,207,385	(136,638)	5,070,747
Total operating revenues	98,157,224	1,217,881	99,375,105	(136,638)	99,238,467
Operating Expenses					
Salaries and wages	35,988,126	-	35,988,126	(136,638)	35,851,488
Employee benefits	9,216,905	-	9,216,905	-	9,216,905
Purchased services and professional fees	10,865,449	-	10,865,449	-	10,865,449
Supplies and other expenses	25,082,514	592,974	25,675,488	(302,359)	25,373,129
Depreciation and amortization	5,211,369	-	5,211,369	-	5,211,369
Loss on sale of capital assets	27,713	-	27,713	-	27,713
Total operating expenses	86,392,076	592,974	86,985,050	(438,997)	86,546,053
Operating Income	11,765,148	624,907	12,390,055	302,359	12,692,414
Nonoperating Revenues (Expenses)					
Noncapital grants and gifts	189,712	-	189,712	(189,389)	323
Gain on investment in joint ventures	70,022	-	70,022	-	70,022
Investment income	403,945	(20,663)	383,282	-	383,282
Interest expense	(902,133)	-	(902,133)	-	(902,133)
Total nonoperating revenues (expenses)	(238,454)	(20,663)	(259,117)	(189,389)	(448,506)
Excess of Revenues over Expenses Before Capital Gifts	11,526,694	604,244	12,130,938	112,970	12,243,908
Gifts to Purchase Capital Assets and Other Capital Gifts	187,970	-	187,970	(112,970)	75,000
Increase in Net Position	11,714,664	604,244	12,318,908	-	12,318,908
Net Position, Beginning of Year	71,126,919	3,243,287	74,370,206	-	74,370,206
Net Position, End of Year	$ 82,841,583	$ 3,847,531	$ 86,689,114	$ -	$ 86,689,114

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

Board of Trustees
Stillwater Medical Center Authority
Stillwater, Oklahoma

We have audited, 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, which comprise the balance sheet as of December 31, 2012, 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, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance

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*.

Other Matters

We noted certain matters that we reported to the Authority's management in a separate letter dated May 30, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or compliance. This communication 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, 2013