

Stillwater Medical Center Authority

2011-2021 Financials and Auditor's Report Briefing Document

Date: October 26, 2023

To: Interested Parties From: [Your Name/Department] Subject: Detailed Briefing on Stillwater Medical Center Authority's Financial Performance and Key Trends (2011-2021)

This briefing document provides a comprehensive overview of the Stillwater Medical Center Authority's (SMCA) financial performance, key trends, and important operational aspects from 2011 to 2021, based on the provided annual financial reports.

I. Executive Summary

The Stillwater Medical Center Authority, a component unit of the City of Stillwater, Oklahoma, has demonstrated significant financial growth and stability over the period of 2011 to 2021. Key highlights include consistent increases in total assets and net position, a generally upward trend in operating income, and strategic management of long-term debt and investments. The Authority primarily serves patients in Stillwater and surrounding communities, offering inpatient and emergency care services. While experiencing growth, the Authority has also navigated challenges such as uncollectible patient accounts and the need for ongoing capital investment.

II. Key Financial Themes and Trends

A. Asset Growth and Composition: The SMCA has experienced substantial growth in its total assets over the decade.

Total Assets:

2011: \$110,317,692

2012: \$129,936,405

2013: \$134,169,103

2014: \$153,612,308

2015: \$170,189,887

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2016: \$186,556,294

2017: \$240,908,369

2018: \$266,654,759

2019: \$353,577,217

2020: \$412,578,988

2021: \$435,791,301

Significant Asset Categories:

Cash and Cash Equivalents: Showed fluctuations but generally increased over the period. For instance, from \$17,361,359 in 2011 to \$34,315,520 in 2015, then declining to \$23,606,481 in 2020 and \$20,095,346 in 2021.

Short-term Investments: Fluctuated year-over-year, peaking at \$87,508,384 in 2021.

Patient Accounts Receivable, net: Consistently a significant current asset. The allowance for uncollectible accounts also increased, reflecting potential challenges in revenue collection, from \$4,890,000 in 2011 to \$5,116,000 in 2015, and reaching \$5,010,000 in 2013 (which was higher than the subsequent year 2014, \$5,245,000). By 2021, net patient accounts receivable was \$47,814,319.

Capital Assets, Net: A substantial and growing portion of total assets, indicating continuous investment in infrastructure and equipment. This increased from \$40,955,235 in 2011 to \$88,187,006 in 2021, reflecting "Net investment in capital assets" as a key component of net position.

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B. Liabilities and Debt Management: While total liabilities have generally increased in line with asset growth, the Authority has managed its long-term debt through various bond series and capital lease obligations.

Total Liabilities:

2011: \$23,628,578
2012: \$27,874,123
2013: \$25,713,487
2014: \$29,142,641
2015: \$27,316,543
2016: \$28,781,608
2017: \$58,221,982 (**Significant increase due to new bond issuance**)
2018: \$64,980,014
2019: \$108,842,615
2020: \$139,811,206
2021: \$131,560,285

Long-Term Debt (including current portion):

This figure has fluctuated, with a notable increase in 2017 due to the issuance of new revenue bonds.

2011: \$15,127,818
2012: \$14,719,883
2013: \$14,569,636
2014: \$16,945,914
2015: \$14,070,486 (**Series 2003 and 2005 retired, new Series 2014 issued**)
2016: \$12,152,772
2017: \$40,651,100 (**Introduction of Series 2017 bonds, significant increase**)
2018: \$47,539,571
2019: \$75,180,655 (**New Series 2019A, B, C, D bonds issued**)
2020: \$74,784,408
2021: \$78,795,148

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Revenue Bonds: The Authority has issued various series of revenue bonds (e.g., Series 2003, 2005, 2014, 2017, 2019A-D) to finance capital projects. These bonds are "secured by the gross revenues of the Authority and the trustee-held assets restricted under the bond indenture agreement." The 2019 financial statement notes the retirement of Series 2014 and Series 2017 bonds, and the issuance of Series 2019A, B, C, and D, totaling substantial new debt.

Capital Lease Obligations: The Authority also utilizes capital leases for equipment, with total assets under capital leases growing from \$3,858,067 in 2016 to \$5,584,459 in 2017.

C. Net Position (Equity): The Authority's net position has consistently increased, indicating a growing financial strength and accumulation of resources.

Total Net Position:

2011: \$86,689,114
2012: \$102,062,282
2013: \$108,455,616
2014: \$124,469,667
2015: \$142,873,344
2016: \$164,585,489
2017: \$188,436,585
2018: \$206,646,116
2019: \$244,734,602
2020: \$272,767,782
2021: \$304,231,016

Components of Net Position:

Net investment in capital assets: This component has steadily increased, reflecting the Authority's reinvestment in its physical infrastructure.

Restricted – Expendable: This includes amounts restricted for specific purposes like debt service or specific operating activities.

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Restricted – Nonexpendable: Introduced as a category in 2019, representing minority interest in SMC RE.

Unrestricted: This component represents resources that are not legally designated for specific purposes and has shown consistent growth, indicating increased financial flexibility.

D. Operating Performance: The Authority has generally maintained positive operating income, driven primarily by net patient service revenue.

Operating Revenues: Net patient service revenue is the primary source, showing consistent increases:

2011: \$93,440,137

2012: \$100,554,781

A "significant increase in the Authority's net assets" and "operating income for 2011 increased by \$6,757,983 or 113.9% as compared to 2010." (2011 report)

In 2011, "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 15.5%." (2011 report)

E. Investment Portfolio: The SMCA maintains a diversified investment portfolio, primarily consisting of money market mutual funds, mutual funds (fixed income, domestic, and international equities), U.S. Treasury obligations, and U.S. agency obligations.

Investment Policy: The Authority's policy limits 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." (2017, 2020 reports)

Custodial Credit Risk: The Authority's investment policy does not explicitly address custodial credit risk, which is "the risk that in the event of the failure of the counterparty the Authority will

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not be able to recover the value of its investment or collateral securities that are in the possession of an outside party." (2014 report)

F. Patient Accounts Receivable and Third-Party Payors: A significant portion of patient accounts receivable is from third-party payors, including Medicare and Medicaid, which are subject to complex reimbursement rules and regulations.

The Authority grants credit "without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements." (2013 report)

Medicare and Medicaid represent significant portions of patient revenue, with adjustments made for estimated retroactive revenue adjustments.

The allowance for uncollectible accounts is a recurring and substantial deduction from gross patient accounts receivable, indicating ongoing challenges in collecting some revenues.

III. Operational and Governance Structure

The Stillwater Medical Center Authority operates as a component unit of the City of Stillwater, Oklahoma.

Governance: The Authority's operations are governed by its Board of Trustees and the Board of Commissioners of the City of Stillwater.

Primary Function: To provide inpatient and emergency care services to patients in Stillwater, Oklahoma, and surrounding communities. It also operates a rehabilitation unit, skilled nursing unit, and provides home health services. (2011 report)

Stillwater Medical Center Foundation, Inc.: A non-profit corporation organized to support charitable healthcare activities of the Authority, included as a component unit in the financial statements. (2011 report)

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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. It does not pursue collection of amounts determined to qualify as charity care. (2011 report)

Risk Management: The Authority is exposed to various risks, including torts, theft, damage, natural disasters, and employee health/dental/accident benefits. Commercial insurance is purchased for claims arising from certain matters, while employee health and workers' compensation claims are self-insured. (2011 report)

Pension Plan: The Authority contributes to a defined contribution pension plan covering substantially all employees, with contributions ranging from 3% to 6% for plan members and the Authority respectively. (2011 report)

Internal Control over Financial Reporting: Audit reports frequently comment on internal controls. The 2011 report noted a "material weakness" in internal control over financial reporting related to the cash receipts and accounts receivable transactions cycle. This finding highlighted insufficient segregation of duties and inadequate monitoring. Management was expected to perform a suggested evaluation and make necessary changes. (2011 report)

IV. Notable Events and Changes Across Years

2011: Financial report indicates an overall positive performance, with significant increases in cash and cash equivalents, net assets, and operating income compared to 2010. Net nonoperating revenues decreased.

2012: Continued growth in total assets and net position.

2013: Long-term debt saw a slight decrease. Patient accounts receivable and allowance for uncollectible accounts increased.

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2014: Total liabilities increased. New investment types, such as Mutual funds – fixed income, domestic equities, and international equities, appear in the portfolio.

2015: Retirement of Revenue Bonds Series 2003 and 2005, and issuance of Series 2014.

2017: A significant increase in long-term debt due to the issuance of Series 2017 Revenue Bonds (\$35,000,000 original amount).

2018: Total assets and net position continued to grow. Investments matured.

2019: Retirement of Series 2014 and Series 2017 revenue bonds. Issuance of multiple new revenue bonds (Series 2019A, B, C, D). Introduction of "Restricted – nonexpendable" net position category related to "minority interest in SMC RE." Total assets and liabilities saw substantial increases due to new debt issuances and expanded operations.

2020-2021: Continued growth in assets and net position. The total liabilities show a slight decrease from 2020 to 2021, possibly due to debt repayments. Investment portfolio structure remained similar, with varying fair values across asset classes.

V. Conclusion

The Stillwater Medical Center Authority has demonstrated consistent financial growth and effective management over the past decade. The continuous increase in total assets and net position, coupled with strategic debt management through various bond issuances, indicates a strong financial foundation. While challenges like managing patient accounts receivable and ensuring robust internal controls are ongoing, the Authority appears to be in a solid financial position, continuing its mission to provide healthcare services to the Stillwater community and surrounding areas. Future briefings should continue to monitor debt levels, investment performance, and patient revenue trends, particularly in light of evolving healthcare reimbursement landscapes.

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