

# **Norman Regional Hospital Authority**

Independent Auditor's Reports and Financial Statements

June 30, 2017 and 2016





**Norman Regional Hospital Authority**  
**June 30, 2017 and 2016**

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## Independent Auditor's Report

Board of Trustees  
Norman Regional Hospital Authority  
Norman, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of Norman Regional Hospital Authority (the Authority) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norman Regional Hospital Authority as of June 30, 2017 and 2016, 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 and pension 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

**BKD, LLP**

Tulsa, Oklahoma  
September 25, 2017

# **Norman Regional Hospital Authority**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2017 and 2016**

#### ***Introduction***

This management's discussion and analysis of the financial performance of Norman Regional Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

#### ***Financial Highlights***

- Cash and cash equivalents increased in 2017 by \$17,552 or 16% and decreased in 2016 by \$1,784 or 2%.
- Short-term investments increased in 2017 by \$7,769 or 10% and decreased in 2016 by \$15 or 0%.
- Days cash on hand increased in 2017 by 17 days or 9% compared to 2016. Days cash on hand at June 30, 2017, was 214 days compared to 197 days at June 30, 2016.
- Patient accounts receivable increased in 2017 by \$1,712 or 3% and decreased in 2016 by \$3,582 or 8%.
- Current assets less current liabilities increased by \$20,830 or 10% in 2017 and increased by \$6,583 or 3% in 2016.
- The Authority reported operating income in 2017 of \$17,850 and in 2016 of \$29,949. The operating income in 2017 was \$12,099 or 40% lower than the operating income reported for 2016. The operating income in 2016 was \$8,091 or 37% higher than the operating income reported for 2015.
- The Authority reported net nonoperating revenues (expenses) of \$1,085 and \$(6,215) for 2017 and 2016, respectively. The net nonoperating revenues (expenses) in 2017 increased by \$7,300 or 117% compared to the 2016 amount. The net nonoperating revenues (expenses) in 2016 decreased by \$1,643 or 36% compared to the 2015 amount.

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

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

### ***The Statement of Cash Flows***

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

### ***The Authority's Net Position***

The Authority's net position is the difference between its assets and deferred outflows of resources and liabilities reported in the balance sheet. The Authority's net position increased by \$18,723 or 7% in 2017 from 2016 and increased by \$23,358 or 9% in 2016 from 2015 as shown in Table 1.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Assets and Deferred Outflows of Resources</b>			
Cash, cash equivalents and short-term investments	\$ 207,411	\$ 182,090	\$ 183,890
Patient accounts receivable, net	50,988	49,276	45,694
Other current assets	17,728	23,425	25,838
Capital assets, net	223,300	231,515	219,206
Other noncurrent assets	6,010	22,143	24,424
Deferred outflows of resources	<u>6,636</u>	<u>5,136</u>	<u>2,797</u>
 Total assets and deferred outflows of resources	 <u>\$ 512,073</u>	 <u>\$ 513,585</u>	 <u>\$ 501,849</u>
<b>Liabilities</b>			
Long-term debt (including current portion)	\$ 178,511	\$ 195,455	\$ 202,626
Other current and noncurrent liabilities	<u>45,302</u>	<u>48,593</u>	<u>53,044</u>
 Total liabilities	 <u>223,813</u>	 <u>244,048</u>	 <u>255,670</u>
<b>Net Position</b>			
Net investment in capital assets	49,336	50,689	31,949
Restricted – expendable for debt service	-	2,834	2,572
Restricted – nonexpendable	3,411	3,579	4,108
Unrestricted	<u>235,513</u>	<u>212,435</u>	<u>207,550</u>
 Total net position	 <u>288,260</u>	 <u>269,537</u>	 <u>246,179</u>
 Total liabilities and net position	 <u>\$ 512,073</u>	 <u>\$ 513,585</u>	 <u>\$ 501,849</u>

In 2017, cash, cash equivalents and short-term investments increased by \$25,321 or 14% due to cash provided by investing activities and a delay and reduction of bond trust fund deposits with the new 2016 and 2017 bond series (see *Note 9*). In 2016, cash, cash equivalents and short-term investments decreased by \$1,800 or 1%. Included in operations was the net benefit of the Supplemental Hospital Offset Payment Program (SHOPP) of \$10,285.

Patient accounts receivable, net of allowances increased by \$1,712 or 3% from 2016 to 2017. Patient accounts receivable, net of allowances increased by \$3,582 or 3% from 2015 to 2016. This increase was primarily the result of increases in patient revenue and volume. Days net revenue in accounts receivable was 49 days at both June 30, 2017 and June 30, 2016.

Capital assets, net of accumulated depreciation decreased by \$8,215 or 4% from 2016 to 2017 and increased by \$12,309 or 6% from 2015 to 2016. The decrease in capital assets in 2017 was due to depreciation for the year, offset by capital expenditures.

Long-term debt decreased \$16,944 or 9% from 2016 to 2017 and decreased \$7,171 or 4% from 2015 to 2016. The decrease in both 2017 and 2016 was due to the repayment of debt, including the refinancing of all outstanding indebtedness during 2017 (*Note 9*).

## Operating Results and Changes in the Authority's Net Position

In 2017, the Authority's net position increased by \$18,723 or 7%. In 2016, the Authority's net position increased by \$23,358 or 9%. These changes in net position are detailed in Table 2 below.

**Table 2: Operating Results and Changes in Net Position**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 377,390	\$ 368,693	\$ 348,068
Other operating revenue	5,186	10,058	12,135
Total operating revenues	<u>382,576</u>	<u>378,751</u>	<u>360,203</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	204,025	194,378	185,950
Professional fees	10,739	10,544	10,777
Purchased services	13,939	15,366	16,263
Supplies expense	69,997	65,098	61,459
Other expenses	44,675	43,955	44,437
Depreciation and amortization	21,351	19,461	19,459
Total operating expenses	<u>364,726</u>	<u>348,802</u>	<u>338,345</u>
<b>Operating Income</b>	<u>17,850</u>	<u>29,949</u>	<u>21,858</u>
<b>Nonoperating Revenues (Expenses)</b>			
Noncapital grants and gifts	929	1,058	72
Investment income	10,035	1,231	4,983
Interest expense	(9,879)	(8,504)	(9,627)
Total nonoperating revenues (expenses)	<u>1,085</u>	<u>(6,215)</u>	<u>(4,572)</u>
<b>Excess of Revenues over Expenses Before Capital Gifts and Distributions</b>	18,935	23,734	17,286
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	282	691	655
<b>Distributions to Minority Owners</b>	<u>(494)</u>	<u>(1,067)</u>	<u>(132)</u>
<b>Increase in Net Position</b>	18,723	23,358	17,809
Adjustment applicable to prior years (GASB 68)	<u>-</u>	<u>-</u>	<u>(10,686)</u>
<b>Increase in Net Position</b>	<u>\$ 18,723</u>	<u>\$ 23,358</u>	<u>\$ 7,123</u>

## ***Operating Income***

A major 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 positive operating income.

Operating income for 2017 decreased by \$12,099 or 40% as compared to 2016. The primary components of this decrease in operating income in 2017 were:

- An increase in total operating revenue of \$3,825 or 1%
- An increase in total operating expenses of \$15,924 or 5%

Net patient service revenue was greater in 2017 than 2016 because of higher inpatient and outpatient volume, particularly related to new oncology services in 2017.

Other operating revenue decreased \$4,872 or 48% in 2017 due to the decrease in revenue related to the Electronic Health Records (EHR) Incentive Program, fewer land sales by NRH Medical Park West, L.L.C., and the end of tornado insurance proceeds in 2016.

Salaries, wages and employee benefits increased \$9,647 or 5% from 2016 to 2017. This increase is due to annual salary increases, market wage adjustments and increased staffing.

Operating income for 2016 increased by \$8,091 or 37% as compared to 2015. The primary components of this increase in operating income in 2016 were:

- An increase in total operating revenue of \$18,548 or 5%
- An increase in total operating expenses of \$10,457 or 3%

Net patient service revenue was greater in 2016 than 2015 because of higher inpatient and outpatient volume, increased case mix index and reduced denials.

Other operating revenue decreased \$2,077 or 17% in 2016 primarily due to the decrease in revenue related to noncapital insurance proceeds related to Norman Regional Moore and the EHR Incentive Program.

Salaries, wages and employee benefits increased \$8,428 or 5% from 2015 to 2016. This increase is due to normal annual salary increases and an increase in pension and retirement expense offset by a decrease in group health insurance expense.

## ***Nonoperating Revenues and Expenses***

Another major component of the Authority's change in net position is its nonoperating revenues and expenses. Nonoperating revenues and expenses consist primarily of noncapital grants and gifts, investment income and interest expense. In 2017, net nonoperating revenues and expenses increased by \$7,300 or 117%. This increase was due to the increase in investment income of \$8,804 or 716% compared to 2016. Net nonoperating revenues and expenses decreased by \$1,643 or 36% in 2016 compared to 2015. This decrease was the result of a decrease in investment income of \$3,752 or 75% due to declining market returns compared to 2015.

## ***The Authority's Cash Flows***

Net cash provided by operating activities in 2017 decreased by \$3,102 or 7% from 2016. Payments to suppliers, contractors and employees decreased by \$10,803, while receipts from patients increased by \$11,588 from 2016. The increase in receipts from and on behalf of patients is consistent with the increased net patient service revenue and the change in patient accounts receivable.

## ***Capital Asset and Debt Administration***

### **Capital Assets**

At June 30, 2017, the Authority had \$223,300 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2017, the Authority purchased new equipment and made improvements totaling \$13,646.

At June 30, 2016, the Authority had \$231,515 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2016, the Authority purchased new equipment and made improvements totaling \$33,816.

### **Debt**

At June 30, 2017, the Authority had \$178,511 in bond obligations outstanding, net of related premiums, as detailed in *Note 9* to the financial statements. In 2017, the Authority issued the Series 2016 and Series 2017 Hospital Revenue Refunding Bonds to refund the outstanding balance of all existing bonds, as detailed in *Note 9* to the financial statements. The Authority reduced the outstanding principal of its long-term debt by \$16,944. NRH Medical Park West, L.L.C. (Medical Park West), Oklahoma Sleep Associates, LLC (Oklahoma Sleep Associates) and NRHS ACO LLC (NRHS ACO) did not have any outstanding debt at June 30, 2017.

The Authority's debt ratings by Standard & Poor's were upgraded to BBB+ in October 2016 and upgraded by Moody's to Baa1 in September 2016.

At June 30, 2016, the Authority had \$195,455 in bonds and master lease obligations outstanding, net of related discounts, as detailed in *Note 9* to the financial statements. In 2016, the Authority did not issue any new debt. The Authority reduced the outstanding principal of its long-term debt by \$7,172. Medical Park West and Oklahoma Sleep Associates did not have any outstanding debt at June 30, 2016.

Medical Park West, Oklahoma Sleep Associates and NRHS ACO are not a part of the Obligated Group with respect to the Authority's bonds and bond covenants.

## ***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 405.307.1000.

# Norman Regional Hospital Authority

## Balance Sheets

June 30, 2017 and 2016

### Assets and Deferred Outflows of Resources

	<u>2017</u>	<u>2016</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 124,458,489	\$ 106,906,957
Short-term investments	82,952,314	75,183,320
Restricted cash and investments – current	5,078	5,608,943
Patient accounts receivable, net of allowance; 2017 – \$24,868,000, 2016 – \$16,580,000	50,988,147	49,275,801
Supplies	11,219,145	10,586,594
Estimated amounts due from third-party payers	-	454,321
Prepaid expenses and other	<u>6,504,111</u>	<u>6,775,091</u>
Total current assets	<u>276,127,284</u>	<u>254,791,027</u>
<b>Noncurrent Cash and Investments</b>		
Held by trustee for debt service	9,916	20,204,269
Held by others for capital acquisitions	<u>73,336</u>	<u>73,336</u>
	83,252	20,277,605
Less amount required to meet current obligations	<u>5,078</u>	<u>5,608,943</u>
Noncurrent cash and investments, net	<u>78,174</u>	<u>14,668,662</u>
<b>Capital Assets, Net</b>	<u>223,299,682</u>	<u>231,514,565</u>
<b>Other Assets</b>	<u>5,930,751</u>	<u>7,474,026</u>
<b>Deferred Outflows of Resources</b>	<u>6,635,772</u>	<u>5,136,029</u>
Total assets and deferred outflows of resources	<u><u>\$ 512,071,663</u></u>	<u><u>\$ 513,584,309</u></u>

## Liabilities and Net Position

	<u>2017</u>	<u>2016</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 5,738,971	\$ 5,505,000
Accounts payable	13,902,963	12,573,001
Accrued payroll and expenses	16,499,003	16,266,212
Accrued interest payable	2,146,722	3,006,009
Estimated amounts due to third-party payers	45,274	-
Estimated self-insurance costs – current	<u>2,404,287</u>	<u>2,881,036</u>
Total current liabilities	40,737,220	40,231,258
<b>Long-Term Debt</b>	172,771,447	189,949,605
<b>Other Long-Term Liabilities</b>	6,151,282	6,765,707
<b>Pension Liability</b>	<u>4,152,179</u>	<u>7,100,935</u>
Total liabilities	<u>223,812,128</u>	<u>244,047,505</u>
<b>Net Position</b>		
Net investment in capital assets	49,335,621	50,688,808
Restricted – expendable for debt service	-	2,834,493
Restricted – nonexpendable	3,410,967	3,578,506
Unrestricted	<u>235,512,947</u>	<u>212,434,997</u>
Total net position	<u>288,259,535</u>	<u>269,536,804</u>
Total liabilities and net position	<u><u>\$ 512,071,663</u></u>	<u><u>\$ 513,584,309</u></u>

**Norman Regional Hospital Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – \$79,337,790, 2016 – \$57,012,838	\$ 377,389,580	\$ 368,693,310
Other operating revenue	5,186,471	10,057,555
Total operating revenues	382,576,051	378,750,865
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	204,025,212	194,378,464
Professional fees	10,739,112	10,544,132
Purchased services	13,938,670	15,365,781
Supplies expense	69,998,021	65,097,827
Other expenses	44,674,435	43,954,100
Depreciation and amortization	21,351,314	19,460,784
Total operating expenses	364,726,764	348,801,088
<b>Operating Income</b>	17,849,287	29,949,777
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital grants and gifts	928,791	1,057,745
Investment income	10,035,244	1,231,563
Interest expense	(9,878,642)	(8,504,267)
Total nonoperating revenues (expenses)	1,085,393	(6,214,959)
<b>Excess of Revenues over Expenses Before Capital Gifts and Distributions</b>	18,934,680	23,734,818
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	281,801	690,536
<b>Distributions to Minority Owners</b>	(493,750)	(1,066,930)
<b>Increase in Net Position</b>	18,722,731	23,358,424
<b>Net Position, Beginning of Year</b>	269,536,804	246,178,380
<b>Net Position, End of Year</b>	\$ 288,259,535	\$ 269,536,804

**Norman Regional Hospital Authority**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 376,176,829	\$ 364,589,274
Payments to suppliers and contractors	(137,379,409)	(132,395,341)
Payments to employees	(205,192,687)	(199,373,783)
Other receipts and payments, net	<u>5,130,969</u>	<u>9,018,211</u>
Net cash provided by operating activities	<u>38,735,702</u>	<u>41,838,361</u>
<b>Noncapital Financing Activities</b>		
Noncapital grants and gifts	<u>928,791</u>	<u>1,057,745</u>
Net cash provided by noncapital financing activities	<u>928,791</u>	<u>1,057,745</u>
<b>Capital and Related Financing Activities</b>		
Gifts to purchase capital assets and other capital gifts	281,801	690,536
Proceeds from disposal of capital assets	659,828	3,261,046
Principal paid on long-term debt	(180,992,499)	(7,188,217)
Interest paid on long-term debt	(9,134,599)	(9,064,771)
Purchase of capital assets	(14,952,176)	(33,157,464)
Proceeds from issuance of long-term debt	<u>177,298,912</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(26,838,733)</u>	<u>(45,458,870)</u>
<b>Investing Activities</b>		
Change in restricted assets – held by trustee and others	2,291,822	(170,067)
Proceeds from sale of short-term investments	14,588,173	12,170,148
Purchase of short-term investments	(15,224,142)	(13,913,308)
Distributions from joint ventures	2,172,503	2,647,338
Distributions to minority owners	(493,750)	(1,066,930)
Investment income received	<u>1,391,166</u>	<u>1,111,260</u>
Net cash provided by investing activities	<u>4,725,772</u>	<u>778,441</u>
<b>Change in Cash and Cash Equivalents</b>	17,551,532	(1,784,323)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>106,906,957</u>	<u>108,691,280</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 124,458,489</u></u>	<u><u>\$ 106,906,957</u></u>

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 17,849,287	\$ 29,949,777
Depreciation and amortization	21,351,314	19,460,784
Gain on disposal of capital assets	(55,502)	(1,039,344)
Provision for uncollectible accounts	79,337,790	57,012,838
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(81,050,136)	(60,594,222)
Insurance receivable for operating activities	-	2,399,112
Supplies and prepaid expenses	(361,571)	556,878
Estimated amounts due from/to third-party payers	499,595	(522,652)
Other assets	787,233	1,419,172
Accounts payable and accrued expenses	1,777,590	(5,162,651)
Pension liability	(1,399,898)	(1,641,331)
	<u>\$ 38,735,702</u>	<u>\$ 41,838,361</u>
Net cash provided by operating activities		
	<u>\$ 38,735,702</u>	<u>\$ 41,838,361</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset purchases and other assets in accounts payable	\$ 995,023	\$ 2,301,034

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2017 and 2016

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

#### ***Nature of Operations***

Norman Regional Hospital Authority (the Authority) is a public trust which, as its sole activity, operates Norman Regional Health System (the System). The System operates Norman Regional Hospital (under the terms of a bargain lease with the city of Norman, Oklahoma), Norman Regional Moore (purchased by the System during fiscal year 2007), Norman Regional HealthPlex (opened during fiscal year 2010) and primary and specialty clinics throughout the service area.

The System primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the cities of Norman and Moore, Oklahoma, and surrounding areas. The System also operates a rehabilitation unit and a psychiatric unit and provides ambulance services in the same geographic area. Additionally, the System is an investor in various health care-related entities, including a specialty hospital and surgery centers.

#### ***Reporting Entity***

The accompanying financial statements include the accounts of the Authority and its blended component units, entities for which the Authority is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

#### **Blended Component Units**

NRH Medical Park West, L.L.C. (Medical Park West) is a limited liability company organized in 2005 to develop and sell land and to lease land to the Authority. The Authority owns a 78.2% ownership interest in Medical Park West and appoints a voting majority of its board of managers.

Oklahoma Sleep Associates, LLC (Oklahoma Sleep Associates) is a limited liability company organized in 2009 to provide diagnostic and therapeutic testing and treatment of sleep disorders. The Authority owns a 79% ownership interest in Oklahoma Sleep Associates and is responsible for its management.

NRHS ACO LLC (NRHS ACO) is a limited liability company organized in 2016 to improve the health of patients and populations served by the Authority, reduce total health care costs, integrate provision of care provided by the Authority and contract with government and private health benefit plans on behalf of the Authority's providers as an accountable care organization. The Authority is the sole member of NRHS ACO and is responsible for its management.

Separate financial statements for Medical Park West, Oklahoma Sleep Associates and NRHS ACO can be obtained by contacting the Authority's administrative office.

Under the terms of the bond indenture discussed in *Note 9*, the Obligated Group does not include Medical Park West, Oklahoma Sleep Associates or NRHS ACO.

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

### **June 30, 2017 and 2016**

#### ***Basis of Accounting and Presentation***

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and deferred outflows of resources and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) 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.

The other members' interest in Medical Park West and Oklahoma Sleep Associates is accounted for as restricted nonexpendable net position in the Authority's financial statements. All significant inter-entity accounts and transactions have been eliminated in the accompanying financial statements.

#### ***Use of Estimates***

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

#### ***Cash Equivalents***

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents consisted primarily of money market accounts.

#### ***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, short-term disability 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 all risks related to employees' short-term disability and for a portion of its exposure to risk of loss from medical malpractice, 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.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### **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 are carried at amortized cost. The investment in equity investees is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices or the net asset value (NAV) per share.

Investment income includes dividend and interest income, realized gains and losses on investments sold, the net change for the year in the fair value of investments carried at fair value and the income (loss) from investments in joint ventures.

### **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. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

### **Supplies**

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

### **Capital Assets**

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

Land improvements	15–20 years
Buildings and leasehold improvements	20–40 years
Equipment	3–7 years

The Authority capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2017</u>	<u>2016</u>
Interest capitalized, net	\$ -	\$ 732,134
Interest charged to expense	<u>9,878,642</u>	<u>8,504,267</u>
Total interest incurred	<u>\$ 9,878,642</u>	<u>\$ 9,236,401</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

***Deferred Outflows of Resources***

The Authority is required to account for certain transactions as deferred outflows or inflows of resources if they do not qualify for treatment as either assets or liabilities. Deferred outflows and inflows of resources are defined as a consumption (deferred outflows) or an acquisition (deferred inflows) of net position by the Authority that is applicable to a future reporting period.

At June 30, 2017 and 2016, the deferred outflows of resources reported by the Authority on the accompanying balance sheets consisted of the following items:

	<b>2017</b>	<b>2016</b>
Loss on defeasance of long-term debt, net	\$ 5,033,239	\$ 1,984,638
Deferred outflows related to pensions	1,602,533	3,151,391
Total deferred outflows of resources	\$ 6,635,772	\$ 5,136,029

***Guarantees***

The Authority is joint guarantor on loans of an entity that is a joint venture between the Authority and two other hospitals. At June 30, 2017, the Authority guaranteed approximately \$6,308,000 of the outstanding balance of the loans.

***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. 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.

***Defined Benefit Pension Plan***

The Authority has a single-employer defined benefit pension plan, the Norman Regional Health System Defined Benefit Plan (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are recorded by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

**June 30, 2017 and 2016**

### ***Net Position***

Net position of the Authority is classified in four components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees, as required by bond indentures, reduced by the outstanding balances of any related borrowings. 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, and other members' interest in component units. 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***

The Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRC) and a similar provision of state law. However, the Authority is subject to federal income tax on any unrelated business taxable income.

Medical Park West, Oklahoma Sleep Associates and NRHS ACO members have elected to have each company's income taxed as a partnership under provisions of the IRC and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns, and no provision for federal and state income taxes is included in these financial statements.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### **Supplemental Hospital Offset Payment Program**

On January 17, 2012, the Centers for Medicare and Medicaid Services approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2020. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

SHOPP revenue is recorded as part of net patient service revenue and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. The amounts noted in the table below for the years ended June 30, 2017 and 2016, represent the approximate amounts received and paid by the Authority. The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different from the net amounts received in 2017.

	<u>2017</u>	<u>2016</u>
SHOPP funds received	\$ 21,240,000	\$ 16,481,000
SHOPP assessment fees paid	<u>10,955,000</u>	<u>9,745,000</u>
Net SHOPP benefit	<u>\$ 10,285,000</u>	<u>\$ 6,736,000</u>

### **Reclassifications**

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 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. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation and psychiatric unit 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 June 30, 2015.

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2017 and 2016

**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 46% and 44% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2017 and 2016, 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 could 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 collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At June 30, 2017 and 2016, none of the Authority's bank balances of approximately \$518,000 and \$771,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$725,000 and \$724,000 and carrying values of approximately \$701,000 and \$700,000 at June 30, 2017 and 2016, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2017, the blended component units' cash accounts exceeded federally insured limits by approximately \$393,000.

#### ***Investments***

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

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

At June 30, the Authority had the following investments and maturities:

Type	Fair Value	2017		
		Maturities in Years		
		Less than 1	1-5	6-10
Money market mutual funds	\$ 122,901,849	\$ 122,901,849	\$ -	\$ -
Mutual funds				
Bond funds	16,502,466	-	3,747,762	12,754,704
Equity and other funds	<u>35,910,923</u>	<u>35,910,923</u>	<u>-</u>	<u>-</u>
	175,315,238	<u>\$ 158,812,772</u>	<u>\$ 3,747,762</u>	<u>\$ 12,754,704</u>
Equities	<u>30,573,377</u>			
	<u>\$ 205,888,615</u>			
Type	Fair Value	2016		
		Maturities in Years		
		Less than 1	1-5	6-10
Money market mutual funds	\$ 108,922,656	\$ 108,922,656	\$ -	\$ -
Mutual funds				
Bond funds	16,028,060	-	3,509,557	12,518,503
Equity and other funds	31,761,565	31,761,565	-	-
U.S. Treasury obligations	<u>16,924,040</u>	<u>11,605,068</u>	<u>5,318,972</u>	<u>-</u>
	173,636,321	<u>\$ 152,289,289</u>	<u>\$ 8,828,529</u>	<u>\$ 12,518,503</u>
Equities	<u>27,552,163</u>			
	<u>\$ 201,188,484</u>			

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority’s investment policy provides guidelines for the fixed income investment portfolio to maintain an aggregate duration between three and seven years for long-term investments while not limiting the duration of individual investments. The money market mutual funds, equity and other mutual funds and equities are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. Maturities of bond mutual funds are presented based on the average maturity of the underlying securities in the fund.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2017 and 2016

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority’s investment policy provides guidelines to maintain an aggregate credit rating of A or better on fixed income securities but does not place limits on individual investments. At June 30, 2017 and 2016, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

Investments	Moody’s	S & P
Money market mutual funds	Not rated or Aaa	Not rated or 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 how securities are to be held.

**Concentration of Credit Risk** – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2017 and 2016, 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:

	2017	2016
Carrying value		
Deposits	\$ 1,587,665	\$ 1,155,821
Investments	205,888,615	201,188,484
Cash on hand	17,775	23,577
	<u>\$ 207,494,055</u>	<u>\$ 202,367,882</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 124,458,489	\$ 106,906,957
Short-term investments	82,952,314	75,183,320
Restricted cash and investments – current	5,078	5,608,943
Noncurrent cash and investments	78,174	14,668,662
	<u>\$ 207,494,055</u>	<u>\$ 202,367,882</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

***Investment Income***

Investment income for the years ended June 30 consisted of:

	<u>2017</u>	<u>2016</u>
Interest, dividends and realized gain on sales of investments, net	\$ 3,056,198	\$ 2,649,253
Income from joint ventures	1,511,053	1,878,420
Net increase (decrease) in fair value of investments	<u>5,467,993</u>	<u>(3,296,110)</u>
	<u>\$ 10,035,244</u>	<u>\$ 1,231,563</u>

**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 June 30 consisted of:

	<u>2017</u>	<u>2016</u>
Medicare	\$ 14,842,353	\$ 13,268,086
Medicaid	1,540,147	2,014,637
Other third-party payers	45,589,729	39,787,038
Patients	<u>13,883,918</u>	<u>10,786,040</u>
	75,856,147	65,855,801
Less allowance for uncollectible accounts	<u>24,868,000</u>	<u>16,580,000</u>
	<u>\$ 50,988,147</u>	<u>\$ 49,275,801</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 5: Investments in Joint Ventures**

The investments in joint ventures included in other assets on the accompanying balance sheets relate to the Authority's ownership in multiple joint ventures. The one significant joint venture is recapped below:

***Oklahoma Heart Hospital South, LLC***

The Authority has an approximate 12% ownership in Oklahoma Heart Hospital South, LLC (OHHS). The Authority's investment in OHHS amounted to approximately \$3,406,000 and \$3,603,000 at June 30, 2017 and 2016, respectively. The audited financial position and results of operations of OHHS are summarized below as of December 31:

	<b>2016</b>	<b>2015</b>
Current assets	\$ 38,745,716	\$ 45,558,090
Property and other long-term assets, net	62,959,165	58,397,938
Total assets	<u>101,704,881</u>	<u>103,956,028</u>
Current liabilities	16,241,498	16,493,282
Long-term liabilities	52,075,664	48,751,534
Total liabilities	<u>68,317,162</u>	<u>65,244,816</u>
Members' equity	<u>\$ 33,387,719</u>	<u>\$ 38,711,212</u>
Revenues	<u>\$ 134,614,861</u>	<u>\$ 130,432,103</u>
Net income	<u>\$ 13,805,113</u>	<u>\$ 22,660,654</u>



# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### Note 7: Self-Insured Claims

Substantially all of the Authority's employees are eligible to participate in the Authority's workers' compensation and short-term disability plans. In addition, substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's employee health insurance plan. The Authority self-insures all risks related to employee short-term disability. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$500,000 and for workers' compensation claims up to \$750,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amounts. A provision is accrued for self-insured employee health and workers' compensation claims, including both claims reported and claims incurred but not yet reported, and is included in estimated self-insurance costs on the accompanying balance sheets. 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 the Authority's estimates will change by a material amount in the near term.

Activity in the Authority's accrued self-insured claims liabilities during 2017 and 2016 is summarized as follows:

	<b>June 30, 2017</b>		
	<b>Workers' Compensation</b>	<b>Short-Term Disability</b>	<b>Employee Health</b>
Balance, beginning of year	\$ 2,063,000	\$ -	\$ 1,053,592
Current year claims incurred and changes in estimates for claims incurred in prior years	971,032	95,939	8,510,057
Claims and expenses paid	<u>(810,924)</u>	<u>(95,939)</u>	<u>(8,670,533)</u>
Balance, end of year	<u>\$ 2,223,108</u>	<u>\$ -</u>	<u>\$ 893,116</u>
	<b>June 30, 2016</b>		
	<b>Workers' Compensation</b>	<b>Short-Term Disability</b>	<b>Employee Health</b>
Balance, beginning of year	\$ 2,136,000	\$ -	\$ 1,324,662
Current year claims incurred and changes in estimates for claims incurred in prior years	677,222	199,279	6,721,619
Claims and expenses paid	<u>(750,222)</u>	<u>(199,279)</u>	<u>(6,992,689)</u>
Balance, end of year	<u>\$ 2,063,000</u>	<u>\$ -</u>	<u>\$ 1,053,592</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 8: Medical Malpractice Claims**

The Authority purchases medical malpractice insurance coverage under a claims-made policy on a fixed premium basis with a significant self-insured retention limit. 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. Annual estimated provisions are accrued based on actuarially determined amounts. At June 30, 2017 and 2016, the Authority recorded an accrual of \$3,003,000 and \$3,773,000, respectively, for pending malpractice claims, which is included in estimated self-insurance costs on the accompanying balance sheets. It is reasonably possible the Authority's estimate of losses will change by a material amount in the near term.

**Note 9: Long-Term Obligations**

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30:

	2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Long-Term Debt</b>					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 11,750,000	\$ -	\$ (11,750,000)	\$ -	\$ -
Series 2005 Hospital Revenue Bonds (B)	66,744,240	-	(66,744,240)	-	-
Series 2007 Hospital Revenue Refunding Bonds (C)	80,205,365	-	(80,205,365)	-	-
Series 2013 Hospital Revenue Refunding Bonds (D)	22,650,000	-	(22,650,000)	-	-
Series 2015 Hospital Revenue Refunding Bonds (E)	14,105,000	-	(14,105,000)	-	-
Series 2016 Hospital Revenue Bonds (F)	-	150,209,827	(445,411)	149,764,416	4,568,119
Series 2017 Hospital Revenue Bonds (G)	-	28,755,656	(9,654)	28,746,002	1,170,852
Total long-term debt	195,454,605	178,965,483	(195,909,670)	178,510,418	5,738,971
<b>Other Long-Term Liabilities</b>					
Estimated self-insurance costs	6,889,592	9,822,520	(10,592,888)	6,119,224	2,404,287
Deferred compensation plan	3,749,855	1,464,080	(1,047,854)	4,166,081	1,729,736
Total long-term obligations	<u>\$ 206,094,052</u>	<u>\$ 190,252,083</u>	<u>\$ (207,550,412)</u>	<u>\$ 188,795,723</u>	<u>\$ 9,872,994</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

	2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Long-Term Debt</b>					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 13,100,000	\$ -	\$ (1,350,000)	\$ 11,750,000	\$ 1,350,000
Series 2005 Hospital Revenue Bonds (B)	66,731,452	12,788	-	66,744,240	-
Series 2007 Hospital Revenue Refunding Bonds (C)	82,331,588	-	(2,126,223)	80,205,365	2,285,000
Series 2013 Hospital Revenue Refunding Bonds (D)	23,655,000	-	(1,005,000)	22,650,000	1,045,000
Series 2015 Hospital Revenue Refunding Bonds (E)	14,730,000	-	(625,000)	14,105,000	825,000
Master lease obligation	2,078,217	-	(2,078,217)	-	-
Total long-term debt	202,626,257	12,788	(7,184,440)	195,454,605	5,505,000
<b>Other Long-Term Liabilities</b>					
Estimated self-insurance costs	7,288,662	7,627,645	(8,026,715)	6,889,592	2,881,036
Deferred compensation plan	3,840,179	837,478	(927,802)	3,749,855	992,704
Total long-term obligations	<u>\$ 213,755,098</u>	<u>\$ 8,477,911</u>	<u>\$ (16,138,957)</u>	<u>\$ 206,094,052</u>	<u>\$ 9,378,740</u>

**Revenue Bonds Payable**

- (A) Due September 1, 2022; principal payable annually and interest payable currently every 35 days at interest rates based on auction provisions; interest rate at June 30, 2016, was 0.56%; callable at any time; secured by pledge of the Authority's gross revenues and trustee-held assets. Outstanding bonds were refunded at par value with the issuance of the 2016 Bonds in November 2016 (see (F) below).
- (B) Due September 1, 2036; principal payable annually beginning September 1, 2022, plus semiannual interest payments at interest rates from 5.375% to 5.50%; callable on or after September 1, 2016; secured by pledge of the Authority's gross revenues and trustee-held assets. Outstanding bonds were refunded at par value with the issuance of the 2016 Bonds in November 2016 (see (F) below).

When the Series 2005 Hospital Revenue Bonds (2005 Bonds) were issued, the bonds were sold at a discount of approximately \$384,000. At June 30, 2016, the outstanding balance of the 2005 Bonds was as follows:

Principal amount	\$ 67,000,000
Less unamortized discount	<u>(255,760)</u>
Net amount outstanding	<u>\$ 66,744,240</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

- (C) Due September 1, 2037; principal payable annually beginning September 1, 2008, plus semiannual interest payments at interest rates from 5.00% to 5.25%; callable on or after September 1, 2017; secured by pledge of the Authority’s gross revenues and trustee-held assets. Approximately 59% of the outstanding bonds were defeased at par value in November 2016 with the issuance of the 2016 Bonds (see (F) below). The remaining outstanding bonds were defeased at par value with the issuance of the 2017 Bonds in June 2017 (see (G) below).

When the Series 2007 Hospital Revenue Refunding Bonds (2007 Bonds) were issued, the bonds were sold at a discount of approximately \$113,000. At June 30, 2016, the outstanding balance of the 2007 Bonds was as follows:

Principal amount	\$ 80,285,000
Less unamortized discount	<u>(79,635)</u>
Net amount outstanding	<u><u>\$ 80,205,365</u></u>

- (D) Due September 1, 2023; principal payable annually beginning September 1, 2013, plus semiannual interest payments at 3.77%; callable on or after September 1, 2014; secured by pledge of the Authority’s gross revenues. Outstanding bonds were refunded at a 2.00% premium with the issuance of the 2016 Bonds in November 2016 (see (F) below).
- (E) Due September 1, 2029; principal payable annually beginning September 1, 2015, plus semiannual interest payments at 3.00%; callable on or after September 1, 2019; secured by pledge of the Authority’s gross revenues. Outstanding bonds were refunded at a 5.00% premium with the issuance of the 2016 Bonds in November 2016 (see (F) below).
- (F) Due September 1, 2037; principal payable annually beginning September 1, 2017, plus semiannual interest payments at interest rates from 3.00% to 5.00%; callable on or after September 1, 2026; secured by pledge of the Authority’s gross revenues.

When the Series 2016 Hospital Revenue Bonds (2016 Bonds) were issued, the bonds were sold at a premium of approximately \$13,975,000. At June 30, 2017, the outstanding balance of the 2016 Bonds was as follows:

Principal amount	\$ 136,235,000
Plus unamortized premium	<u>13,529,416</u>
Net amount outstanding	<u><u>\$ 149,764,416</u></u>

- (G) Due September 1, 2037; principal payable annually beginning September 1, 2017, plus semiannual interest payments at 5.00%; callable on or after September 1, 2027; secured by pledge of the Authority’s gross revenues.

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When the Series 2017 Hospital Revenue Bonds (2017 Bonds) were issued, the bonds were sold at a premium of approximately \$2,356,000. At June 30, 2017, the outstanding balance of the 2017 Bonds was as follows:

Principal amount	\$ 26,400,000
Plus unamortized premium	<u>2,346,002</u>
Net amount outstanding	<u><u>\$ 28,746,002</u></u>

Under the terms of the 2016 Bond and 2017 Bond Master Trust Indenture, the Authority is no longer required to maintain certain funds with the trustee. Under the terms of the Authority's revenue bond indentures ((A) through (E) above), the Authority is required to maintain certain funds with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and capital acquisitions in the accompanying balance sheets for the year ended June 30, 2016. The Authority's revenue bond indentures under both the previous bonds ((A) through (E)) and the new Master Trust Indenture place limits on the incurrence of additional borrowings and require that the Authority satisfy certain measures of financial performance as long as the bonds are outstanding.

In 2017, the Authority issued the 2016 Bonds and 2017 Bonds in the principal amount of \$162,635,000, with an original issue premium of approximately \$16,330,000 which, along with other available funds, were used to refund approximately \$190,285,000 of the outstanding bonds ((A) through (E) above). Aggregate cash flows on the refunded bonds from the refunding date through maturity of the 2016 Bonds and 2017 Bonds total a range of approximately \$303,056,000 (based on the minimum rate allowed under the bonds described at (A) above) to \$308,082,000 (based on the maximum rate allowed under the bonds described at (A) above) while aggregate cash flows for the 2016 Bonds and 2017 Bonds total approximately \$270,319,000 resulting in a positive net cash flow differential range for the refunding transaction of approximately \$32,737,000 to \$37,763,000. The economic gain (generally defined as the present value of the net cash flow discounted at the effective interest rate of the new debt) equals a range of approximately \$19,367,000 to \$23,795,000. This advance refunding transaction resulted in an accounting loss of approximately \$3,130,000.

Upon issuance and delivery of the 2016 Bonds and 2017 Bonds, the Authority defeased its outstanding 2007 Bonds in the total principal amount of \$78,000,000 as well as a portion of its outstanding 2015 Bonds in the total principal amount of \$850,000, both of which are included in the refunded bonds noted above. Proceeds from the 2016 Bonds and 2017 Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since the Authority was legally released from its obligation on the 2007 Bonds and 2015 Bonds at the time of defeasance. Accordingly, the 2007 Bonds and portion of the 2015 Bonds, aggregating \$78,850,000 at June 30, 2017, remain outstanding, but are excluded from the Authority's balance sheets. On September 1, 2017, all principal, interest and redemption premiums on the 2007 Bonds and 2015 Bonds were paid in full from the escrow funds and no amounts remain outstanding under either issuance.

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In prior years, the Authority had advance refunded five different revenue bond issues, and each of these advance refunding transactions resulted in extinguishment of debt since the Authority was legally released from its obligation on those bond series.

The advance refundings mentioned above, including the current year refunding transactions, resulted in an accounting loss on the extinguishment of the long-term debt. This loss on refunding is shown as a deferred outflow of resources on the accompanying balance sheets and is being amortized using the straight-line method over the life of the respective new bond issues.

The debt service requirements of the revenue bonds payable, excluding unamortized premiums, as of June 30, 2017, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2018	\$ 12,080,158	\$ 4,955,000	\$ 7,125,158
2019	12,085,175	4,800,000	7,285,175
2020	12,086,325	5,005,000	7,081,325
2021	12,086,250	5,240,000	6,846,250
2022	12,087,500	5,510,000	6,577,500
2023–2027	60,433,625	32,085,000	28,348,625
2028–2032	60,433,500	41,200,000	19,233,500
2033–2037	60,423,950	52,010,000	8,413,950
2038–2039	12,086,550	11,830,000	256,550
	<u>\$ 253,803,033</u>	<u>\$ 162,635,000</u>	<u>\$ 91,168,033</u>

**Note 10: Restricted Net Position**

At June 30, 2017 and 2016, restricted net position of \$0 and \$2,834,493, respectively, was available for debt service.

At June 30, 2017 and 2016, restricted nonexpendable net position of \$3,410,967 and \$3,578,506, respectively, was related to the other members' interest in Medical Park West and Oklahoma Sleep Associates.

**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 the state Medicaid program. The state Medicaid program pays 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.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
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Charges for gross patient service revenue, contractual adjustments and uncompensated care are as follows:

	2017		2016	
	Dollar	Percent	Dollar	Percent
Gross patient service revenue	\$1,740,610,602	100.0%	\$1,597,372,173	100.0%
Contractual adjustments	(1,235,312,760)	-71.0%	(1,126,170,397)	-70.5%
Provision for uncollectible accounts and charity care adjustments	<u>(127,908,262)</u>	<u>-7.3%</u>	<u>(102,508,466)</u>	<u>-6.4%</u>
Net patient service revenue	<u>\$ 377,389,580</u>	<u>21.7%</u>	<u>\$ 368,693,310</u>	<u>23.1%</u>

The estimated uncompensated costs associated with charity care services were approximately \$8,433,000 and \$7,858,000 for the years ended June 30, 2017 and 2016, respectively. The costs of charity care are estimated by applying the cost to charge ratio from the Authority's most recent Medicare cost report to the gross uncompensated charges.

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 screenings and assessments, Norman Public School's nurses and sports medicine, low-income health and dental clinics, transportation program for low-income residents in Cleveland County, meals for the homebound, community educational services and various support groups.

**Note 12: Defined Contribution and Deferred Compensation Plans**

***Defined Contribution Plans***

The Authority contributes to a defined contribution pension plan, the Norman Regional Hospital Match Plan, covering substantially all employees who have completed a one-year period of continuous employment and elect to contribute to the plan. 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 governing body. 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. The contribution rate for the Authority expressed as a percentage of covered payroll was 1.2% and 1.3% for 2017 and 2016, respectively. Contributions actually made by the Authority were approximately \$1,795,000 and \$1,732,000 during the years ended June 30, 2017 and 2016, respectively.

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2017 and 2016

The Authority also contributes to another defined contribution pension plan, the Norman Regional Hospital Defined Contribution Plan, covering substantially all employees who have completed a one-year period of continuous employment. 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 governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit and contribution provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. The contribution rate for the Authority expressed as a percentage of covered payroll was 3.5% and 3.8% for 2017 and 2016, respectively. Contributions actually made by the Authority were approximately \$5,030,000 and \$4,715,000 during the years ended June 30, 2017 and 2016, respectively.

The Authority also provides a deferred compensation plan (457 Plan) to substantially all employees of the Authority and a nonqualified deferred contribution plan (415m Plan) to certain employees of the Authority. The Authority does not make contributions to the 457 Plan.

There are no publicly available financial reports for these defined contribution pension plans.

#### ***Deferred Compensation Plan***

Additionally, the Authority maintains a nonqualified deferred compensation plan for certain physicians effective July 1, 2007. Contributions to the plan are made by the Authority based on call hours worked. The plan vests after a five- or ten-year period. The contributions are held in a trust that carries life insurance policies on each physician. The life insurance policies are invested in mutual funds, and the cash surrender value of the policies at June 30, 2017 and 2016, was approximately \$2,861,000 and \$2,859,000, respectively, and is included in prepaid expenses and other assets in the accompanying balance sheets. The related liability as of June 30, 2017 and 2016, of approximately \$4,166,000 and \$3,750,000, respectively, for this plan is included in accrued payroll and expenses and other long-term liabilities in the accompanying balance sheets (see *Note 9*). Deferred compensation expense related to the plan totaled approximately \$1,020,000 and \$1,083,000 for the years ended June 30, 2017 and 2016, respectively.

#### **Note 13: Defined Benefit Pension Plan**

##### ***Plan Description***

The Authority's defined benefit pension plan, the Pension Plan for Employees of Norman Regional Hospital, is a single-employer defined benefit pension plan administered by the Authority's governing body. The plan benefits were frozen on December 31, 2003. No new participants were admitted to the plan after that date. Participants who were over age 60 or had 25 or more years of service as of December 31, 2003, continue to accrue benefits under the plan. The authority to establish and amend benefit provisions is vested in the Authority's governing body. There is no publicly available financial report for the defined benefit pension plan. The Authority uses an April 30 measurement date.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### **Benefits Provided**

The plan provides retirement and death benefits to plan members and their beneficiaries. Retirement benefits for employees are calculated as 1.5% of the participant's average annual earnings, as defined by the plan, multiplied by the number of years of credited service at retirement or termination. Death benefits are equal to the vested balance. Disability retirement benefits are determined as the actuarial equivalent in the same manner as retirement benefits but are payable from date of disability to normal retirement date. For participants with frozen benefits, the retirement age is 65. For participants accruing benefits, the retirement age is the later of age 60 or the age upon the completion of 30 years of service.

The employees covered by the plan at April 30, 2017 and 2016, are:

	<u>2017</u>	<u>2016</u>
Inactive employees or beneficiaries currently receiving benefits	294	274
Inactive employees entitled to but not yet receiving benefits	345	365
Active employees	<u>401</u>	<u>425</u>
	<u>1,040</u>	<u>1,064</u>

### **Contributions**

The Authority's governing body has the authority to establish and amend the contribution requirements of the Authority and active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. For the years ended April 30, 2017 and 2016, the Authority contributed \$3,000,000 and \$4,500,000, respectively, to the plan. Participants do not contribute to the plan.

### **Net Pension Liability**

The Authority's net pension liability was measured as of April 30, 2017 and 2016, for the years ended June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

The total pension liability in the April 30, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.6%
Salary increase	4.00% average, including inflation
Ad hoc cost of living adjustments	Not applicable
Investment rate of return	7.00%, net of pension plan investment expense and including inflation

**Norman Regional Hospital Authority**  
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Mortality rates for the 2017 and 2016 valuation were based on the RP-2014 Blue Collar Mortality Table.

The actuarial assumptions used in the April 30, 2017, valuation were based on the results of an actuarial experience study for the period May 1, 2011 through April 30, 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic rates of return for both the 2017 and 2016 valuations for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return (Net of Inflation)</b>
Domestic stocks	40%	6.25%
International stocks	12%	6.00%
Emerging markets stocks	3%	7.50%
U.S. bonds	25%	2.00%
International bonds	10%	2.50%
Real estate	5%	3.50%
Balanced	0%	6.25%
Cash	5%	-1.00%
	100%	

***Discount Rate***

The discount rate used to measure the total pension liability was 7% for the years ended June 30, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that the Authority's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
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Changes in the total pension liability, plan fiduciary net position and net pension liability for the years ended June 30 were:

	<b>2017</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance, beginning of year	\$ 42,803,767	\$ 35,702,832	\$ 7,100,935
Changes for the year			
Interest	2,921,547	-	2,921,547
Differences between expected and actual experience	(233,458)	-	(233,458)
Contributions – employer	-	3,000,000	(3,000,000)
Net investment income	-	3,331,627	(3,331,627)
Benefit payments	(2,134,753)	(2,134,753)	-
Change of assumptions	575,643	-	575,643
Other changes	-	(119,139)	119,139
Net changes	<u>1,128,979</u>	<u>4,077,735</u>	<u>(2,948,756)</u>
Balance, end of year	<u>\$ 43,932,746</u>	<u>\$ 39,780,567</u>	<u>\$ 4,152,179</u>
	<b>2016</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance, beginning of year	\$ 40,398,972	\$ 34,243,373	\$ 6,155,599
Changes for the year			
Interest	2,759,356	-	2,759,356
Differences between expected and actual experience	324,236	-	324,236
Contributions – employer	-	4,500,000	(4,500,000)
Net investment income	-	(1,081,343)	1,081,343
Benefit payments	(1,959,198)	(1,959,198)	-
Change of assumptions	1,280,401	-	1,280,401
Net changes	<u>2,404,795</u>	<u>1,459,459</u>	<u>945,336</u>
Balance, end of year	<u>\$ 42,803,767</u>	<u>\$ 35,702,832</u>	<u>\$ 7,100,935</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
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The net pension liability of the Authority has been calculated using a discount rate of 7%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate for the year ended June 30, 2017:

	<b>1% Decrease (6.0%)</b>	<b>Current Discount Rate (7.0%)</b>	<b>1% Increase (8.0%)</b>
Net pension liability	\$ 9,026,037	\$ 4,152,179	\$ 36,575

***Pension Expense and Deferred Outflows of Resources Related to Pensions***

For the years ended June 30, 2017 and 2016, the Authority recognized pension expense of \$1,480,963 and \$2,858,671, respectively. At June 30, 2017 and 2016, the Authority reported deferred outflows of resources of \$1,602,533 and \$3,151,391, respectively, related to the net difference between projected and actual earnings on pension plan investments. The reported deferred outflows of resources at June 30, 2017, related to pensions will be recognized in pension expense as follows:

2018	\$ 641,713
2019	641,715
2020	500,534
2021	(181,429)
Total	\$ 1,602,533

**Note 14: Disclosures About Fair Value of Assets and Liabilities**

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets or liabilities

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2017 and 2016

### Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30:

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>2017</b>				
<b>Investments by Fair Value Level</b>				
Money market mutual funds	\$ 122,901,849	\$ 122,901,849	\$ -	\$ -
Mutual funds				
Bond funds	16,502,466	16,502,466	-	-
Equity and other funds	13,130,990	13,130,990	-	-
Equities	<u>30,573,377</u>	<u>30,573,377</u>	-	-
Total investments by fair value level	183,108,682	<u>\$ 183,108,682</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Investments Measured at NAV</b>				
Mutual funds	<u>22,779,933</u>			
Total investments measured at fair value	<u>\$ 205,888,615</u>			
<b>2016</b>				
<b>Investments by Fair Value Level</b>				
Money market mutual funds	\$ 108,922,656	\$ 108,922,656	\$ -	\$ -
Mutual funds				
Bond funds	16,028,060	16,028,060	-	-
Equity and other funds	11,538,810	11,538,810	-	-
U.S. Treasury obligations	16,924,040	16,924,040	-	-
Equities	<u>27,552,163</u>	<u>27,552,163</u>	-	-
Total investments by fair value level	180,965,729	<u>\$ 180,965,729</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Investments Measured at NAV</b>				
Mutual funds	<u>20,222,755</u>			
Total investments measured at fair value	<u>\$ 201,188,484</u>			

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2017 and 2016

Certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying balance sheets.

#### ***Investments***

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Investments measured at NAV consist of investments in two dynamic asset overlay funds and a European opportunities fund.

The investment objective of the dynamic asset overlay funds is to moderate the volatility of an equity-oriented asset allocation with one fund and a fixed income-oriented asset allocation with another fund over the long term as part of a client's overall asset allocation managed by Sanford C. Bernstein & Co. LLC. The dynamic asset overlay funds may invest in a diversified portfolio of securities and other financial instruments, including derivative instruments that provide investment exposure to a variety of asset classes. These asset classes may include equity securities and fixed income instruments of issuers located within and outside the United States, real estate-related securities, below investment grade or high yield securities, currencies and commodities. Withdrawals from the funds may be made on the last business day of each month with 30 days' notice. The Authority did not have any unfunded commitments to the funds at June 30, 2017 and 2016.

The investment objective of the European opportunities fund is to generate attractive returns over the long term by investing in a concentrated portfolio of European and European-related publicly listed securities that can achieve superior returns through strong cash flow generation. The fund primarily invests in equity securities. The fund also uses derivatives for non-hedging purposes to earn income and enhance returns and as a means of making direct investments in foreign currencies. Withdrawals from the fund may be made on the last business day of each month with 30 days' notice. The Authority did not have any unfunded commitments to the fund at June 30, 2017 and 2016.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
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**Note 15: Contingencies and Other Matters**

***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.

***Investments***

The Authority invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying balance sheets.

**Note 16: Transactions with Norman Regional Health Foundation, Inc.**

Norman Regional Health Foundation, Inc. (the Foundation) is a nonprofit corporation organized to serve as the legal conduit for receiving and distributing gifts for the support of the Authority. During the years ended June 30, 2017 and 2016, the Foundation contributed approximately \$2,000 and \$8,000, respectively, in noncapital-related contributions and \$60,000 and \$627,000, respectively, in capital-related contributions to the Authority.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 17: Combining Component Unit Information**

The following tables include combining balance sheet information for the Authority and its component units as of June 30:

	June 30, 2017					Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	
<b>Assets and Deferred Outflows of Resources</b>						
<b>Current Assets</b>						
Cash and cash equivalents	\$ 123,010,746	\$ 792,848	\$ 622,846	\$ 32,049	\$ -	\$ 124,458,489
Short-term investments	82,952,314	-	-	-	-	82,952,314
Restricted cash and investments – current	5,078	-	-	-	-	5,078
Patient accounts receivable, net of allowance; \$24,868,000	50,988,147	-	-	-	-	50,988,147
Supplies	11,219,145	-	-	-	-	11,219,145
Prepaid expenses and other	6,425,607	63,755	165,361	-	(150,612)	6,504,111
Total current assets	<u>274,601,037</u>	<u>856,603</u>	<u>788,207</u>	<u>32,049</u>	<u>(150,612)</u>	<u>276,127,284</u>
<b>Noncurrent Cash and Investments</b>						
Held by trustee for debt service	9,916	-	-	-	-	9,916
Held by others for capital acquisitions	73,336	-	-	-	-	73,336
	83,252	-	-	-	-	83,252
Less amount required to meet current obligations	5,078	-	-	-	-	5,078
Noncurrent cash and investments, net	<u>78,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>78,174</u>
<b>Capital Assets, Net</b>	<u>209,708,723</u>	<u>13,956,795</u>	<u>142,305</u>	<u>-</u>	<u>(508,141)</u>	<u>223,299,682</u>
<b>Other Assets</b>	<u>18,223,550</u>	<u>-</u>	<u>6,484</u>	<u>-</u>	<u>(12,299,283)</u>	<u>5,930,751</u>
<b>Deferred Outflows of Resources</b>	<u>6,635,772</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,635,772</u>
Total assets and deferred outflows of resources	<u>\$ 509,247,256</u>	<u>\$ 14,813,398</u>	<u>\$ 936,996</u>	<u>\$ 32,049</u>	<u>\$ (12,958,036)</u>	<u>\$ 512,071,663</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

	June 30, 2017					
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	Combined Balance
<b>Liabilities and Net Position</b>						
<b>Current Liabilities</b>						
Current maturities of long-term debt	\$ 5,738,971	\$ -	\$ -	\$ -	\$ -	\$ 5,738,971
Accounts payable	13,981,383	61,664	8,001	2,525	(150,610)	13,902,963
Accrued payroll and expenses	16,499,003	-	-	-	-	16,499,003
Accrued interest payable	2,146,722	-	-	-	-	2,146,722
Estimated amounts due to third-party payers	45,274	-	-	-	-	45,274
Estimated self-insurance costs – current	2,404,287	-	-	-	-	2,404,287
Total current liabilities	40,815,640	61,664	8,001	2,525	(150,610)	40,737,220
<b>Long-Term Debt</b>	172,771,447	-	-	-	-	172,771,447
<b>Other Long-Term Liabilities</b>	6,151,282	-	-	-	-	6,151,282
<b>Pension Liability</b>	4,152,179	-	-	-	-	4,152,179
Total liabilities	223,890,548	61,664	8,001	2,525	(150,610)	223,812,128
<b>Net Position</b>						
Net investment in capital assets	35,236,521	13,956,795	142,305	-	-	49,335,621
Restricted – nonexpendable	-	-	-	-	3,410,967	3,410,967
Unrestricted	250,120,187	794,939	786,690	29,524	(16,218,393)	235,512,947
Total net position	285,356,708	14,751,734	928,995	29,524	(12,807,426)	288,259,535
Total liabilities and net position	\$ 509,247,256	\$ 14,813,398	\$ 936,996	\$ 32,049	\$ (12,958,036)	\$ 512,071,663

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

	June 30, 2016				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
<b>Assets and Deferred Outflows of Resources</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 105,229,124	\$ 1,023,254	\$ 654,579	\$ -	\$ 106,906,957
Short-term investments	75,183,320	-	-	-	75,183,320
Restricted cash and investments – current	5,608,943	-	-	-	5,608,943
Patient accounts receivable, net of allowance; \$16,580,000	49,275,801	-	-	-	49,275,801
Supplies	10,586,594	-	-	-	10,586,594
Estimated amounts due from third-party payers	454,321	-	-	-	454,321
Prepaid expenses and other	6,677,370	60,466	126,423	(89,168)	6,775,091
Total current assets	<u>253,015,473</u>	<u>1,083,720</u>	<u>781,002</u>	<u>(89,168)</u>	<u>254,791,027</u>
<b>Noncurrent Cash and Investments</b>					
Held by trustee for debt service	20,204,269	-	-	-	20,204,269
Held by others for capital acquisitions	73,336	-	-	-	73,336
	<u>20,277,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,277,605</u>
Less amount required to meet current obligations	5,608,943	-	-	-	5,608,943
Noncurrent cash and investments, net	<u>14,668,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,668,662</u>
<b>Capital Assets, Net</b>	<u>217,362,051</u>	<u>14,480,801</u>	<u>179,854</u>	<u>(508,141)</u>	<u>231,514,565</u>
<b>Other Assets</b>	<u>20,338,951</u>	<u>-</u>	<u>6,484</u>	<u>(12,871,409)</u>	<u>7,474,026</u>
<b>Deferred Outflows of Resources</b>	<u>5,136,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,136,029</u>
Total assets and deferred outflows of resources	<u>\$ 510,521,166</u>	<u>\$ 15,564,521</u>	<u>\$ 967,340</u>	<u>\$ (13,468,718)</u>	<u>\$ 513,584,309</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

	June 30, 2016				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 5,505,000	\$ -	\$ -	\$ -	\$ 5,505,000
Accounts payable	12,580,224	61,545	20,400	(89,168)	12,573,001
Accrued payroll and expenses	16,266,212	-	-	-	16,266,212
Accrued interest payable	3,006,009	-	-	-	3,006,009
Estimated self-insurance costs – current	2,881,036	-	-	-	2,881,036
Total current liabilities	40,238,481	61,545	20,400	(89,168)	40,231,258
<b>Long-Term Debt</b>	189,949,605	-	-	-	189,949,605
<b>Other Long-Term Liabilities</b>	6,765,707	-	-	-	6,765,707
<b>Pension Liability</b>	7,100,935	-	-	-	7,100,935
Total liabilities	244,054,728	61,545	20,400	(89,168)	244,047,505
<b>Net Position</b>					
Net investment in capital assets	36,028,153	14,480,801	179,854	-	50,688,808
Restricted – expendable for debt service	2,834,493	-	-	-	2,834,493
Restricted – nonexpendable	-	-	-	3,578,506	3,578,506
Unrestricted	227,603,792	1,022,175	767,086	(16,958,056)	212,434,997
Total net position	266,466,438	15,502,976	946,940	(13,379,550)	269,536,804
Total liabilities and net position	\$ 510,521,166	\$ 15,564,521	\$ 967,340	\$ (13,468,718)	\$ 513,584,309

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2017 and 2016

The following tables include combining statements of revenues, expenses and changes in net position information for the Authority and its component units for the years ended June 30:

	Year Ended June 30, 2017					Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	
<b>Operating Revenues</b>						
Net patient service revenue, net of provision for uncollectible accounts; \$79,337,790	\$ 377,389,580	\$ -	\$ -	\$ -	\$ -	\$ 377,389,580
Other operating revenue	4,672,628	827,420	2,787,804	-	(3,101,381)	5,186,471
Total operating revenues	<u>382,062,208</u>	<u>827,420</u>	<u>2,787,804</u>	<u>-</u>	<u>(3,101,381)</u>	<u>382,576,051</u>
<b>Operating Expenses</b>						
Salaries, wages and employee benefits	203,000,993	-	1,024,219	-	-	204,025,212
Professional fees	10,407,802	21,744	318,316	3,250	(12,000)	10,739,112
Purchased services	16,159,716	-	153,987	16,750	(2,391,783)	13,938,670
Supplies expense	69,969,342	-	28,679	-	-	69,998,021
Other expenses	44,861,239	189,224	321,094	476	(697,598)	44,674,435
Depreciation and amortization	21,320,860	-	30,454	-	-	21,351,314
Total operating expenses	<u>365,719,952</u>	<u>210,968</u>	<u>1,876,749</u>	<u>20,476</u>	<u>(3,101,381)</u>	<u>364,726,764</u>
<b>Operating Income (Loss)</b>	<u>16,342,256</u>	<u>616,452</u>	<u>911,055</u>	<u>(20,476)</u>	<u>-</u>	<u>17,849,287</u>
<b>Nonoperating Revenues (Expenses)</b>						
Noncapital grants and gifts	928,791	-	-	-	-	928,791
Investment income	11,216,064	2,306	-	-	(1,183,126)	10,035,244
Interest expense	(9,878,642)	-	-	-	-	(9,878,642)
Total nonoperating revenues (expenses)	<u>2,266,213</u>	<u>2,306</u>	<u>-</u>	<u>-</u>	<u>(1,183,126)</u>	<u>1,085,393</u>
<b>Excess (Deficiency) of Revenues over Expenses Before Capital Gifts, Member's Capital Contribution and Distributions</b>	18,608,469	618,758	911,055	(20,476)	(1,183,126)	18,934,680
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	281,801	-	-	-	-	281,801
<b>Member's Capital Contribution</b>	-	-	-	50,000	(50,000)	-
<b>Distributions to Minority Owners</b>	-	(1,370,000)	(929,000)	-	1,805,250	(493,750)
<b>Increase (Decrease) in Net Position</b>	18,890,270	(751,242)	(17,945)	29,524	572,124	18,722,731
<b>Net Position, Beginning of Year</b>	<u>266,466,438</u>	<u>15,502,976</u>	<u>946,940</u>	<u>-</u>	<u>(13,379,550)</u>	<u>269,536,804</u>
<b>Net Position, End of Year</b>	<u>\$ 285,356,708</u>	<u>\$ 14,751,734</u>	<u>\$ 928,995</u>	<u>\$ 29,524</u>	<u>\$ (12,807,426)</u>	<u>\$ 288,259,535</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

	Year Ended June 30, 2016				Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts; \$57,012,838	\$ 368,693,310	\$ -	\$ -	\$ -	\$ 368,693,310
Other operating revenue	8,467,057	1,942,872	2,964,329	(3,316,703)	10,057,555
Total operating revenues	<u>377,160,367</u>	<u>1,942,872</u>	<u>2,964,329</u>	<u>(3,316,703)</u>	<u>378,750,865</u>
<b>Operating Expenses</b>					
Salaries, wages and employee benefits	193,316,112	-	1,062,352	-	194,378,464
Professional fees	9,937,352	35,362	583,418	(12,000)	10,544,132
Purchased services	17,838,366	-	162,379	(2,634,964)	15,365,781
Supplies expense	65,066,191	-	31,636	-	65,097,827
Other expenses	44,116,161	182,174	325,504	(669,739)	43,954,100
Depreciation and amortization	19,428,527	-	32,257	-	19,460,784
Total operating expenses	<u>349,702,709</u>	<u>217,536</u>	<u>2,197,546</u>	<u>(3,316,703)</u>	<u>348,801,088</u>
<b>Operating Income</b>	<u>27,457,658</u>	<u>1,725,336</u>	<u>766,783</u>	<u>-</u>	<u>29,949,777</u>
<b>Nonoperating Revenues (Expenses)</b>					
Noncapital grants and gifts	1,057,745	-	-	-	1,057,745
Investment income	3,186,409	574	-	(1,955,420)	1,231,563
Interest expense	(8,504,267)	-	-	-	(8,504,267)
Total nonoperating revenues (expenses)	<u>(4,260,113)</u>	<u>574</u>	<u>-</u>	<u>(1,955,420)</u>	<u>(6,214,959)</u>
<b>Excess of Revenues over Expenses Before Capital Gifts and Distributions</b>	23,197,545	1,725,910	766,783	(1,955,420)	23,734,818
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	690,536	-	-	-	690,536
<b>Distributions to Minority Owners</b>	<u>-</u>	<u>(4,400,000)</u>	<u>(513,000)</u>	<u>3,846,070</u>	<u>(1,066,930)</u>
<b>Increase (Decrease) in Net Position</b>	23,888,081	(2,674,090)	253,783	1,890,650	23,358,424
<b>Net Position, Beginning of Year</b>	<u>242,578,357</u>	<u>18,177,066</u>	<u>693,157</u>	<u>(15,270,200)</u>	<u>246,178,380</u>
<b>Net Position, End of Year</b>	<u>\$ 266,466,438</u>	<u>\$ 15,502,976</u>	<u>\$ 946,940</u>	<u>\$ (13,379,550)</u>	<u>\$ 269,536,804</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

The following tables include condensed combining statements of cash flows information for the Authority and its component units for the years ended June 30:

	<b>Year Ended June 30, 2017</b>					<b>Combined Balance</b>
	<b>Norman Regional Health System</b>	<b>NRH Medical Park West, L.L.C.</b>	<b>Oklahoma Sleep Associates, LLC</b>	<b>NRHS ACO LLC</b>	<b>Eliminations</b>	
Net Cash Provided by (Used in) Operating Activities	\$ 37,380,021	\$ 483,460	\$ 890,172	\$ (17,951)	\$ -	\$ 38,735,702
Net Cash Provided by Noncapital Financing Activities	928,791	-	-	-	-	928,791
Net Cash Provided by (Used in) Capital and Related Financing Activities	(27,499,656)	653,828	7,095	-	-	(26,838,733)
Net Cash Provided by (Used in) Investing Activities	6,972,466	(1,367,694)	(929,000)	50,000	-	4,725,772
Change in Cash and Cash Equivalents	17,781,622	(230,406)	(31,733)	32,049	-	17,551,532
Cash and Cash Equivalents, Beginning of Year	105,229,124	1,023,254	654,579	-	-	106,906,957
Cash and Cash Equivalents, End of Year	<u>\$ 123,010,746</u>	<u>\$ 792,848</u>	<u>\$ 622,846</u>	<u>\$ 32,049</u>	<u>\$ -</u>	<u>\$ 124,458,489</u>

	<b>Year Ended June 30, 2016</b>					<b>Combined Balance</b>
	<b>Norman Regional Health System</b>	<b>NRH Medical Park West, L.L.C.</b>	<b>Oklahoma Sleep Associates, LLC</b>	<b>Eliminations</b>		
Net Cash Provided by Operating Activities	\$ 40,444,183	\$ 443,390	\$ 950,788	\$ -	\$ 41,838,361	
Net Cash Provided by Noncapital Financing Activities	1,057,745	-	-	-	1,057,745	
Net Cash Provided by (Used in) Capital and Related Financing Activities	(48,329,623)	2,872,510	(1,757)	-	(45,458,870)	
Net Cash Provided by (Used in) Investing Activities	5,690,867	(4,399,426)	(513,000)	-	778,441	
Change in Cash and Cash Equivalents	(1,136,828)	(1,083,526)	436,031	-	(1,784,323)	
Cash and Cash Equivalents, Beginning of Year	106,365,952	2,106,780	218,548	-	108,691,280	
Cash and Cash Equivalents, End of Year	<u>\$ 105,229,124</u>	<u>\$ 1,023,254</u>	<u>\$ 654,579</u>	<u>\$ -</u>	<u>\$ 106,906,957</u>	

## **Required Supplementary Information**

## Norman Regional Hospital Authority

### Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Interest	\$ 2,921,547	\$ 2,759,356	\$ 2,653,341
Differences between expected and actual experience	(233,458)	324,236	617,508
Change of assumptions	575,643	1,280,401	61,885
Benefit payments	<u>(2,134,753)</u>	<u>(1,959,198)</u>	<u>(1,677,270)</u>
Net change in total pension liability	1,128,979	2,404,795	1,655,464
Total pension liability – beginning	<u>42,803,767</u>	<u>40,398,972</u>	<u>38,743,508</u>
Total pension liability – ending (a)	<u>43,932,746</u>	<u>42,803,767</u>	<u>40,398,972</u>
Plan fiduciary net position			
Contributions – employer	3,000,000	4,500,000	8,000,000
Net investment income (loss)	3,331,627	(1,081,343)	1,439,097
Benefit payments	(2,134,753)	(1,959,198)	(1,677,270)
Other	<u>(119,139)</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	4,077,735	1,459,459	7,761,827
Plan fiduciary net position – beginning	<u>35,702,832</u>	<u>34,243,373</u>	<u>26,481,546</u>
Plan fiduciary net position – ending (b)	<u>39,780,567</u>	<u>35,702,832</u>	<u>34,243,373</u>
Net pension liability – ending (a) - (b)	<u>\$ 4,152,179</u>	<u>\$ 7,100,935</u>	<u>\$ 6,155,599</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>90.55%</u>	<u>83.41%</u>	<u>84.76%</u>
Covered payroll	<u>\$ 275,122</u>	<u>\$ 384,738</u>	<u>\$ 573,539</u>
Net pension liability as a percentage of covered payroll	<u>1509.21%</u>	<u>1845.65%</u>	<u>1073.27%</u>

#### **Note to Schedule**

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

## Norman Regional Hospital Authority Schedule of Authority Contributions

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 641,966	\$ 546,089	\$ 274,651
Contributions in relation to the actuarially determined contributions	<u>3,000,000</u>	<u>4,500,000</u>	<u>8,000,000</u>
Contribution excess	<u>\$ (2,358,034)</u>	<u>\$ (3,953,911)</u>	<u>\$ (7,725,349)</u>
Covered payroll	<u>\$ 275,122</u>	<u>\$ 384,738</u>	<u>\$ 573,539</u>
Contributions as a percentage of covered payroll	<u>1090.43%</u>	<u>1169.63%</u>	<u>1394.85%</u>

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age method

Amortization method: Annual interest rate assumption

Remaining amortization period: 21 years

Asset valuation method: Fair market value

Inflation: 2.60%

Salary increases: 4.00% annually

Investment rate of return: 7.00% net of investment expenses

Retirement age: For participants accruing benefits, the later of age 60 or the age upon the completion of 30 years of service. For participants with frozen benefits, age 65.

Mortality: RP-2014 Blue Collar Mortality Table

Other information: Plan is frozen to new participants effective December 31, 2003.

**Note to Schedule**

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

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

Board of Trustees  
Norman Regional Hospital Authority  
Norman, 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 Norman Regional Hospital Authority (the Authority), which comprise the balance sheet as of June 30, 2017, 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 September 25, 2017.

***Internal Control over Financial Reporting***

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

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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees  
Norman Regional Hospital Authority

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Authority's management in a separate letter dated September 25, 2017.

### ***Purpose of This Report***

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

**BKD, LLP**

Tulsa, Oklahoma  
September 25, 2017

**Norman Regional Hospital Authority**

**Schedule of Findings and Responses**

**Year Ended June 30, 2017**

<b>Reference Number</b>	<b>Finding</b>
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No matters are reportable.