

Norman Regional Hospital Authority

Independent Auditor's Reports and Financial Statements

June 30, 2019 and 2018



Norman Regional Hospital Authority
June 30, 2019 and 2018

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Required Supplementary Information	
Schedule of Changes in Net Pension Liability and Related Ratios	48
Schedule of Authority Contributions.....	49
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards – Independent Auditor's Report	50
Schedule of Findings and Responses	52

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, 2019 and 2018, 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, 2019 and 2018, 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, as 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 23, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
September 23, 2019

Norman Regional Hospital Authority

Management's Discussion and Analysis

Years Ended June 30, 2019 and 2018

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, 2019 and 2018. 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 decreased in 2019 by \$88,053 or 63% and increased in 2018 by \$14,305 or 11%.
- Short-term investments increased in 2019 by \$114,405 or 116% and increased in 2018 by \$15,943 or 19%.
- Days cash on hand increased in 2019 by 7 days or 3% compared to 2018. Days cash on hand at June 30, 2019, was 233 days compared to 226 days at June 30, 2018.
- Patient accounts receivable increased in 2019 by \$4,976 or 10% and decreased in 2018 by \$1,899 or 4%.
- Days net revenue in accounts receivable at June 30, 2019 and 2018, was 44 days and 43 days, respectively.
- Current assets less current liabilities increased in 2019 by \$26,329 or 10% and increased in 2018 by \$29,170 or 12%.
- The Authority reported operating income for 2019 and 2018 of \$20,493 and \$26,829, respectively. The operating income in 2019 was \$6,336 or 24% lower than the operating income reported for 2018. The operating income in 2018 was \$8,979 or 50% higher than the operating income reported for 2017.
- The Authority reported nonoperating revenues (expenses) of \$5,690 and \$3,131 for 2019 and 2018, respectively. The nonoperating revenues (expenses) in 2019 increased by \$2,559 or 82% compared to the 2018 amount. The nonoperating revenues (expenses) in 2018 increased by \$2,046 or 189% compared to the 2017 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 \$25,879 or 8% in 2019 from 2018 and increased by \$29,302 or 10% in 2018 from 2017 as shown in Table 1.

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

	2019	2018	2017
Assets and Deferred Outflows of Resources			
Cash, cash equivalents and short-term investments	\$ 264,010	\$ 237,658	\$ 207,411
Patient accounts receivable, net of allowance	54,065	49,089	50,988
Other current assets	20,834	19,798	17,728
Capital assets, net	210,748	217,400	223,300
Other noncurrent assets	5,578	5,320	6,009
Deferred outflows of resources	4,298	5,556	6,636
	<u> </u>	<u> </u>	<u> </u>
Total assets and deferred outflows of resources	<u>\$ 559,533</u>	<u>\$ 534,821</u>	<u>\$ 512,072</u>
Liabilities			
Long-term debt (including current portion)	\$ 167,187	\$ 172,771	\$ 178,510
Other current and noncurrent liabilities	48,905	44,488	45,302
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>216,092</u>	<u>217,259</u>	<u>223,812</u>
Net Position			
Net investment in capital assets	47,680	48,826	49,336
Restricted – nonexpendable	2,933	2,974	3,411
Unrestricted	292,828	265,762	235,513
	<u> </u>	<u> </u>	<u> </u>
Total net position	<u>343,441</u>	<u>317,562</u>	<u>288,260</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and net position	<u>\$ 559,533</u>	<u>\$ 534,821</u>	<u>\$ 512,072</u>

In 2019, cash, cash equivalents and short-term investments increased by \$26,352 or 11% due to an increase in investment earnings compared to 2018. In 2018, cash, cash equivalents and short-term investments increased by \$30,247 or 15% due to cash provided by operating activities and an increase in investment earnings compared to 2017.

Patient accounts receivable, net of allowance increased by \$4,976 or 10% from 2018 to 2019. This increase was primarily the result of increases in patient revenue and volumes. Patient accounts receivable, net of allowance decreased by \$1,899 or 4% from 2017 to 2018. This decrease was primarily the result of higher collection rates and reimbursement. Days net revenue in accounts receivable at June 30, 2019 and 2018, was 44 days and 43 days, respectively.

Capital assets, net decreased by \$6,652 or 3% from 2018 to 2019 and decreased by \$5,900 or 3% from 2017 to 2018. The decrease in 2019 and 2018 was due to depreciation for the year, offset by capital expenditures.

Long-term debt decreased \$5,584 or 3% from 2018 to 2019 and decreased \$5,739 or 3% from 2017 to 2018. The decrease in 2019 and 2018 was due to regular payments of principal due.

Operating Results and Changes in the Authority's Net Position

In 2019, the Authority's net position increased by \$25,879 or 8%. In 2018, the Authority's net position increased by \$29,302 or 10%. These changes in net position are detailed in Table 2 below.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	\$ 444,632	\$ 419,515	\$ 377,390
Other operating revenue	5,039	5,677	5,186
Total operating revenues	<u>449,671</u>	<u>425,192</u>	<u>382,576</u>
Operating Expenses			
Salaries, wages and employee benefits	236,429	216,908	204,025
Professional fees	10,532	9,981	10,739
Purchased services	12,799	14,543	13,939
Supplies expense	90,173	83,552	69,997
Other expenses	56,953	51,315	44,675
Depreciation and amortization	22,291	22,065	21,351
Total operating expenses	<u>429,177</u>	<u>398,364</u>	<u>364,726</u>
Operating Income	<u>20,494</u>	<u>26,828</u>	<u>17,850</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	76	642	929
Investment income	12,490	9,602	10,035
Interest expense	(6,876)	(7,113)	(9,879)
Total nonoperating revenues (expenses)	<u>5,690</u>	<u>3,131</u>	<u>1,085</u>
Excess of Revenues over Expenses Before Capital Gifts and Distributions	26,184	29,959	18,935
Gifts to Purchase Capital Assets and Other Capital Gifts	127	283	282
Distributions to Minority Owners	<u>(432)</u>	<u>(940)</u>	<u>(494)</u>
Increase in Net Position	<u>\$ 25,879</u>	<u>\$ 29,302</u>	<u>\$ 18,723</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 operating income.

Operating income for 2019 decreased by \$6,336 or 24% as compared to 2018. The primary components of this decrease in operating income were:

- An increase in total operating revenue of \$24,479 or 6%
- An increase in total operating expenses of \$30,813 or 8%

Net patient service revenue was greater in 2019 than 2018 because of higher inpatient, outpatient and physician clinic volumes, particularly related to half a year of chemotherapy infusion services and the addition of a neurosurgery physician clinic.

Other operating revenue decreased \$638 or 11% in 2019 due to lower land sales by NRH Medical Park West, L.L.C. (Medical Park West) compared to 2018.

Salaries, wages and employee benefits increased \$19,521 or 9% from 2018 to 2019. This increase is due to increases in patient volumes, annual salary increases, market wage adjustments and increased physician employment.

Supplies expense increased \$6,621 or 8% due to higher patient volumes in 2019.

Operating income for 2018 increased by \$8,978 or 50% as compared to 2017. The primary components of this increase in operating income were:

- An increase in total operating revenues of \$42,616 or 11%
- An increase in total operating expenses of \$33,638 or 9%

Net patient service revenue was greater in 2018 than 2017 because of higher inpatient and outpatient volumes, particularly related to a full year of oncology services in 2018.

Other operating revenue increased \$491 or 9% in 2018 due to higher land sales by Medical Park West compared to 2017.

Salaries, wages and employee benefits increased \$12,883 or 6% from 2017 to 2018. This increase is due to annual salary increases, market wage adjustments and increased staffing.

Supplies expense increased \$13,555 or 19% from 2017 to 2018 due to a full year of oncology services and higher volumes in 2018.

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 2019, net nonoperating revenues and expenses increased by \$2,559 or 82%. This increase was due to the increase in investment income of \$2,888 or 30% compared to 2018. In 2018, net nonoperating revenues and expenses increased by \$2,046 or 189%. This increase was due to the decrease in interest expense of \$2,766 or 28%.

The Authority's Cash Flows

Net cash provided by operating activities in 2019 decreased by \$6,614 or 14% from 2018. Payments to suppliers, contractors and employees increased by \$25,254, while receipts from and on behalf of patients increased by \$18,470 from 2018. 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, 2019, the Authority had \$210,748 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the accompanying financial statements. In 2019, the Authority purchased new equipment and made improvements totaling \$15,700.

At June 30, 2018, the Authority had \$217,400 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the accompanying financial statements. In 2018, the Authority purchased new equipment and made improvements totaling \$17,500.

Debt

At June 30, 2019, the Authority had \$167,187 in bond obligations outstanding, net of related premiums, as detailed in *Note 9* to the accompanying financial statements. The Authority decreased the outstanding principal of its long-term debt by \$5,584. 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, 2019.

The Authority's debt ratings by Standard & Poor's and Moody's were maintained at A- and maintained at Baa1 in March 2019 and March 2018, respectively.

At June 30, 2018, the Authority had \$172,771 in bond obligations outstanding, net of related premiums, as detailed in *Note 9* to the accompanying financial statements. The Authority decreased the outstanding principal of its long-term debt by \$5,739. Medical Park West, Oklahoma Sleep Associates and NRHS ACO did not have any outstanding debt at June 30, 2018.

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, 2019 and 2018

Assets and Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 50,710,173	\$ 138,763,134
Short-term investments	213,299,657	98,895,128
Restricted cash and investments – current	4,210	1,330
Patient accounts receivable, net of allowance; 2019 – \$30,835,000, 2018 – \$26,415,000	54,064,808	49,089,131
Supplies	12,944,647	12,405,042
Estimated amounts due from third-party payors	1,391,327	553,641
Prepaid expenses and other	6,493,999	6,837,910
	<u>338,908,821</u>	<u>306,545,316</u>
Noncurrent Cash and Investments		
Held by trustee for debt service	4,210	1,330
Less amount required to meet current obligations	4,210	1,330
	<u>-</u>	<u>-</u>
Capital Assets, Net	<u>210,748,402</u>	<u>217,399,967</u>
Other Assets	<u>5,578,093</u>	<u>5,319,523</u>
Deferred Outflows of Resources	<u>4,297,721</u>	<u>5,555,839</u>
	<u>\$ 559,533,037</u>	<u>\$ 534,820,645</u>

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 5,788,971	\$ 5,583,971
Accounts payable	15,085,638	13,711,460
Accrued payroll and expenses	22,177,051	18,190,202
Accrued interest payable	2,382,116	2,448,272
Estimated self-insurance costs – current	<u>2,585,607</u>	<u>2,051,396</u>
Total current liabilities	48,019,383	41,985,301
Long-Term Debt	161,398,506	167,187,474
Other Long-Term Liabilities	4,862,557	5,305,262
Pension Liability	<u>1,812,436</u>	<u>2,780,490</u>
Total liabilities	<u>216,092,882</u>	<u>217,258,527</u>
Net Position		
Net investment in capital assets	47,679,957	48,826,116
Restricted – nonexpendable	2,932,517	2,974,168
Unrestricted	<u>292,827,681</u>	<u>265,761,834</u>
Total net position	<u>343,440,155</u>	<u>317,562,118</u>
Total liabilities and net position	<u>\$ 559,533,037</u>	<u>\$ 534,820,645</u>

Norman Regional Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 – \$100,423,125, 2018 – \$87,212,541	\$ 444,631,885	\$ 419,515,500
Other operating revenue	5,038,932	5,676,794
Total operating revenues	449,670,817	425,192,294
Operating Expenses		
Salaries, wages and employee benefits	236,429,267	216,907,972
Professional fees	10,532,086	9,981,378
Purchased services	12,798,955	14,543,307
Supplies expense	90,173,430	83,551,000
Other expenses	56,953,015	51,314,418
Depreciation and amortization	22,291,321	22,064,666
Total operating expenses	429,178,074	398,362,741
Operating Income	20,492,743	26,829,553
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	76,058	642,080
Investment income	12,490,273	9,601,710
Interest expense	(6,876,338)	(7,113,227)
Total nonoperating revenues (expenses)	5,689,993	3,130,563
Excess of Revenues over Expenses Before Capital Gifts and Distributions	26,182,736	29,960,116
Gifts to Purchase Capital Assets and Other Capital Gifts	126,976	282,787
Distributions to Minority Owners	(431,675)	(940,320)
Increase in Net Position	25,878,037	29,302,583
Net Position, Beginning of Year	317,562,118	288,259,535
Net Position, End of Year	\$ 343,440,155	\$ 317,562,118

Norman Regional Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 439,285,637	\$ 420,815,601
Payments to suppliers and contractors	(169,764,426)	(160,493,471)
Payments to employees	(232,630,301)	(216,647,745)
Other receipts and payments, net	<u>4,824,231</u>	<u>4,654,938</u>
Net cash provided by operating activities	<u>41,715,141</u>	<u>48,329,323</u>
Noncapital Financing Activities		
Noncapital grants and gifts	<u>76,058</u>	<u>642,080</u>
Net cash provided by noncapital financing activities	<u>76,058</u>	<u>642,080</u>
Capital and Related Financing Activities		
Gifts to purchase capital assets and other capital gifts	126,976	282,787
Proceeds from disposal of capital assets	413,059	2,480,241
Principal paid on long-term debt	(4,800,000)	(4,955,000)
Interest paid on long-term debt	(7,253,316)	(7,122,504)
Purchase of capital assets	<u>(16,094,897)</u>	<u>(17,624,549)</u>
Net cash used in capital and related financing activities	<u>(27,608,178)</u>	<u>(26,939,025)</u>
Investing Activities		
Change in restricted assets – held by trustee and others	(2,880)	81,922
Proceeds from sale of short-term investments	13,190,330	116,452,384
Purchase of short-term investments	(121,143,651)	(127,239,189)
Distributions from joint ventures	1,369,926	961,360
Distributions to minority owners	(431,675)	(940,320)
Investment income received	<u>4,781,968</u>	<u>2,956,110</u>
Net cash used in investing activities	<u>(102,235,982)</u>	<u>(7,727,733)</u>
Change in Cash and Cash Equivalents	(88,052,961)	14,304,645
Cash and Cash Equivalents, Beginning of Year	<u>138,763,134</u>	<u>124,458,489</u>
Cash and Cash Equivalents, End of Year	<u>\$ 50,710,173</u>	<u>\$ 138,763,134</u>

	<u>2019</u>	<u>2018</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 20,492,743	\$ 26,829,553
Depreciation and amortization	22,291,321	22,064,666
Accrued self-insurance costs	91,506	(1,198,911)
Gain on disposal of capital assets	(214,699)	(1,021,856)
Provision for uncollectible accounts	100,423,125	87,212,541
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(104,931,687)	(85,313,525)
Supplies and prepaid expenses	(195,696)	(1,519,696)
Estimated amounts due from/to third-party payors	(837,686)	(598,915)
Other assets	(509,200)	1,016,289
Accounts payable and accrued expenses	5,288,496	1,624,079
Pension liability	(183,082)	(764,902)
	<u>\$ 41,715,141</u>	<u>\$ 48,329,323</u>
Net cash provided by operating activities		
	<u>\$ 41,715,141</u>	<u>\$ 48,329,323</u>
Supplemental Cash Flows Information		
Capital asset purchases and other assets in accounts payable	\$ 476,056	\$ 870,640

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

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

Nature of Operations

Norman Regional Hospital Authority (the Authority) is a public trust that, as its sole activity, operates Norman Regional Health System (the System). The System operates Norman Regional Hospital, 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. Portions of property and equipment used by Norman Regional Hospital are subject to a 50-year lease agreement with the City of Norman, Oklahoma, commencing April 1, 1970. The term of the lease was to last until March 31, 2020, or until such date as all indebtedness of the Authority secured by its revenues is paid or defeased. However, the lease agreement could be renewed for an additional 50-year term at the option of the Authority. On July 1, 2019, the Authority exercised its option, extending the term of the lease until March 31, 2070, or such date as all indebtedness of the Authority secured by its revenues is paid or defeased.

The System primarily earns revenues by providing inpatient, outpatient, emergency care and clinic 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 and do not issue separate audited financial statements.

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.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

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.

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 and 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, 2019 and 2018, cash equivalents consisted primarily of money market mutual fund 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.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

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.

Investments and Investment Income

Mutual funds and all other investments are carried at fair value. Fair value is determined using quoted market prices or the net asset value (NAV) per share. These investments are classified as current as they are readily convertible to cash for use in current and future operations. The investments in joint ventures are reported on the equity method of accounting.

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 payors, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Authority bills third-party payors 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 or market. Costs are determined using the first-in, first-out (FIFO) method.

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. 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 evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

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, the deferred outflows of resources reported by the Authority on the accompanying balance sheets consisted of the following items:

	2019	2018
Loss on defeasance of long-term debt, net	\$ 4,086,947	\$ 4,560,093
Deferred outflows related to pensions	210,774	995,746
Total deferred outflows of resources	\$ 4,297,721	\$ 5,555,839

Compensated Absences

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

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 related to pensions, 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 reported 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.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted 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 nonexpendable net position.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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.

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 currently scheduled to sunset on December 31, 2025. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee that 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 following table for the years ended June 30, 2019 and 2018, 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 expected to be approximately \$9,500,000 in 2020.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
SHOPP funds received	\$ 19,689,000	\$ 22,224,000
SHOPP assessment fees paid	<u>10,759,000</u>	<u>11,558,000</u>
Net SHOPP benefit	<u>\$ 8,930,000</u>	<u>\$ 10,666,000</u>

Note 2: Net Patient Service Revenue

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

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. 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, 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 47% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2019 and 2018, 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

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At June 30, 2019 and 2018, none of the Authority's bank balances of approximately \$394,000 and \$11,000, 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 \$495,000 and \$389,000 and carrying values of approximately \$458,000 and \$367,000 at June 30, 2019 and 2018, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2019 and 2018, the blended component units' cash accounts exceeded federally insured limits by approximately \$185,000 and \$58,000, respectively.

Investments

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

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

Type	Fair Value	2019		
		Maturities in Years		
		Less than 1	1-5	6-10
Money market mutual funds	\$ 50,041,132	\$ 50,041,132	\$ -	\$ -
Mutual funds				
Bond funds	110,149,780	-	91,539,635	18,610,145
Equity and other funds	<u>70,639,224</u>	<u>70,639,224</u>	<u>-</u>	<u>-</u>
	230,830,136	<u>\$ 120,680,356</u>	<u>\$ 91,539,635</u>	<u>\$ 18,610,145</u>
Hedge funds	<u>32,510,653</u>			
	<u>\$ 263,340,789</u>			

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

Type	2018			
	Fair Value	Maturities in Years		
		Less than 1	1–5	6–10
Money market mutual funds	\$ 138,709,284	\$ 138,709,284	\$ -	\$ -
Mutual funds				
Bond funds	21,618,009	4,275,955	-	17,342,054
Equity and other funds	<u>52,316,850</u>	<u>52,316,850</u>	-	-
	212,644,143	<u>\$ 195,302,089</u>	<u>\$ -</u>	<u>\$ 17,342,054</u>
Hedge funds	<u>24,953,443</u>			
	<u>\$ 237,597,586</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 are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year. Maturities of bond mutual funds are presented based on the average maturity of the underlying securities in the fund.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. 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, 2019 and 2018, 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
Hedge 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, 2019 and 2018, the Authority’s investment in the hedge fund of Western Asset U.S. Core Plus, L.L.C., constituted 5.4% and 5.5% of its total investments, respectively.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the accompanying balance sheets as follows:

	<u>2019</u>	<u>2018</u>
Carrying value		
Deposits	\$ 652,251	\$ 42,056
Investments	263,340,789	237,597,586
Cash on hand	<u>21,000</u>	<u>19,950</u>
	<u>\$ 264,014,040</u>	<u>\$ 237,659,592</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 50,710,173	\$ 138,763,134
Short-term investments	213,299,657	98,895,128
Restricted cash and investments – current	<u>4,210</u>	<u>1,330</u>
	<u>\$ 264,014,040</u>	<u>\$ 237,659,592</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2019</u>	<u>2018</u>
Interest, dividends and realized gain on sales of investments, net	\$ 6,049,425	\$ 14,719,616
Income from joint ventures	1,257,099	1,489,591
Net increase (decrease) in fair value of investments	<u>5,183,749</u>	<u>(6,607,497)</u>
	<u>\$ 12,490,273</u>	<u>\$ 9,601,710</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at June 30 consisted of:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 17,558,894	\$ 14,924,881
Medicaid	1,787,161	1,887,078
Other third-party payors	48,051,940	44,205,612
Patients	<u>17,501,813</u>	<u>14,486,560</u>
	84,899,808	75,504,131
Less allowance for uncollectible accounts	<u>30,835,000</u>	<u>26,415,000</u>
	<u>\$ 54,064,808</u>	<u>\$ 49,089,131</u>

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 \$3,806,000 and \$3,871,000 at June 30, 2019 and 2018, respectively. The audited financial position and results of operations of OHHS are summarized below as of December 31:

	<u>2018</u>	<u>2017</u>
Current assets	\$ 49,057,370	\$ 41,831,127
Property and other long-term assets, net	<u>57,600,599</u>	<u>60,997,778</u>
Total assets	<u>106,657,969</u>	<u>102,828,905</u>
Current liabilities	17,931,535	15,879,672
Long-term liabilities	<u>51,993,898</u>	<u>50,202,519</u>
Total liabilities	<u>69,925,433</u>	<u>66,082,191</u>
Members' equity	<u>\$ 36,732,536</u>	<u>\$ 36,746,714</u>
Revenues	<u>\$ 144,473,782</u>	<u>\$ 143,202,837</u>
Net income	<u>\$ 9,789,900</u>	<u>\$ 13,175,079</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

The Authority is joint guarantor on loans of OHHS. At June 30, 2019, the Authority guaranteed approximately \$6,425,000 of the outstanding balance of the loans.

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 12,851,598	\$ 653,449	\$ (116,462)	\$ -	\$ 13,388,585
Land improvements	8,709,979	-	(61,857)	-	8,648,122
Buildings and leasehold improvements	299,180,823	887,429	-	3,256,357	303,324,609
Equipment	211,906,343	10,699,669	(216,179)	1,171,342	223,561,175
Construction in progress	2,089,878	3,459,766	-	(4,427,699)	1,121,945
	<u>534,738,621</u>	<u>15,700,313</u>	<u>(394,498)</u>	<u>-</u>	<u>550,044,436</u>
Less accumulated depreciation					
Land improvements	4,179,900	29,930	-	-	4,209,830
Buildings and leasehold improvements	141,024,119	9,152,440	-	-	150,176,559
Equipment	172,134,635	12,971,148	(196,138)	-	184,909,645
	<u>317,338,654</u>	<u>22,153,518</u>	<u>(196,138)</u>	<u>-</u>	<u>339,296,034</u>
Capital assets, net	<u>\$ 217,399,967</u>	<u>\$ (6,453,205)</u>	<u>\$ (198,360)</u>	<u>\$ -</u>	<u>\$ 210,748,402</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

	2018				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 13,830,865	\$ -	\$ (979,267)	\$ -	\$ 12,851,598
Land improvements	9,156,768	73,336	(520,125)	-	8,709,979
Buildings and leasehold improvements	296,022,335	960,627	-	2,197,861	299,180,823
Equipment	202,351,080	11,236,031	(3,796,236)	2,115,468	211,906,343
Construction in progress	1,173,035	5,230,172	-	(4,313,329)	2,089,878
	<u>522,534,083</u>	<u>17,500,166</u>	<u>(5,295,628)</u>	<u>-</u>	<u>534,738,621</u>
Less accumulated depreciation					
Land improvements	4,152,007	27,893	-	-	4,179,900
Buildings and leasehold improvements	132,082,116	8,942,003	-	-	141,024,119
Equipment	163,000,278	12,971,600	(3,837,243)	-	172,134,635
	<u>299,234,401</u>	<u>21,941,496</u>	<u>(3,837,243)</u>	<u>-</u>	<u>317,338,654</u>
Capital assets, net	<u>\$ 223,299,682</u>	<u>\$ (4,441,330)</u>	<u>\$ (1,458,385)</u>	<u>\$ -</u>	<u>\$ 217,399,967</u>

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 – current and other long-term liabilities 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 that the Authority's estimate will change by a material amount in the near term.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

Activity in the Authority’s accrued self-insured claims liabilities during 2019 and 2018 is summarized as follows:

	June 30, 2019		
	Workers’ Compensation	Short-Term Disability	Employee Health
Balance, beginning of year	\$ 1,771,236	\$ -	\$ 678,918
Current year claims incurred and changes in estimates for claims incurred in prior years	628,786	114,260	9,212,588
Claims and expenses paid	<u>(685,030)</u>	<u>(114,260)</u>	<u>(9,161,145)</u>
Balance, end of year	<u>\$ 1,714,992</u>	<u>\$ -</u>	<u>\$ 730,361</u>

	June 30, 2018		
	Workers’ Compensation	Short-Term Disability	Employee Health
Balance, beginning of year	\$ 2,223,108	\$ -	\$ 893,116
Current year claims incurred and changes in estimates for claims incurred in prior years	288,700	178,614	8,139,122
Claims and expenses paid	<u>(740,572)</u>	<u>(178,614)</u>	<u>(8,353,320)</u>
Balance, end of year	<u>\$ 1,771,236</u>	<u>\$ -</u>	<u>\$ 678,918</u>

Note 8: Medical Malpractice Claims

The Authority purchases medical malpractice insurance 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, 2019 and 2018, the Authority recorded an accrual of \$3,389,000 and \$2,850,000, respectively, for pending malpractice claims, which is included in estimated self-insurance costs – current and other long-term liabilities on the accompanying balance sheets. It is reasonably possible that this estimate could change materially in the near term.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

Note 9: Long-Term Obligations

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

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 2016 Hospital Revenue Refunding Bonds (A)	\$ 145,196,295	\$ -	\$ (4,713,116)	\$ 140,483,179	\$ 4,878,119
Series 2017 Hospital Revenue Refunding Bonds (B)	<u>27,575,150</u>	<u>-</u>	<u>(870,852)</u>	<u>26,704,298</u>	<u>910,852</u>
Total long-term debt	172,771,445	-	(5,583,968)	167,187,477	5,788,971
Other Long-Term Liabilities					
Estimated self-insurance costs	5,300,154	12,157,679	(11,623,480)	5,834,353	2,585,607
Deferred compensation plan	<u>3,608,810</u>	<u>966,352</u>	<u>(1,816,781)</u>	<u>2,758,381</u>	<u>1,144,570</u>
Total long-term obligations	<u>\$ 181,680,409</u>	<u>\$ 13,124,031</u>	<u>\$ (19,024,229)</u>	<u>\$ 175,780,211</u>	<u>\$ 9,519,148</u>

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 2016 Hospital Revenue Refunding Bonds (A)	\$ 149,764,416	\$ -	\$ (4,568,121)	\$ 145,196,295	\$ 4,713,119
Series 2017 Hospital Revenue Refunding Bonds (B)	<u>28,746,002</u>	<u>-</u>	<u>(1,170,852)</u>	<u>27,575,150</u>	<u>870,852</u>
Total long-term debt	178,510,418	-	(5,738,973)	172,771,445	5,583,971
Other Long-Term Liabilities					
Estimated self-insurance costs	6,119,224	10,004,646	(10,823,716)	5,300,154	2,051,396
Deferred compensation plan	<u>4,166,081</u>	<u>1,261,710</u>	<u>(1,818,981)</u>	<u>3,608,810</u>	<u>1,552,306</u>
Total long-term obligations	<u>\$ 188,795,723</u>	<u>\$ 11,266,356</u>	<u>\$ (18,381,670)</u>	<u>\$ 181,680,409</u>	<u>\$ 9,187,673</u>

Revenue Bonds Payable

- (A) 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.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

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

	2019	2018
Principal amount	\$ 128,290,000	\$ 132,335,000
Plus unamortized premium	12,193,179	12,861,295
Net amount outstanding	<u>\$ 140,483,179</u>	<u>\$ 145,196,295</u>

- (B) 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.

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

	2019	2018
Principal amount	\$ 24,590,000	\$ 25,345,000
Plus unamortized premium	2,114,298	2,230,150
Net amount outstanding	<u>\$ 26,704,298</u>	<u>\$ 27,575,150</u>

The Authority's revenue bond indentures under the 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. The revenue bond indentures contain a provision that, in an event of default, outstanding amounts become immediately due if the Authority is unable to make payment.

In prior years, the Authority had advance refunded various 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 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.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

The debt service requirements of the revenue bonds payable, excluding unamortized premiums, as of June 30, 2019, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	12,085,000	5,790,000	6,295,000
2024	12,088,000	6,090,000	5,998,000
2025–2029	60,433,500	35,460,000	24,973,500
2030–2034	60,428,100	45,400,000	15,028,100
2035–2037	<u>48,343,025</u>	<u>44,385,000</u>	<u>3,958,025</u>
	<u>\$ 229,637,700</u>	<u>\$ 152,880,000</u>	<u>\$ 76,757,700</u>

Note 10: Restricted Net Position

At June 30, 2019 and 2018, restricted nonexpendable net position of \$2,932,517 and \$2,974,168, 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 that are less than established charges for the services provided to the recipients, and many times the payments are less than the cost of rendering the services provided.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

Charges for gross patient service revenue, contractual adjustments and uncompensated care are as follows:

	2019		2018	
	Dollar	Percent	Dollar	Percent
Gross patient service revenue	\$ 2,104,923,032	100.0%	\$ 1,936,016,528	100.0%
Contractual adjustments	(1,511,364,971)	-71.8%	(1,384,398,030)	-71.5%
Provision for uncollectible accounts and charity care adjustments	<u>(148,926,176)</u>	<u>-7.1%</u>	<u>(132,102,998)</u>	<u>-6.8%</u>
Net patient service revenue	<u>\$ 444,631,885</u>	<u>21.1%</u>	<u>\$ 419,515,500</u>	<u>21.7%</u>

The estimated uncompensated costs associated with charity care services were approximately \$7,835,000 and \$7,745,000 for the years ended June 30, 2019 and 2018, 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 that meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, 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 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 1.2% for 2019 and 2018. Contributions actually made by the Authority were approximately \$2,068,000 and \$1,933,000 during the years ended June 30, 2019 and 2018, respectively.

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

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

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% for 2019 and 2018. Contributions actually made by the Authority were approximately \$5,792,000 and \$5,431,000 during the years ended June 30, 2019 and 2018, respectively.

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

Deferred Compensation Plans

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, 2019 and 2018, was approximately \$841,000 and \$1,727,000, respectively, and is included in prepaid expenses and other assets in the accompanying balance sheets. The related liability as of June 30, 2019 and 2018, of approximately \$2,758,000 and \$3,609,000, 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 \$830,000 and \$985,000 for the years ended June 30, 2019 and 2018, 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.

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, 2019 and 2018

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 completion of 30 years of service.

The employees covered by the plan at April 30 are:

	<u>2019</u>	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefits	347	325
Inactive employees entitled to but not yet receiving benefits	335	330
Active employees	<u>331</u>	<u>374</u>
	<u>1,013</u>	<u>1,029</u>

Contributions

The Authority's governing body has the authority to establish and amend the contribution rates 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. The actuarially determined contribution was \$435,030 and \$411,490 for the years ended April 30, 2019 and 2018, respectively. For the years ended April 30, 2019 and 2018, the Authority actually contributed \$1,000,000 and \$2,000,000, 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, 2019 and 2018, for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.6%
Salary increase	4.0% average, including inflation
Ad hoc cost of living adjustments	Not applicable
Investment rate of return	7.0%, net of pension plan investment expense and including inflation

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

Mortality rates for the 2019 and 2018 valuation were based on the RP-2014 Blue Collar Mortality Table.

The actuarial assumptions used in the April 30, 2019, 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 2019 and 2018 valuations for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (Net of Inflation)
Domestic stocks	25%	7.40%
International stocks	12%	6.40%
Emerging market stocks	3%	9.40%
U.S. bonds	25%	1.40%
International bonds	10%	1.40%
Real estate	10%	6.40%
Balanced	10%	4.40%
Cash	5%	-0.10%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7% for the years ended June 30, 2019 and 2018. 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
June 30, 2019 and 2018

Changes in the total pension liability, plan fiduciary net position and net pension liability for the years ended June 30 were:

	2019		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance, beginning of year	\$ 44,684,086	\$ 41,903,596	\$ 2,780,490
Changes for the year			
Service cost	5,817	-	5,817
Interest	3,038,862	-	3,038,862
Differences between expected and actual experience	(52,140)	-	(52,140)
Contributions – employer	-	1,000,000	(1,000,000)
Net investment income	-	3,006,756	(3,006,756)
Benefit payments	(2,555,164)	(2,555,164)	-
Administrative expense	-	(149,201)	149,201
Change of assumptions	(103,038)	-	(103,038)
Net changes	334,337	1,302,391	(968,054)
Balance, end of year	<u>\$ 45,018,423</u>	<u>\$ 43,205,987</u>	<u>\$ 1,812,436</u>
	2018		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance, beginning of year	\$ 43,932,746	\$ 39,780,567	\$ 4,152,179
Changes for the year			
Service cost	9,540	-	9,540
Interest	2,992,485	-	2,992,485
Differences between expected and actual experience	199,448	-	199,448
Contributions – employer	-	2,000,000	(2,000,000)
Net investment income	-	2,652,453	(2,652,453)
Benefit payments	(2,384,990)	(2,384,990)	-
Administrative expense	-	(144,434)	144,434
Change of assumptions	(65,143)	-	(65,143)
Net changes	751,340	2,123,029	(1,371,689)
Balance, end of year	<u>\$ 44,684,086</u>	<u>\$ 41,903,596</u>	<u>\$ 2,780,490</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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, 2019:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	\$ 6,447,382	\$ 1,812,436	\$ (2,133,240)

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended June 30, 2019 and 2018, the Authority recognized pension expense of \$816,918 and \$1,235,098, respectively. At June 30, 2019 and 2018, the Authority reported deferred outflows of resources of \$210,774 and \$995,746, respectively, related to the net difference between projected and actual earnings on pension plan investments. The reported deferred outflows of resources at June 30, 2019, related to pensions will be recognized in pension expense as follows:

2020	\$ 475,634
2021	(206,329)
2022	(24,898)
2023	(33,633)
Total	\$ 210,774

Pension Plan Fiduciary Net Position

As of June 30, the plan's fiduciary net position was comprised of the following:

	2019	2018
Cash and deposits	\$ 1,320,172	\$ 1,501,219
Mutual funds, at fair value		
Equities – domestic	11,819,339	10,650,359
Equities – international	6,726,923	6,457,711
Fixed income – domestic	7,295,264	7,396,898
Fixed income – international	7,274,311	7,479,221
Balanced asset allocation	4,284,273	4,228,382
Real assets	4,485,705	4,189,806
Total pooled investments, at fair value	41,885,815	40,402,377
Total plan fiduciary net position	\$ 43,205,987	\$ 41,903,596

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

Investment Policy – Investment policy decisions are established and maintained by the Retirement Committee charged with overseeing the pension plan, as authorized by the Authority’s Board of Trustees. The Retirement Committee employs and selects investment managers.

The primary goal of a pension fund is to help pay the cost of the pension plan while providing adequate security to meet the benefits promised under the pension plan. As a consequence, two important dimensions of a pension plan’s investment program are expected return and expected risk.

The pension plan trustees diversify pension plan investments among asset classes, recognizing that there is a relationship between the level of risk assumed in an investment program and the level of return that should be expected. Appropriate diversification better enables balance of risk and return.

Investment Rate of Return – The annual money-weighted rate of return on pension plan investments, net of expenses, which expresses net investment performance adjusted for changing amounts actually invested each month was approximately 7.7% for the 12 months ended April 30, 2019.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The plan does not have a separate policy covering credit risk.

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 plan’s investment policy does not address how investments are to be held.

Concentration of Credit Risk – The plan does not have a policy to limit its holdings in any one issuer. At June 30, 2019 and 2018, all the plan’s investments were held through the plan’s investment manager, Prudential.

At June 30, the plan’s investments had the following maturities:

Type	Fair Value	2019		
		Maturities in Years		
		Less than 1	1–5	6–10
Mutual funds, at fair value				
Equities – domestic	\$ 11,819,339	\$ 11,819,339	\$ -	\$ -
Equities – international	6,726,923	6,726,923	-	-
Fixed income – domestic	7,295,264	-	-	7,295,264
Fixed income – international	7,274,311	-	-	7,274,311
Balanced asset allocation	4,284,273	4,284,273	-	-
Real assets	4,485,705	4,485,705	-	-
	<u>\$ 41,885,815</u>	<u>\$ 27,316,240</u>	<u>\$ -</u>	<u>\$ 14,569,575</u>

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

Type	2018			
	Fair Value	Maturities in Years		
		Less than 1	1-5	6-10
Mutual funds, at fair value				
Equities – domestic	\$ 10,650,359	\$ 10,650,359	\$ -	\$ -
Equities – international	6,457,711	6,457,711	-	-
Fixed income – domestic	7,396,898	-	-	7,396,898
Fixed income – international	7,479,221	-	-	7,479,221
Balanced asset allocation	4,228,382	4,228,382	-	-
Real assets	4,189,806	4,189,806	-	-
	<u>\$ 40,402,377</u>	<u>\$ 25,526,258</u>	<u>\$ -</u>	<u>\$ 14,876,119</u>

Following is a description of the valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

The fair value of the pension plan assets at June 30 was as follows:

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)
2019				
Mutual Funds by Fair Value Level				
Equities – domestic	\$ 11,819,339	\$ 11,819,339	\$ -	\$ -
Equities – international	6,726,923	6,726,923	-	-
Fixed income – domestic	7,295,264	7,295,264	-	-
Fixed income – international	7,274,311	7,274,311	-	-
Balanced asset allocation	4,284,273	4,284,273	-	-
Real assets	4,485,705	4,485,705	-	-
Total pooled investments by fair value level	<u>\$ 41,885,815</u>	<u>\$ 41,885,815</u>	<u>\$ -</u>	<u>\$ -</u>

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

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)
2018				
Mutual Funds by Fair Value Level				
Equities – domestic	\$ 10,650,359	\$ 10,650,359	\$ -	\$ -
Equities – international	6,457,711	6,457,711	-	-
Fixed income – domestic	7,396,898	7,396,898	-	-
Fixed income – international	7,479,221	7,479,221	-	-
Balanced asset allocation	4,228,382	4,228,382	-	-
Real assets	4,189,806	4,189,806	-	-
Total pooled investments by fair value level	<u>\$ 40,402,377</u>	<u>\$ 40,402,377</u>	<u>\$ -</u>	<u>\$ -</u>

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The plan did not hold any Level 2 or Level 3 securities at June 30, 2019 or 2018.

Note 14: Disclosures About Fair Value of Assets

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

Level 1 Quoted prices in active markets for identical assets

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

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

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

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at 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)
2019				
Investments by Fair Value Level				
Money market mutual funds	\$ 50,041,132	\$ 50,041,132	\$ -	\$ -
Mutual funds				
Bond funds	110,149,781	110,149,781	-	-
Equity and other funds	70,639,224	70,639,224	-	-
Fixed income hedge fund	<u>14,200,256</u>	<u>-</u>	<u>14,200,256</u>	<u>-</u>
Total investments by fair value level	245,030,393	<u>\$ 230,830,137</u>	<u>\$ 14,200,256</u>	<u>\$ -</u>
Investments Measured at NAV				
Equity long/short hedge funds	<u>18,310,396</u>			
Total investments measured at fair value	<u>\$ 263,340,789</u>			

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

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)
2018				
Investments by Fair Value Level				
Money market mutual funds	\$ 138,709,284	\$ 138,709,284	\$ -	\$ -
Mutual funds				
Bond funds	21,618,009	21,618,009	-	-
Equity and other funds	52,316,850	52,316,850	-	-
Fixed income hedge fund	<u>12,957,903</u>	<u>-</u>	<u>12,957,903</u>	<u>-</u>
Total investments by fair value level	225,602,046	<u>\$ 212,644,143</u>	<u>\$ 12,957,903</u>	<u>\$ -</u>
Investments Measured at NAV				
Equity long/short hedge funds	<u>11,995,540</u>			
Total investments measured at fair value	<u>\$ 237,597,586</u>			

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.

The valuation method for investments measured at the NAV per share (or its equivalent) is described below.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

At June 30, 2019 and 2018, investments measured at NAV consisted of investments in hedge funds that take both long and short positions, primarily in common stocks (both domestic and international) and depository receipts. Management of the funds has the ability to shift investments among differing investment strategies. The Authority has no unfunded commitments with these funds, and investors may redeem shares under no restriction period with 0 to 5 days' notice.

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. Actual results could potentially differ materially from the estimate 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, 2019 and 2018, the Foundation contributed approximately \$10,000 and \$5,000, respectively, in noncapital-related contributions and approximately \$71,000 and \$249,000, respectively, in capital-related contributions to the Authority.

Note 17: Subsequent Events

The Authority is currently considering issuing a series of tax-exempt bonds in a par amount currently expected not to exceed \$120,000,000 (the Series 2019 Bonds) during the fourth quarter of calendar year 2019. The proceeds of the Series 2019 Bonds are anticipated to be used to finance a portion of the cost of certain proposed projects and pay certain expenses incurred in connection with the issuance of the bonds. The decision as to whether to incur indebtedness will be made by the Authority and is subject to its discretion, based on market conditions and other considerations.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

In August 2019, the Authority entered into an Asset Purchase Agreement with two medical practices and two ambulatory surgery centers for approximately \$11,700,000. The Authority will continue to lease the space for these entities going forward. Management is currently evaluating the accounting treatment for this transaction. This acquisition does not have a material effect on the Authority's financial statements.

Note 18: Future Changes in Accounting Principles

Fiduciary Activities

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying new fiduciary activities, including defined benefit pension plans. The Authority expects to first apply GASB 84 during its fiscal year ending June 30, 2020, through retrospective application to previous years' statements for comparative purposes. The impact of applying GASB 84 has not yet been determined.

Accounting for Leases

With the issuance of GASB Statement No. 87, *Leases*, GASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both an intangible asset and a liability. GASB 87 removes the classification of leases between two categories, and all leases will be recorded the same on the statement of revenues, expenses and changes in net position. GASB 87 also contains amended guidance regarding the identification of lease and non-lease components in an arrangement. GASB 87 is effective for the Authority's fiscal year ending June 30, 2021. The Authority is evaluating the impact GASB 87 will have on the financial statements; however, GASB 87 is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Capitalized Interest

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires interest costs incurred before the end of a construction period be recognized as expense in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset. The Authority expects to first apply GASB 89 during its fiscal year ending June 30, 2021. No retrospective application is required.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

Note 19: Combining Component Unit Information

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

	2019					Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	
Assets and Deferred Outflows of Resources						
Current Assets						
Cash and cash equivalents	\$ 49,813,341	\$ 488,914	\$ 398,160	\$ 9,758	\$ -	\$ 50,710,173
Short-term investments	213,299,657	-	-	-	-	213,299,657
Restricted cash and investments – current	4,210	-	-	-	-	4,210
Patient accounts receivable, net of allowance; \$30,835,000	54,064,808	-	-	-	-	54,064,808
Estimated amounts due from third-party payors	1,391,327	-	-	-	-	1,391,327
Supplies	12,944,647	-	-	-	-	12,944,647
Prepaid expenses and other	6,424,645	58,816	172,347	-	(161,809)	6,493,999
Total current assets	<u>337,942,635</u>	<u>547,730</u>	<u>570,507</u>	<u>9,758</u>	<u>(161,809)</u>	<u>338,908,821</u>
Noncurrent Cash and Investments						
Held by trustee for debt service	4,210	-	-	-	-	4,210
Less amount required to meet current obligations	4,210	-	-	-	-	4,210
Noncurrent cash and investments, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Assets, Net	<u>198,755,298</u>	<u>12,279,084</u>	<u>222,161</u>	<u>-</u>	<u>(508,141)</u>	<u>210,748,402</u>
Other Assets	<u>16,130,266</u>	<u>-</u>	<u>2,911</u>	<u>-</u>	<u>(10,555,084)</u>	<u>5,578,093</u>
Deferred Outflows of Resources	<u>4,297,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,297,721</u>
Total assets and deferred outflows of resources	<u>\$ 557,125,920</u>	<u>\$ 12,826,814</u>	<u>\$ 795,579</u>	<u>\$ 9,758</u>	<u>\$ (11,225,034)</u>	<u>\$ 559,533,037</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

	2019					Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 5,788,971	\$ -	\$ -	\$ -	\$ -	\$ 5,788,971
Accounts payable	15,102,895	55,585	88,965	-	(161,807)	15,085,638
Accrued payroll and expenses	22,177,051	-	-	-	-	22,177,051
Accrued interest payable	2,382,116	-	-	-	-	2,382,116
Estimated self-insurance costs – current	2,585,607	-	-	-	-	2,585,607
Total current liabilities	48,036,640	55,585	88,965	-	(161,807)	48,019,383
Long-Term Debt	161,398,506	-	-	-	-	161,398,506
Other Long-Term Liabilities	4,862,557	-	-	-	-	4,862,557
Pension Liability	1,812,436	-	-	-	-	1,812,436
Total liabilities	216,110,139	55,585	88,965	-	(161,807)	216,092,882
Net Position						
Net investment in capital assets	35,178,712	12,279,084	222,161	-	-	47,679,957
Restricted – nonexpendable	-	-	-	-	2,932,517	2,932,517
Unrestricted	305,837,069	492,145	484,453	9,758	(13,995,744)	292,827,681
Total net position	341,015,781	12,771,229	706,614	9,758	(11,063,227)	343,440,155
Total liabilities and net position	\$ 557,125,920	\$ 12,826,814	\$ 795,579	\$ 9,758	\$ (11,225,034)	\$ 559,533,037

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

	2018					
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	Combined Balance
Assets and Deferred Outflows of Resources						
Current Assets						
Cash and cash equivalents	\$ 137,896,711	\$ 547,162	\$ 287,933	\$ 31,328	\$ -	\$ 138,763,134
Short-term investments	98,895,128	-	-	-	-	98,895,128
Restricted cash and investments – current	1,330	-	-	-	-	1,330
Patient accounts receivable, net of allowance; \$26,415,000	49,089,131	-	-	-	-	49,089,131
Estimated amounts due from third-party payors	553,641	-	-	-	-	553,641
Supplies	12,405,042	-	-	-	-	12,405,042
Prepaid expenses and other	6,759,497	67,876	211,828	-	(201,291)	6,837,910
Total current assets	<u>305,600,480</u>	<u>615,038</u>	<u>499,761</u>	<u>31,328</u>	<u>(201,291)</u>	<u>306,545,316</u>
Noncurrent Cash and Investments						
Held by trustee for debt service	1,330	-	-	-	-	1,330
Held by others for capital acquisitions	-	-	-	-	-	-
	<u>1,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,330</u>
Less amount required to meet current obligations	1,330	-	-	-	-	1,330
Noncurrent cash and investments, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Assets, Net	<u>205,271,438</u>	<u>12,457,403</u>	<u>179,267</u>	<u>-</u>	<u>(508,141)</u>	<u>217,399,967</u>
Other Assets	<u>16,024,824</u>	<u>-</u>	<u>2,911</u>	<u>-</u>	<u>(10,708,212)</u>	<u>5,319,523</u>
Deferred Outflows of Resources	<u>5,555,839</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,555,839</u>
Total assets and deferred outflows of resources	<u>\$ 532,452,581</u>	<u>\$ 13,072,441</u>	<u>\$ 681,939</u>	<u>\$ 31,328</u>	<u>\$ (11,417,644)</u>	<u>\$ 534,820,645</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

	2018					Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 5,583,971	\$ -	\$ -	\$ -	\$ -	\$ 5,583,971
Accounts payable	13,809,429	53,768	33,856	15,695	(201,288)	13,711,460
Accrued payroll and expenses	18,190,202	-	-	-	-	18,190,202
Accrued interest payable	2,448,272	-	-	-	-	2,448,272
Estimated self-insurance costs – current	2,051,396	-	-	-	-	2,051,396
Total current liabilities	42,083,270	53,768	33,856	15,695	(201,288)	41,985,301
Long-Term Debt	167,187,474	-	-	-	-	167,187,474
Other Long-Term Liabilities	5,305,262	-	-	-	-	5,305,262
Pension Liability	2,780,490	-	-	-	-	2,780,490
Total liabilities	217,356,496	53,768	33,856	15,695	(201,288)	217,258,527
Net Position						
Net investment in capital assets	36,189,446	12,457,403	179,267	-	-	48,826,116
Restricted – nonexpendable	-	-	-	-	2,974,168	2,974,168
Unrestricted	278,906,639	561,270	468,816	15,633	(14,190,524)	265,761,834
Total net position	315,096,085	13,018,673	648,083	15,633	(11,216,356)	317,562,118
Total liabilities and net position	\$ 532,452,581	\$ 13,072,441	\$ 681,939	\$ 31,328	\$ (11,417,644)	\$ 534,820,645

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

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:

	2019					Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; \$100,423,125	\$ 444,631,885	\$ -	\$ -	\$ -	\$ -	\$ 444,631,885
Other operating revenue	5,051,304	903,769	3,177,942	-	(4,094,083)	5,038,932
Total operating revenues	<u>449,683,189</u>	<u>903,769</u>	<u>3,177,942</u>	<u>-</u>	<u>(4,094,083)</u>	<u>449,670,817</u>
Operating Expenses						
Salaries, wages and employee benefits	235,271,834	-	1,157,433	-	-	236,429,267
Professional fees	10,282,134	6,200	297,377	6,375	(60,000)	10,532,086
Purchased services	15,931,823	-	200,751	12,500	(3,346,119)	12,798,955
Supplies expense	90,133,678	-	39,752	-	-	90,173,430
Other expenses	57,102,200	151,158	387,621	-	(687,964)	56,953,015
Depreciation and amortization	22,272,344	-	18,977	-	-	22,291,321
Total operating expenses	<u>430,994,013</u>	<u>157,358</u>	<u>2,101,911</u>	<u>18,875</u>	<u>(4,094,083)</u>	<u>429,178,074</u>
Operating Income (Loss)	<u>18,689,176</u>	<u>746,411</u>	<u>1,076,031</u>	<u>(18,875)</u>	<u>-</u>	<u>20,492,743</u>
Nonoperating Revenues (Expenses)						
Noncapital grants and gifts	76,058	-	-	-	-	76,058
Investment income	13,903,824	6,145	-	-	(1,419,696)	12,490,273
Interest expense	(6,876,338)	-	-	-	-	(6,876,338)
Total nonoperating revenues (expenses)	<u>7,103,544</u>	<u>6,145</u>	<u>-</u>	<u>-</u>	<u>(1,419,696)</u>	<u>5,689,993</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts, Member's Capital Contribution and Distributions	<u>25,792,720</u>	<u>752,556</u>	<u>1,076,031</u>	<u>(18,875)</u>	<u>(1,419,696)</u>	<u>26,182,736</u>
Gifts to Purchase Capital Assets and Other Capital Gifts	126,976	-	-	-	-	126,976
Member's Capital Contribution	-	-	-	13,000	(13,000)	-
Distributions to Minority Owners	<u>-</u>	<u>(1,000,000)</u>	<u>(1,017,500)</u>	<u>-</u>	<u>1,585,825</u>	<u>(431,675)</u>
Increase (Decrease) in Net Position	25,919,696	(247,444)	58,531	(5,875)	153,129	25,878,037
Net Position, Beginning of Year	<u>315,096,085</u>	<u>13,018,673</u>	<u>648,083</u>	<u>15,633</u>	<u>(11,216,356)</u>	<u>317,562,118</u>
Net Position, End of Year	<u>\$ 341,015,781</u>	<u>\$ 12,771,229</u>	<u>\$ 706,614</u>	<u>\$ 9,758</u>	<u>\$ (11,063,227)</u>	<u>\$ 343,440,155</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2019 and 2018

	2018					
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	Combined Balance
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts; \$87,212,541	\$ 419,515,500	\$ -	\$ -	\$ -	\$ -	\$ 419,515,500
Other operating revenue	4,712,897	1,749,403	2,717,454	-	(3,502,960)	5,676,794
Total operating revenues	<u>424,228,397</u>	<u>1,749,403</u>	<u>2,717,454</u>	<u>-</u>	<u>(3,502,960)</u>	<u>425,192,294</u>
Operating Expenses						
Salaries, wages and employee benefits	215,799,796	-	1,108,176	-	-	216,907,972
Professional fees	9,705,600	23,505	285,003	15,270	(48,000)	9,981,378
Purchased services	17,154,257	-	80,364	47,999	(2,739,313)	14,543,307
Supplies expense	83,527,773	-	23,227	-	-	83,551,000
Other expenses	51,438,082	167,444	423,917	622	(715,647)	51,314,418
Depreciation and amortization	22,038,987	-	25,679	-	-	22,064,666
Total operating expenses	<u>399,664,495</u>	<u>190,949</u>	<u>1,946,366</u>	<u>63,891</u>	<u>(3,502,960)</u>	<u>398,362,741</u>
Operating Income (Loss)	<u>24,563,902</u>	<u>1,558,454</u>	<u>771,088</u>	<u>(63,891)</u>	<u>-</u>	<u>26,829,553</u>
Nonoperating Revenues (Expenses)						
Noncapital grants and gifts	642,080	-	-	-	-	642,080
Investment income	11,363,835	8,485	-	-	(1,770,610)	9,601,710
Interest expense	(7,113,227)	-	-	-	-	(7,113,227)
Total nonoperating revenues (expenses)	<u>4,892,688</u>	<u>8,485</u>	<u>-</u>	<u>-</u>	<u>(1,770,610)</u>	<u>3,130,563</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts, Member's Capital Contribution and Distributions	29,456,590	1,566,939	771,088	(63,891)	(1,770,610)	29,960,116
Gifts to Purchase Capital Assets and Other Capital Gifts	282,787	-	-	-	-	282,787
Member's Capital Contribution	-	-	-	50,000	(50,000)	-
Distributions to Minority Owners	-	(3,300,000)	(1,052,000)	-	3,411,680	(940,320)
Increase (Decrease) in Net Position	29,739,377	(1,733,061)	(280,912)	(13,891)	1,591,070	29,302,583
Net Position, Beginning of Year	<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>
Net Position, End of Year	<u>\$ 315,096,085</u>	<u>\$ 13,018,673</u>	<u>\$ 648,083</u>	<u>\$ 15,633</u>	<u>\$ (11,216,356)</u>	<u>\$ 317,562,118</u>

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2019 and 2018

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

	2019					
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	Combined Balance
Net Cash Provided by (Used in) Operating Activities	\$ 40,018,630	\$ 541,483	\$ 1,189,598	\$ (34,570)	\$ -	\$ 41,715,141
Net Cash Provided by Noncapital Financing Activities	76,058	-	-	-	-	76,058
Net Cash Provided by (Used in) Capital and Related Financing Activities	(27,940,431)	394,124	(61,871)	-	-	(27,608,178)
Net Cash Provided by (Used in) Investing Activities	(100,237,627)	(993,855)	(1,017,500)	13,000	-	(102,235,982)
Change in Cash and Cash Equivalents	(88,083,370)	(58,248)	110,227	(21,570)	-	(88,052,961)
Cash and Cash Equivalents, Beginning of Year	137,896,711	547,162	287,933	31,328	-	138,763,134
Cash and Cash Equivalents, End of Year	<u>\$ 49,813,341</u>	<u>\$ 488,914</u>	<u>\$ 398,160</u>	<u>\$ 9,758</u>	<u>\$ -</u>	<u>\$ 50,710,173</u>

	2018					
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	Combined Balance
Net Cash Provided by (Used in) Operating Activities	\$ 47,091,635	\$ 508,681	\$ 779,728	\$ (50,721)	\$ -	\$ 48,329,323
Net Cash Provided by Noncapital Financing Activities	642,080	-	-	-	-	642,080
Net Cash Provided by (Used in) Capital and Related Financing Activities	(29,413,532)	2,537,148	(62,641)	-	-	(26,939,025)
Net Cash Provided by (Used in) Investing Activities	(3,434,218)	(3,291,515)	(1,052,000)	50,000	-	(7,727,733)
Change in Cash and Cash Equivalents	14,885,965	(245,686)	(334,913)	(721)	-	14,304,645
Cash and Cash Equivalents, Beginning of Year	123,010,746	792,848	622,846	32,049	-	124,458,489
Cash and Cash Equivalents, End of Year	<u>\$ 137,896,711</u>	<u>\$ 547,162</u>	<u>\$ 287,933</u>	<u>\$ 31,328</u>	<u>\$ -</u>	<u>\$ 138,763,134</u>

Required Supplementary Information

Norman Regional Hospital Authority

Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability					
Service cost	\$ 5,817	\$ 9,540	\$ -	\$ -	\$ -
Interest	3,038,862	2,992,485	2,921,547	2,759,356	2,653,341
Differences between expected and actual experience	(52,140)	199,448	(233,458)	324,236	617,508
Change of assumptions	(103,038)	(65,143)	575,643	1,280,401	61,885
Benefit payments	<u>(2,555,164)</u>	<u>(2,384,990)</u>	<u>(2,134,753)</u>	<u>(1,959,198)</u>	<u>(1,677,270)</u>
Net change in total pension liability	334,337	751,340	1,128,979	2,404,795	1,655,464
Total pension liability – beginning	<u>44,684,086</u>	<u>43,932,746</u>	<u>42,803,767</u>	<u>40,398,972</u>	<u>38,743,508</u>
Total pension liability – ending (a)	<u>45,018,423</u>	<u>44,684,086</u>	<u>43,932,746</u>	<u>42,803,767</u>	<u>40,398,972</u>
Plan fiduciary net position					
Contributions – employer	1,000,000	2,000,000	3,000,000	4,500,000	8,000,000
Net investment income (loss)	3,006,756	2,652,453	3,331,627	(1,081,343)	1,439,097
Benefit payments	(2,555,164)	(2,384,990)	(2,134,753)	(1,959,198)	(1,677,270)
Administrative expense	(149,201)	(144,434)	-	-	-
Other	<u>-</u>	<u>-</u>	<u>(119,139)</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	1,302,391	2,123,029	4,077,735	1,459,459	7,761,827
Plan fiduciary net position – beginning	<u>41,903,596</u>	<u>39,780,567</u>	<u>35,702,832</u>	<u>34,243,373</u>	<u>26,481,546</u>
Plan fiduciary net position – ending (b)	<u>43,205,987</u>	<u>41,903,596</u>	<u>39,780,567</u>	<u>35,702,832</u>	<u>34,243,373</u>
Net pension liability – ending (a) - (b)	<u>\$ 1,812,436</u>	<u>\$ 2,780,490</u>	<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>95.97%</u>	<u>93.78%</u>	<u>90.55%</u>	<u>83.41%</u>	<u>84.76%</u>
Covered payroll	<u>\$ 219,835</u>	<u>\$ 213,824</u>	<u>\$ 275,122</u>	<u>\$ 384,738</u>	<u>\$ 573,539</u>
Net pension liability as a percentage of covered payroll	<u>824.45%</u>	<u>1300.36%</u>	<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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 435,030	\$ 411,890	\$ 641,966	\$ 546,089	\$ 274,651
Contributions in relation to the actuarially determined contributions	<u>1,000,000</u>	<u>2,000,000</u>	<u>3,000,000</u>	<u>4,500,000</u>	<u>8,000,000</u>
Contribution excess	<u>\$ (564,970)</u>	<u>\$ (1,588,110)</u>	<u>\$ (2,358,034)</u>	<u>\$ (3,953,911)</u>	<u>\$ (7,725,349)</u>
Covered payroll	<u>\$ 219,835</u>	<u>\$ 213,824</u>	<u>\$ 275,122</u>	<u>\$ 384,738</u>	<u>\$ 573,539</u>
Contributions as a percentage of covered payroll	<u>454.89%</u>	<u>935.35%</u>	<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: 19 years

Asset valuation method: Fair market value

Inflation: 2.6%

Salary increases: 4.0% annually

Investment rate of return: 7.0% net of investment expenses

Retirement age: For participants accruing benefits, the later of age 60 or the age upon 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.

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

Independent Auditor's Report

Board of Trustees
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, 2019, 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 23, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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*.

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
September 23, 2019

Norman Regional Hospital Authority
Schedule of Findings and Responses
Year Ended June 30, 2019

**Reference
Number**

Finding

No matters are reportable.