

Norman Regional Hospital Authority

Independent Auditor's Reports and Financial Statements

June 30, 2018 and 2017



Norman Regional Hospital Authority
June 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Norman Regional Hospital Authority
Norman, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Norman Regional Hospital Authority (the Authority) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 24, 2018, 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 24, 2018

Norman Regional Hospital Authority

Management's Discussion and Analysis

Years Ended June 30, 2018 and 2017

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, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- Cash and cash equivalents increased in 2018 by \$14,305 or 11% and increased in 2017 by \$17,552 or 16%.
- Short-term investments increased in 2018 by \$15,943 or 19% and increased in 2017 by \$7,769 or 10%.
- Days cash on hand increased in 2018 by 12 days or 6% compared to 2017. Days cash on hand at June 30, 2018, was 226 days compared to 214 days at June 30, 2017.
- Patient accounts receivable decreased in 2018 by \$1,899 or 4% and increased in 2017 by \$1,712 or 3%.
- Current assets less current liabilities increased by \$29,170 or 12% in 2018 and increased by \$20,830 or 10% in 2017.
- The Authority reported operating income for 2018 and 2017 of \$26,828 and \$17,850, respectively. The operating income in 2018 was \$8,978 or 50% higher than the operating income reported for 2017. The operating income in 2017 was \$12,099 or 40% lower than the operating income reported for 2016.
- The Authority reported nonoperating revenues (expenses) of \$3,131 and \$1,085 for 2018 and 2017, respectively. The nonoperating revenues (expenses) in 2018 increased by \$2,046 or 189% compared to the 2017 amount. The nonoperating revenues (expenses) in 2017 increased by \$7,300 or 117% compared to the 2016 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 \$29,302 or 10% in 2018 from 2017 and increased by \$18,723 or 7% in 2017 from 2016 as shown in Table 1.

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

	2018	2017	2016
Assets and Deferred Outflows of Resources			
Cash, cash equivalents and short-term investments	\$ 237,658	\$ 207,411	\$ 182,090
Patient accounts receivable, net	49,089	50,988	49,276
Other current assets	19,798	17,728	23,425
Capital assets, net	217,400	223,300	231,515
Other noncurrent assets	5,320	6,009	22,143
Deferred outflows of resources	<u>5,556</u>	<u>6,636</u>	<u>5,136</u>
 Total assets and deferred outflows of resources	 <u>\$ 534,821</u>	 <u>\$ 512,072</u>	 <u>\$ 513,585</u>
Liabilities			
Long-term debt (including current portion)	\$ 172,771	\$ 178,510	\$ 195,455
Other current and noncurrent liabilities	<u>44,488</u>	<u>45,302</u>	<u>48,593</u>
 Total liabilities	 <u>217,259</u>	 <u>223,812</u>	 <u>244,048</u>
Net Position			
Net investment in capital assets	48,826	49,336	50,689
Restricted – expendable for debt service	-	-	2,834
Restricted – nonexpendable	2,974	3,411	3,579
Unrestricted	<u>265,762</u>	<u>235,513</u>	<u>212,435</u>
 Total net position	 <u>317,562</u>	 <u>288,260</u>	 <u>269,537</u>
 Total liabilities and net position	 <u>\$ 534,821</u>	 <u>\$ 512,072</u>	 <u>\$ 513,585</u>

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. In 2017, cash, cash equivalents and short-term investments increased by \$25,321 or 14% due to cash provided by investing activities and a delay and reduction of bond trust fund deposits with the new 2016 and 2017 bond series.

Patient accounts receivable, net of allowances decreased by \$1,899 or 4% from 2017 to 2018. This decrease was primarily the result of higher collection rates and reimbursement. Patient accounts receivable, net of allowances increased by \$1,712 or 3% from 2016 to 2017. This increase was primarily the result of increases in patient revenue and volume. Days net revenue in accounts receivable at June 30, 2018 and 2017, was 43 days and 49 days, respectively.

Capital assets, net of accumulated depreciation decreased by \$5,900 or 3% from 2017 to 2018 and decreased by \$8,215 or 4% from 2016 to 2017. The decrease in 2018 and 2017 was due to depreciation for the year, offset by capital expenditures.

Long-term debt decreased \$5,739 or 3% from 2017 to 2018 and decreased \$16,945 or 9% from 2016 to 2017. The decrease in 2018 was due to regular payments of principal due. The decrease in 2017 was due to the repayment of debt, including the refinancing of all outstanding indebtedness during 2017 (see *Note 9*).

Operating Results and Changes in the Authority's Net Position

In 2018, the Authority's net position increased by \$29,302 or 10%. In 2017, the Authority's net position increased by \$18,723 or 7%. These changes in net position are detailed in Table 2 below.

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue	\$ 419,515	\$ 377,390	\$ 368,693
Other operating revenue	<u>5,677</u>	<u>5,186</u>	<u>10,058</u>
Total operating revenues	<u>425,192</u>	<u>382,576</u>	<u>378,751</u>
Operating Expenses			
Salaries, wages and employee benefits	216,908	204,025	194,378
Professional fees	9,981	10,739	10,544
Purchased services	14,543	13,939	15,366
Supplies expense	83,552	69,997	65,098
Other expenses	51,315	44,675	43,955
Depreciation and amortization	<u>22,065</u>	<u>21,351</u>	<u>19,461</u>
Total operating expenses	<u>398,364</u>	<u>364,726</u>	<u>348,802</u>
Operating Income	<u>26,828</u>	<u>17,850</u>	<u>29,949</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	642	929	1,058
Investment income	9,602	10,035	1,231
Interest expense	<u>(7,113)</u>	<u>(9,879)</u>	<u>(8,504)</u>
Total nonoperating revenues (expenses)	<u>3,131</u>	<u>1,085</u>	<u>(6,215)</u>
Excess of Revenues over Expenses Before Capital Gifts and Distributions	29,959	18,935	23,734
Gifts to Purchase Capital Assets and Other Capital Gifts	283	282	691
Distributions to Minority Owners	<u>(940)</u>	<u>(494)</u>	<u>(1,067)</u>
Increase in Net Position	<u>\$ 29,302</u>	<u>\$ 18,723</u>	<u>\$ 23,358</u>

Operating Income

A major component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Authority has reported positive operating income.

Operating income for 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 revenue 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 volume, 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 NRH Medical Park West, L.L.C. (Medical Park West) compared to 2017.

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

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

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

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

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

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

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

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 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% compared to 2017. Net nonoperating revenues and expenses increased by \$7,300 or 117% compared to 2016. This increase was due to the increase in investment income of \$8,804 or 716% compared to 2016.

The Authority's Cash Flows

Net cash provided by operating activities in 2018 increased by \$9,594 or 25% from 2017. Payments to suppliers, contractors and employees increased by \$34,569, while receipts from and on behalf of patients increased by \$44,639 from 2017. 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, 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.

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

Debt

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, LLC (Oklahoma Sleep Associates) and NRHS ACO LLC (NRHS ACO) did not have any outstanding debt at June 30, 2018.

The Authority's debt ratings by Standard & Poor's and Moody's were upgraded to A- in November 2017 and maintained at Baa1 in March 2018, respectively.

At June 30, 2017, the Authority had \$178,510 in bond obligations outstanding, net of related unamortized premiums, as detailed in *Note 9* to the accompanying financial statements. In 2017, the Authority issued the Series 2016 and Series 2017 Hospital Revenue Refunding Bonds to refund the outstanding balance of all existing bonds, as detailed in *Note 9* to the accompanying financial statements. The Authority reduced the outstanding principal of its long-term debt by \$16,944. Medical Park West, Oklahoma Sleep Associates and NRHS ACO did not have any outstanding debt at June 30, 2017.

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, 2018 and 2017

Assets and Deferred Outflows of Resources

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 138,763,134	\$ 124,458,489
Short-term investments	98,895,128	82,952,314
Restricted cash and investments – current	1,330	5,078
Patient accounts receivable, net of allowance; 2018 – \$26,415,000, 2017 – \$24,868,000	49,089,131	50,988,147
Supplies	12,405,042	11,219,145
Estimated amounts due from third-party payers	553,641	-
Prepaid expenses and other	6,837,910	6,504,111
	<u>306,545,316</u>	<u>276,127,284</u>
Noncurrent Cash and Investments		
Held by trustee for debt service	1,330	9,916
Held by others for capital acquisitions	-	73,336
	<u>1,330</u>	<u>83,252</u>
Less amount required to meet current obligations	<u>1,330</u>	<u>5,078</u>
	<u>-</u>	<u>78,174</u>
Capital Assets, Net	<u>217,399,967</u>	<u>223,299,682</u>
Other Assets	<u>5,319,523</u>	<u>5,930,751</u>
Deferred Outflows of Resources	<u>5,555,839</u>	<u>6,635,772</u>
	<u>\$ 534,820,645</u>	<u>\$ 512,071,663</u>

Liabilities and Net Position

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Current maturities of long-term debt	\$ 5,583,971	\$ 5,738,971
Accounts payable	13,711,460	13,902,963
Accrued payroll and expenses	18,190,202	16,499,003
Accrued interest payable	2,448,272	2,146,722
Estimated amounts due to third-party payers	-	45,274
Estimated self-insurance costs – current	2,051,396	2,404,287
	<u>41,985,301</u>	<u>40,737,220</u>
Total current liabilities	41,985,301	40,737,220
Long-Term Debt	167,187,474	172,771,447
Other Long-Term Liabilities	5,305,262	6,151,282
Pension Liability	<u>2,780,490</u>	<u>4,152,179</u>
Total liabilities	<u>217,258,527</u>	<u>223,812,128</u>
Net Position		
Net investment in capital assets	48,826,116	49,335,621
Restricted – nonexpendable	2,974,168	3,410,967
Unrestricted	<u>265,761,834</u>	<u>235,512,947</u>
Total net position	<u>317,562,118</u>	<u>288,259,535</u>
Total liabilities and net position	<u><u>\$ 534,820,645</u></u>	<u><u>\$ 512,071,663</u></u>

Norman Regional Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 – \$87,212,541, 2017 – \$79,337,790	\$ 419,515,500	\$ 377,389,580
Other operating revenue	5,676,794	5,186,471
Total operating revenues	425,192,294	382,576,051
Operating Expenses		
Salaries, wages and employee benefits	216,907,972	204,025,212
Professional fees	9,981,378	10,739,112
Purchased services	14,543,307	13,938,670
Supplies expense	83,551,000	69,998,021
Other expenses	51,314,418	44,674,435
Depreciation and amortization	22,064,666	21,351,314
Total operating expenses	398,362,741	364,726,764
Operating Income	26,829,553	17,849,287
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	642,080	928,791
Investment income	9,601,710	10,035,244
Interest expense	(7,113,227)	(9,878,642)
Total nonoperating revenues (expenses)	3,130,563	1,085,393
Excess of Revenues over Expenses Before Capital Gifts and Distributions	29,960,116	18,934,680
Gifts to Purchase Capital Assets and Other Capital Gifts	282,787	281,801
Distributions to Minority Owners	(940,320)	(493,750)
Increase in Net Position	29,302,583	18,722,731
Net Position, Beginning of Year	288,259,535	269,536,804
Net Position, End of Year	\$ 317,562,118	\$ 288,259,535

Norman Regional Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 420,815,601	\$ 376,176,829
Payments to suppliers and contractors	(160,493,471)	(137,379,409)
Payments to employees	(216,647,745)	(205,192,687)
Other receipts and payments, net	<u>4,654,938</u>	<u>5,130,969</u>
Net cash provided by operating activities	<u>48,329,323</u>	<u>38,735,702</u>
Noncapital Financing Activities		
Noncapital grants and gifts	<u>642,080</u>	<u>928,791</u>
Net cash provided by noncapital financing activities	<u>642,080</u>	<u>928,791</u>
Capital and Related Financing Activities		
Gifts to purchase capital assets and other capital gifts	282,787	281,801
Proceeds from disposal of capital assets	2,480,241	659,828
Principal paid on long-term debt	(4,955,000)	(180,992,499)
Interest paid on long-term debt	(7,122,504)	(9,134,599)
Purchase of capital assets	(17,624,549)	(14,952,176)
Proceeds from issuance of long-term debt	<u>-</u>	<u>177,298,912</u>
Net cash used in capital and related financing activities	<u>(26,939,025)</u>	<u>(26,838,733)</u>
Investing Activities		
Change in restricted assets – held by trustee and others	81,922	2,291,822
Proceeds from sale of short-term investments	116,452,384	14,588,173
Purchase of short-term investments	(127,239,189)	(15,224,142)
Distributions from joint ventures	961,360	2,172,503
Distributions to minority owners	(940,320)	(493,750)
Investment income received	<u>2,956,110</u>	<u>1,391,166</u>
Net cash provided by (used in) investing activities	<u>(7,727,733)</u>	<u>4,725,772</u>
Change in Cash and Cash Equivalents	14,304,645	17,551,532
Cash and Cash Equivalents, Beginning of Year	<u>124,458,489</u>	<u>106,906,957</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 138,763,134</u></u>	<u><u>\$ 124,458,489</u></u>

	<u>2018</u>	<u>2017</u>
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income	\$ 26,829,553	\$ 17,849,287
Depreciation and amortization	22,064,666	21,351,314
Accrued self-insurance costs	(1,198,911)	(1,091,174)
Gain on disposal of capital assets	(1,021,856)	(55,502)
Provision for uncollectible accounts	87,212,541	79,337,790
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(85,313,525)	(81,050,136)
Supplies and prepaid expenses	(1,519,696)	(361,571)
Estimated amounts due from/to third-party payers	(598,915)	499,595
Other assets	1,016,289	787,233
Accounts payable and accrued expenses	1,624,079	2,868,764
Pension liability	(764,902)	(1,399,898)
	<u>\$ 48,329,323</u>	<u>\$ 38,735,702</u>
Net cash provided by operating activities		
Supplemental Cash Flows Information		
Capital asset purchases and other assets in accounts payable	\$ 870,640	\$ 995,023

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2018 and 2017

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 is until March 31, 2020, or until such date as all indebtedness of the Authority secured by its revenues is paid or defeased. The lease agreement may be renewed for an additional 50-year term at the option of the Authority.

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

Reporting Entity

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

Blended Component Units

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

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

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

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

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2018 and 2017

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 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, 2018 and 2017, 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.

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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

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. The investments in joint ventures are reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices or the net asset value (NAV) per share.

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

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. 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

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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:

	2018	2017
Loss on defeasance of long-term debt, net	\$ 4,560,093	\$ 5,033,239
Deferred outflows related to pensions	995,746	1,602,533
Total deferred outflows of resources	\$ 5,555,839	\$ 6,635,772

Compensated Absences

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

Defined Benefit Pension Plan

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

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.

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Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

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

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, 2020. 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, 2018 and 2017, 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 \$8,000,000 in 2019.

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	<u>2018</u>	<u>2017</u>
SHOPP funds received	\$ 22,224,000	\$ 21,240,000
SHOPP assessment fees paid	<u>11,558,000</u>	<u>10,955,000</u>
Net SHOPP benefit	<u>\$ 10,666,000</u>	<u>\$ 10,285,000</u>

Note 2: Net Patient Service Revenue

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

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation and psychiatric unit services are paid at prospectively determined rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through June 30, 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 47% and 46% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates 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.

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Note 3: Deposits, Investments and Investment Income

Deposits

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

At June 30, 2018 and 2017, none of the Authority's bank balances of approximately \$11,000 and \$518,000, 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 \$389,000 and \$725,000 and carrying values of approximately \$367,000 and \$701,000 at June 30, 2018 and 2017, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2018 and 2017, the blended component units' cash accounts exceeded federally insured limits by approximately \$58,000 and \$393,000, 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	2018		
		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	52,316,850	52,316,850	-	-
	212,644,143	\$ 195,302,089	\$ -	\$ 17,342,054
Hedge funds	24,953,443			
	<u>\$ 237,597,586</u>			

Norman Regional Hospital Authority
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Type	Fair Value	2017		
		Maturities in Years		
		Less than 1	1–5	6–10
Money market mutual funds	\$ 122,901,849	\$ 122,901,849	\$ -	\$ -
Mutual funds				
Bond funds	16,502,466	-	3,747,762	12,754,704
Equity and other funds	35,910,923	35,910,923	-	-
	175,315,238	<u>\$ 158,812,772</u>	<u>\$ 3,747,762</u>	<u>\$ 12,754,704</u>
Equities	<u>30,573,377</u>			
	<u>\$ 205,888,615</u>			

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

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, 2018 and 2017, 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, 2018, the Authority’s investment in the hedge fund of Western Asset U.S. Core Plus, L.L.C., constituted 5.5% of its total investments. At June 30, 2017, no investments exceeded 5% of the total fair value of all investments.

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Summary of Carrying Values

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

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits	\$ 42,056	\$ 1,587,665
Investments	237,597,586	205,888,615
Cash on hand	<u>19,950</u>	<u>17,775</u>
	<u>\$ 237,659,592</u>	<u>\$ 207,494,055</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 138,763,134	\$ 124,458,489
Short-term investments	98,895,128	82,952,314
Restricted cash and investments – current	1,330	5,078
Noncurrent cash and investments, net	<u>-</u>	<u>78,174</u>
	<u>\$ 237,659,592</u>	<u>\$ 207,494,055</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2018</u>	<u>2017</u>
Interest, dividends and realized gain on sales of investments, net	\$ 14,719,616	\$ 3,056,198
Income from joint ventures	1,489,591	1,511,053
Net increase (decrease) in fair value of investments	<u>(6,607,497)</u>	<u>5,467,993</u>
	<u>\$ 9,601,710</u>	<u>\$ 10,035,244</u>

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Note 4: Patient Accounts Receivable

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

	2018	2017
Medicare	\$ 14,924,881	\$ 14,842,353
Medicaid	1,887,078	1,540,147
Other third-party payers	44,205,612	45,589,729
Patients	<u>14,486,560</u>	<u>13,883,918</u>
	75,504,131	75,856,147
Less allowance for uncollectible accounts	<u>26,415,000</u>	<u>24,868,000</u>
	<u>\$ 49,089,131</u>	<u>\$ 50,988,147</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 \$3,871,000 and \$3,406,000 at June 30, 2018 and 2017, respectively. The audited financial position and results of operations of OHHS are summarized below as of December 31:

	2017	2016
Current assets	\$ 41,831,127	\$ 38,745,716
Property and other long-term assets, net	<u>60,997,778</u>	<u>62,959,165</u>
Total assets	<u>102,828,905</u>	<u>101,704,881</u>
Current liabilities	15,879,672	16,241,498
Long-term liabilities	<u>50,202,519</u>	<u>52,075,664</u>
Total liabilities	<u>66,082,191</u>	<u>68,317,162</u>
Members' equity	<u>\$ 36,746,714</u>	<u>\$ 33,387,719</u>
Revenues	<u>\$ 143,202,837</u>	<u>\$ 134,616,192</u>
Net income	<u>\$ 13,175,079</u>	<u>\$ 13,805,113</u>

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Notes to Financial Statements
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The Authority is joint guarantor on loans of OHHS. At June 30, 2018, the Authority guaranteed approximately \$6,400,000 of the outstanding balance of the loans.

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	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>

Norman Regional Hospital Authority

Notes to Financial Statements

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	2017				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 14,173,098	\$ -	\$ (342,233)	\$ -	\$ 13,830,865
Land improvements	9,338,541	-	(181,773)	-	9,156,768
Buildings and leasehold improvements	291,963,798	821,994	(15,182)	3,251,725	296,022,335
Equipment	194,346,901	5,723,219	(564,803)	2,845,763	202,351,080
Construction in progress	169,571	7,100,952	-	(6,097,488)	1,173,035
	<u>509,991,909</u>	<u>13,646,165</u>	<u>(1,103,991)</u>	<u>-</u>	<u>522,534,083</u>
Less accumulated depreciation					
Land improvements	4,125,911	26,096	-	-	4,152,007
Buildings and leasehold improvements	122,848,933	9,241,027	(7,844)	-	132,082,116
Equipment	151,502,500	11,989,599	(491,821)	-	163,000,278
	<u>278,477,344</u>	<u>21,256,722</u>	<u>(499,665)</u>	<u>-</u>	<u>299,234,401</u>
Capital assets, net	<u>\$ 231,514,565</u>	<u>\$ (7,610,557)</u>	<u>\$ (604,326)</u>	<u>\$ -</u>	<u>\$ 223,299,682</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 the Authority's estimates could potentially change by a material amount in the near term.

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Notes to Financial Statements
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Activity in the Authority's accrued self-insured claims liabilities during 2018 and 2017 is summarized as follows:

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

Note 8: Medical Malpractice Claims

The Authority purchases medical malpractice insurance coverage under a claims-made policy on a fixed premium basis with a significant self-insured retention limit. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on actuarially determined amounts. At June 30, 2018 and 2017, the Authority recorded an accrual of \$2,850,000 and \$3,003,000, 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 the Authority's estimate of losses could potentially change by a material amount in the near term.

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Notes to Financial Statements
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Note 9: Long-Term Obligations

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

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 2016 Hospital Revenue Refunding Bonds (F)	\$ 149,764,416	\$ -	\$ (4,568,121)	\$ 145,196,295	\$ 4,713,119
Series 2017 Hospital Revenue Refunding Bonds (G)	28,746,002	-	(1,170,852)	27,575,150	870,852
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	4,166,081	1,261,710	(1,818,981)	3,608,810	1,552,306
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>

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

Norman Regional Hospital Authority
Notes to Financial Statements
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Revenue Bonds Payable

- (A) Originally due September 1, 2022; principal payable annually and interest payable every 35 days at interest rates based on auction provisions; callable at any time; secured by pledge of the Authority's gross revenues and trustee-held assets. Outstanding bonds were refunded at par value with the issuance of the 2016 Bonds in November 2016 (see (F) below).
- (B) Originally due September 1, 2036; principal payable annually beginning September 1, 2022, plus semiannual interest payments at interest rates which were 5.375% at June 30, 2017; callable on or after September 1, 2016; secured by pledge of the Authority's gross revenues and trustee-held assets. Outstanding bonds were refunded at par value with the issuance of the 2016 Bonds in November 2016 (see (F) below).

When the Series 2005 Hospital Revenue Bonds (2005 Bonds) were issued, the bonds were sold at a discount of approximately \$384,000.

- (C) Originally due September 1, 2037; principal payable annually beginning September 1, 2008, plus semiannual interest payments at interest rates which were 5.00% at June 30, 2017; callable on or after September 1, 2017; secured by pledge of the Authority's gross revenues and trustee-held assets. Approximately 59% of the outstanding bonds were defeased at par value in November 2016 with the issuance of the 2016 Bonds (see (F) below). The remaining outstanding bonds were defeased at par value with the issuance of the 2017 Bonds in June 2017 (see (G) below).

When the Series 2007 Hospital Revenue Refunding Bonds (2007 Bonds) were issued, the bonds were sold at a discount of approximately \$113,000.

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

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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:

	2018	2017
Principal amount	\$ 132,335,000	\$ 136,235,000
Plus unamortized premium	12,861,295	13,529,416
Net amount outstanding	<u>\$ 145,196,295</u>	<u>\$ 149,764,416</u>

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

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:

	2018	2017
Principal amount	\$ 25,345,000	\$ 26,400,000
Plus unamortized premium	2,230,150	2,346,002
Net amount outstanding	<u>\$ 27,575,150</u>	<u>\$ 28,746,002</u>

Under the terms of the 2016 Bond and 2017 Bond Master Trust Indenture, the Authority is no longer required to maintain certain funds with the trustee. Under the terms of the Authority's revenue bond indentures ((A) through (E) above), the Authority was required to maintain certain funds with the trustee. The Authority's revenue bond indentures under both the previous bonds ((A) through (E)) and the new Master Trust Indenture place limits on the incurrence of additional borrowings and require that the Authority satisfy certain measures of financial performance as long as the bonds are outstanding.

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

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

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

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

The debt service requirements of the revenue bonds payable, excluding unamortized premiums, as of June 30, 2018, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2019	\$ 12,085,175	\$ 4,800,000	\$ 7,285,175
2020	12,086,325	5,005,000	7,081,325
2021	12,086,250	5,240,000	6,846,250
2022	12,087,500	5,510,000	6,577,500
2023	12,085,000	5,790,000	6,295,000
2024–2028	60,433,250	33,730,000	26,703,250
2029–2033	60,432,000	43,280,000	17,152,000
2034–2038	60,427,375	54,325,000	6,102,375
	<u>\$ 241,722,875</u>	<u>\$ 157,680,000</u>	<u>\$ 84,042,875</u>

Note 10: Restricted Net Position

At June 30, 2018 and 2017, restricted nonexpendable net position of \$2,974,168 and \$3,410,967, respectively, was related to the other members' interest in Medical Park West and Oklahoma Sleep Associates.

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Note 11: Charity Care and Uncompensated Care

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

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

	2018		2017	
	Dollar	Percent	Dollar	Percent
Gross patient service revenue	\$ 1,936,016,528	100.0%	\$ 1,740,610,602	100.0%
Contractual adjustments	(1,384,398,030)	-71.5%	(1,235,312,760)	-71.0%
Provision for uncollectible accounts and charity care adjustments	<u>(132,102,998)</u>	<u>-6.8%</u>	<u>(127,908,262)</u>	<u>-7.3%</u>
Net patient service revenue	<u>\$ 419,515,500</u>	<u>21.7%</u>	<u>\$ 377,389,580</u>	<u>21.7%</u>

The estimated uncompensated costs associated with charity care services were approximately \$7,745,000 and \$12,932,000 for the years ended June 30, 2018 and 2017, respectively. The costs of charity care are estimated by applying the cost to charge ratio from the Authority's most recent Medicare cost report to the gross uncompensated charges.

In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, Norman Public School's nurses and sports medicine, low-income health and dental clinics, transportation program for low-income residents in Cleveland County, meals for the homebound, community educational services and various support groups.

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Note 12: Defined Contribution and Deferred Compensation Plans

Defined Contribution Plans

The Authority contributes to a defined contribution pension plan, the Norman Regional Hospital Match Plan, covering substantially all employees who have completed a one-year period of continuous employment and elect to contribute to the plan. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. The contribution rate for the Authority expressed as a percentage of covered payroll was 1.2% for 2018 and 2017. Contributions actually made by the Authority were approximately \$1,933,000 and \$1,795,000 during the years ended June 30, 2018 and 2017, 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 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 2018 and 2017. Contributions actually made by the Authority were approximately \$5,431,000 and \$5,030,000 during the years ended June 30, 2018 and 2017, respectively.

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

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

Deferred Compensation Plan

Additionally, the Authority maintains a nonqualified deferred compensation plan for certain physicians effective July 1, 2007. Contributions to the plan are made by the Authority based on call hours worked. The plan vests after a five- or ten-year period. The contributions are held in a trust that carries life insurance policies on each physician. The life insurance policies are invested in mutual funds, and the cash surrender value of the policies at June 30, 2018 and 2017, was approximately \$1,727,000 and \$2,861,000, respectively, and is included in prepaid expenses and other assets in the accompanying balance sheets. The related liability as of June 30, 2018 and 2017, of approximately \$3,609,000 and \$4,166,000, 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 \$985,000 and \$1,020,000 for the years ended June 30, 2018 and 2017, respectively.

Norman Regional Hospital Authority
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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.

Benefits Provided

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

The employees covered by the plan at April 30 are:

	2018	2017
Inactive employees or beneficiaries currently receiving benefits	325	294
Inactive employees entitled to but not yet receiving benefits	330	345
Active employees	374	401
	1,029	1,040

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 \$411,490 and \$641,966 for the years ended April 30, 2018 and 2017, respectively. For the years ended April 30, 2018 and 2017, the Authority actually contributed \$2,000,000 and \$3,000,000, respectively, to the plan. Participants do not contribute to the plan.

Norman Regional Hospital Authority
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Net Pension Liability

The Authority's net pension liability was measured as of April 30, 2018 and 2017, for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates for the 2018 and 2017 valuation were based on the RP-2014 Blue Collar Mortality Table.

The actuarial assumptions used in the April 30, 2018, 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 2018 and 2017 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%	6.00%
International stocks	12%	4.00%
Emerging market stocks	3%	7.50%
U.S. bonds	25%	4.50%
International bonds	10%	4.50%
Real estate	10%	8.00%
Balanced	10%	5.50%
Cash	5%	2.00%
	<hr/> <hr/> 100%	

Norman Regional Hospital Authority
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Discount Rate

The discount rate used to measure the total pension liability was 7% for the years ended June 30, 2018 and 2017. 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.

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

	2018		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (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	\$ 44,684,086	\$ 41,903,596	\$ 2,780,490

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	2017		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 42,803,767	\$ 35,702,832	\$ 7,100,935
Changes for the year			
Interest	2,921,547	-	2,921,547
Differences between expected and actual experience	(233,458)	-	(233,458)
Contributions – employer	-	3,000,000	(3,000,000)
Net investment income	-	3,331,627	(3,331,627)
Benefit payments	(2,134,753)	(2,134,753)	-
Change of assumptions	575,643	-	575,643
Other changes	-	(119,139)	119,139
	1,128,979	4,077,735	(2,948,756)
Net changes			
Balance, end of year	\$ 43,932,746	\$ 39,780,567	\$ 4,152,179

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, 2018:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	Net pension liability	\$ 7,551,224	\$ 2,780,490

Norman Regional Hospital Authority
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Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended June 30, 2018 and 2017, the Authority recognized pension expense of \$1,235,098 and \$1,480,963, respectively. At June 30, 2018 and 2017, the Authority reported deferred outflows of resources of \$995,746 and \$1,602,533, respectively, related to the net difference between projected and actual earnings on pension plan investments. The reported deferred outflows of resources at June 30, 2018, related to pensions will be recognized in pension expense as follows:

2019	\$ 650,446
2020	509,265
2021	(172,698)
2022	<u>8,733</u>
Total	<u><u>\$ 995,746</u></u>

Pension Plan Fiduciary Net Position

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

	<u>2018</u>	<u>2017</u>
Cash and deposits	\$ 1,501,219	\$ 1,346,126
Mutual funds, at fair value		
Equities – domestic	10,650,359	10,355,691
Equities – international	6,457,711	6,219,825
Fixed income – domestic	7,396,898	6,847,835
Fixed income – international	7,479,221	7,053,721
Balanced asset allocation	4,228,382	4,020,430
Real assets	<u>4,189,806</u>	<u>3,936,939</u>
Total pooled investments, at fair value	<u>40,402,377</u>	<u>38,434,441</u>
Total plan fiduciary net position	<u><u>\$ 41,903,596</u></u>	<u><u>\$ 39,780,567</u></u>

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.

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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 6.8% for the 12 months ended April 30, 2018.

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, 2018 and 2017, 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	2018		
		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>

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Type	2017			
	Fair Value	Maturities in Years		
		Less than 1	1-5	6-10
Mutual funds, at fair value				
Equities – domestic	\$ 10,355,691	\$ 10,355,691	\$ -	\$ -
Equities – international	6,219,825	6,219,825	-	-
Fixed income – domestic	6,847,835	-	-	6,847,835
Fixed income – international	7,053,721	-	-	7,053,721
Balanced asset allocation	4,020,430	4,020,430	-	-
Real assets	3,936,939	3,936,939	-	-
	<u>\$ 38,434,441</u>	<u>\$ 24,532,885</u>	<u>\$ -</u>	<u>\$ 13,901,556</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)
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	-	-
	<u>\$ 40,402,377</u>	<u>\$ 40,402,377</u>	<u>\$ -</u>	<u>\$ -</u>
Total pooled investments by fair value level	<u>\$ 40,402,377</u>	<u>\$ 40,402,377</u>	<u>\$ -</u>	<u>\$ -</u>

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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)
2017				
Mutual Funds by Fair Value Level				
Equities – domestic	\$ 10,355,691	\$ 10,355,691	\$ -	\$ -
Equities – international	6,219,825	6,219,825	-	-
Fixed income – domestic	6,847,835	6,847,835	-	-
Fixed income – international	7,053,721	7,053,721	-	-
Balanced asset allocation	4,020,430	4,020,430	-	-
Real assets	3,936,939	3,936,939	-	-
Total pooled investments by fair value level	<u>\$ 38,434,441</u>	<u>\$ 38,434,441</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, 2018 or 2017.

Note 14: Disclosures About Fair Value of Assets and Liabilities

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

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

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

Recurring Measurements

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

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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 (A)	<u>11,995,540</u>			
Total investments measured at fair value	<u>\$ 237,597,586</u>			

Norman Regional Hospital Authority
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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)
2017				
Investments by Fair Value Level				
Money market mutual funds	\$ 122,901,849	\$ 122,901,849	\$ -	\$ -
Mutual funds				
Bond funds	16,502,466	16,502,466	-	-
Equity and other funds	13,130,990	13,130,990	-	-
Equities	<u>30,573,377</u>	<u>30,573,377</u>	-	-
Total investments by fair value level	183,108,682	<u>\$ 183,108,682</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at NAV				
Mutual funds (B)	<u>22,779,933</u>			
Total investments measured at fair value	<u>\$ 205,888,615</u>			

Certain investments ((A) and (B) above) 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.

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At June 30, 2018, investments measured at NAV consisted of investments in two hedge funds.

- (A) This category includes 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.

At June 30, 2017, investments measured at NAV consisted of investments in two dynamic asset overlay funds and a European opportunities fund.

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

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

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.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2018 and 2017

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, 2018 and 2017, the Foundation contributed approximately \$5,000 and \$2,000, respectively, in noncapital-related contributions and \$249,000 and \$60,000, respectively, in capital-related contributions to the Authority.

Note 17: 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.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2018 and 2017

Capitalized Interest

GASB recently issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which 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, 2019. No retrospective application is required.

Note 18: Combining Component Unit Information

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

	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 payers	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	<u>1,330</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,330</u>
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, 2018 and 2017

	2018					
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	Combined Balance
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, 2018 and 2017

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

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2018 and 2017

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

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2018 and 2017

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:

	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	285,356,708	14,751,734	928,995	29,524	(12,807,426)	288,259,535
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, 2018 and 2017

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

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2018 and 2017

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

	2018					Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	Eliminations	
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>

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

Required Supplementary Information

Norman Regional Hospital Authority
Schedule of Changes in Net Pension Liability and Related Ratios

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability				
Service cost	\$ 9,540	\$ -	\$ -	\$ -
Interest	2,992,485	2,921,547	2,759,356	2,653,341
Differences between expected and actual experience	199,448	(233,458)	324,236	617,508
Change of assumptions	(65,143)	575,643	1,280,401	61,885
Benefit payments	<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	751,340	1,128,979	2,404,795	1,655,464
Total pension liability – beginning	<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>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	2,000,000	3,000,000	4,500,000	8,000,000
Net investment income (loss)	2,652,453	3,331,627	(1,081,343)	1,439,097
Benefit payments	(2,384,990)	(2,134,753)	(1,959,198)	(1,677,270)
Administrative expense	(144,434)	-	-	-
Other	<u>-</u>	<u>(119,139)</u>	<u>-</u>	<u>-</u>
Net change in plan fiduciary net position	2,123,029	4,077,735	1,459,459	7,761,827
Plan fiduciary net position – beginning	<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>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>\$ 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>93.78%</u>	<u>90.55%</u>	<u>83.41%</u>	<u>84.76%</u>
Covered payroll	<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>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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 411,890	\$ 641,966	\$ 546,089	\$ 274,651
Contributions in relation to the actuarially determined contributions	<u>2,000,000</u>	<u>3,000,000</u>	<u>4,500,000</u>	<u>8,000,000</u>
Contribution excess	<u>\$ (1,588,110)</u>	<u>\$ (2,358,034)</u>	<u>\$ (3,953,911)</u>	<u>\$ (7,725,349)</u>
Covered payroll	<u>\$ 213,824</u>	<u>\$ 275,122</u>	<u>\$ 384,738</u>	<u>\$ 573,539</u>
Contributions as a percentage of covered payroll	<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: 20 years

Asset valuation method: Fair market value

Inflation: 2.60%

Salary increases: 4.00% annually

Investment rate of return: 7.00% net of investment expenses

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

Mortality: RP-2014 Blue Collar Mortality Table

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

Note to Schedule

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

**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, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2018.

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 24, 2018

Norman Regional Hospital Authority
Schedule of Findings and Responses
Year Ended June 30, 2018

**Reference
Number**

Finding

No matters are reportable.