

Norman Regional Hospital Authority

Independent Auditor's Reports and Financial Statements

June 30, 2020 and 2019



Norman Regional Hospital Authority
June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 28, 2020, 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 28, 2020

Norman Regional Hospital Authority

Management's Discussion and Analysis

Years Ended June 30, 2020 and 2019

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, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- Cash and cash equivalents decreased in 2020 by \$28,537 or 56% and decreased in 2019 by \$88,053 or 63%.
- Short-term investments increased in 2020 by \$4,836 or 2% and increased in 2019 by \$114,405 or 116%.
- Days cash on hand decreased in 2020 by 44 days or 19% compared to 2019. Days cash on hand at June 30, 2020, was 189 days compared to 233 days at June 30, 2019.
- Patient accounts receivable increased in 2020 by \$9,858 or 18% and increased in 2019 by \$4,976 or 10%.
- Days net revenue in accounts receivable at June 30, 2020 and 2019, was 51 days and 44 days, respectively.
- Current assets less current liabilities decreased in 2020 by \$18,139 or 6% and increased in 2019 by \$26,329 or 10%.
- The Authority reported operating income (loss) for 2020 and 2019 of \$(10,710) and \$20,494, respectively. The operating results in 2020 were \$31,204 or 152% lower than the operating income reported for 2019. The operating income in 2019 was \$6,334 or 24% lower than the operating income reported for 2018.
- The Authority reported nonoperating revenues (expenses) of \$13,683 and \$5,690 for 2020 and 2019, respectively. The nonoperating revenues (expenses) in 2020 increased by \$7,993 or 140% compared to the 2019 amount. The nonoperating revenues (expenses) in 2019 increased by \$2,559 or 82% compared to the 2018 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 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 decreased by \$395 or 0.1% in 2020 from 2019 and increased by \$25,879 or 8% in 2019 from 2018 as shown in Table 1.

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

	2020	2019	2018
Assets and Deferred Outflows of Resources			
Cash, cash equivalents, and short-term investments	\$ 240,309	\$ 264,010	\$ 237,658
Patient accounts receivable, net of allowance	63,923	54,065	49,089
Other current assets	21,815	20,834	19,798
Capital assets, net	209,709	210,748	217,400
Other noncurrent assets	127,184	5,578	5,320
Deferred outflows of resources	<u>24,106</u>	<u>4,298</u>	<u>5,556</u>
 Total assets and deferred outflows of resources	 <u>\$ 687,046</u>	 <u>\$ 559,533</u>	 <u>\$ 534,821</u>
Liabilities			
Long-term debt (including current portion)	\$ 282,272	\$ 167,187	\$ 172,771
Other current and noncurrent liabilities	<u>61,730</u>	<u>48,905</u>	<u>44,488</u>
 Total liabilities	 <u>344,002</u>	 <u>216,092</u>	 <u>217,259</u>
Net Position			
Net investment in capital assets	50,724	47,680	48,826
Restricted – nonexpendable	227	2,933	2,974
Unrestricted	<u>292,093</u>	<u>292,828</u>	<u>265,762</u>
 Total net position	 <u>343,044</u>	 <u>343,441</u>	 <u>317,562</u>
 Total liabilities and net position	 <u>\$ 687,046</u>	 <u>\$ 559,533</u>	 <u>\$ 534,821</u>

In 2020, cash, cash equivalents, and short-term investments decreased by \$23,701 or 9% due to decreased cash provided by operating activities and decreased investment earnings compared to 2019. In 2019, cash, cash equivalents, and short-term investments increased by \$26,352 or 11% due to an increase in investment earnings compared to 2018.

Patient accounts receivable, net of allowance increased by \$9,858 or 18% from 2019 to 2020. This increase was primarily the result of increases in patient revenue, largely due to the purchase of several physician specialty clinics (see *Note 7*) and the employment of emergency medicine physicians with their related professional fee revenue, and a slight slow-down in receipts at the end of the fiscal year due to the impacts of the COVID-19 pandemic (see *Note 19*). Patient accounts receivable, net of allowance increased by \$4,976 or 10% from 2018 to 2019. This increase was primarily the result of increases in patient revenue and volumes. Days net revenue in accounts receivable at June 30, 2020 and 2019, was 51 days and 44 days, respectively.

Capital assets, net decreased by \$1,039 or 0.5% from 2019 to 2020 and decreased by \$6,652 or 3% from 2018 to 2019. The decrease in 2020 and 2019 was due to an increase in depreciation for the year, offset by capital expenditures.

Long-term debt increased \$115,085 or 69% from 2019 to 2020 and decreased \$5,584 or 3% from 2018 to 2019. The increase in 2020 was due to the issuance of the Series 2019 bonds (see *Note 10*), while the decrease in 2019 was caused by regular payments of principal due.

Operating Results and Changes in the Authority's Net Position

In 2020, the Authority's net position decreased by \$395 or 0.1%. In 2019, the Authority's net position increased by \$25,879 or 8%. These changes in net position are detailed in Table 2 below.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 462,067	\$ 444,632	\$ 419,515
Other operating revenue	5,310	5,039	5,677
Total operating revenues	<u>467,377</u>	<u>449,671</u>	<u>425,192</u>
Operating Expenses			
Salaries, wages, and employee benefits	269,847	236,429	216,908
Professional fees	11,548	10,532	9,981
Purchased services	13,737	12,799	14,543
Supplies expense	97,409	90,173	83,552
Other expenses	62,599	56,953	51,315
Depreciation and amortization	22,947	22,291	22,065
Total operating expenses	<u>478,087</u>	<u>429,177</u>	<u>398,364</u>
Operating Income (Loss)	<u>(10,710)</u>	<u>20,494</u>	<u>26,828</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	86	76	642
Government grants	10,187	-	-
Investment income	11,623	12,490	9,602
Interest expense	(8,213)	(6,876)	(7,113)
Total nonoperating revenues (expenses)	<u>13,683</u>	<u>5,690</u>	<u>3,131</u>
Excess of Revenues over Expenses Before Capital Gifts and Distributions	2,973	26,184	29,959
Gifts to Purchase Capital Assets and Other Capital Gifts	176	127	283
Distributions to Minority Owners	<u>(3,544)</u>	<u>(432)</u>	<u>(940)</u>
Increase (Decrease) in Net Position	<u>\$ (395)</u>	<u>\$ 25,879</u>	<u>\$ 29,302</u>

Operating Income (Loss)

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.

Operating results for 2020 decreased by \$31,204 or 152% as compared to 2019. The primary components of this decrease were:

- An increase in total operating revenue of \$17,706 or 4%
- An increase in total operating expenses of \$48,910 or 11%

Net patient service revenue was greater in 2020 than 2019 because of expanded physician clinic services, particularly related to the purchase of several physician specialty clinics during 2020 (see *Note 7*), as well as increased revenue from bringing emergency department coverage in-house via employed physicians rather than contracting with a third-party provider. The increase in revenue was offset by the impacts of the COVID-19 pandemic, which significantly decreased patient volumes in the last quarter for 2020 compared to historical trends.

Salaries, wages, and employee benefits increased \$33,418 or 14% from 2019 to 2020. This increase is due to the hiring of ER physicians as well as the purchase of several physician specialty clinics during 2020 (see *Note 7*). While patient volumes decreased significantly in the last quarter of 2020 as a result of the COVID-19 pandemic, the Authority continued to maintain a baseline staffing level in order to sustain quality care, ensure proper staffing and preparation for any pandemic-related outbreaks in the community, and maintain health care delivery capacity.

Supplies expense increased \$7,236 or 8% due to expanded clinic services as well as costs associated with the response to the COVID-19 pandemic.

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

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

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

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

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

Supplies expense increased \$6,621 or 8% from 2018 to 2019 due to higher patient volumes in 2019.

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, government grants, investment income, and interest expense. In 2020, net nonoperating revenues and expenses increased by \$7,993 or 140%. This increase was due to the recognition of government grants related to HHS Provider Relief Funds under the *Coronavirus Aid, Relief, and Economic Security Act* (see *Note 19*) totaling \$10,187, offset by an increase in interest expense of \$1,337 or 19%. In 2019, net nonoperating revenues and expenses increased by \$2,559 or 82%. This increase was due to the increase in investment income of \$2,888 or 30%.

The Authority's Cash Flows

Net cash provided by operating activities in 2020 decreased by \$30,344 or 73% from 2019. Payments to suppliers, contractors, and employees increased by \$45,687, while receipts from and on behalf of patients increased by \$15,326 from 2019. The increase in payments to suppliers, contractors, and employees is consistent with increased expenses as discussed above. 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. The overall decrease in cash provided by operating activities is primarily a result of the impacts of the COVID-19 pandemic, which significantly reduced patient visits and revenue at the end of 2020, and increased expenses as the Authority stood ready to respond to pandemic outbreaks, as well as other operational changes established to react to the pandemic.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2020, the Authority had \$209,709 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the accompanying financial statements. In 2020, the Authority purchased new equipment and made improvements totaling \$21,090.

At June 30, 2019, the Authority had \$210,748 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the accompanying financial statements. In 2019, the Authority purchased new equipment and made improvements totaling \$15,700.

Debt

At June 30, 2020, the Authority had \$282,272 in bond obligations outstanding, net of related premiums, as detailed in *Note 10* to the accompanying financial statements. The Authority increased the outstanding principal of its long-term debt by \$115,085, net of principal payments and premium amortization of \$6,006. Medical Park West, Oklahoma Sleep Associates, LLC (Oklahoma Sleep Associates), NRHS ACO LLC (NRHS ACO), and NHealth, LLC (NHealth) did not have any outstanding debt at June 30, 2020.

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

At June 30, 2019, the Authority had \$167,187 in bond obligations outstanding, net of related premiums, as detailed in *Note 10* to the accompanying financial statements. The Authority decreased the outstanding principal of its long-term debt by \$5,584. Medical Park West, Oklahoma Sleep Associates, and NRHS ACO did not have any outstanding debt at June 30, 2019.

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, 2020 and 2019

Assets and Deferred Outflows of Resources

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 22,173,415	\$ 50,710,173
Short-term investments	218,135,979	213,299,657
Restricted cash and investments – current	11,112	4,210
Patient accounts receivable, net of allowance; 2020 – \$40,035,000, 2019 – \$30,835,000	63,922,931	54,064,808
Supplies	14,223,011	12,944,647
Estimated amounts due from third-party payors	1,982,049	1,391,327
Prepaid expenses and other	<u>5,599,266</u>	<u>6,493,999</u>
Total current assets	<u>326,047,763</u>	<u>338,908,821</u>
Noncurrent Cash and Investments		
Held by trustee for debt service	11,112	4,210
Held by others for capital acquisitions	<u>120,440,017</u>	<u>-</u>
	120,451,129	4,210
Less amount required to meet current obligations	<u>11,112</u>	<u>4,210</u>
Noncurrent cash and investments, net	<u>120,440,017</u>	<u>-</u>
Capital Assets, Net	<u>209,708,883</u>	<u>210,748,402</u>
Other Assets	<u>6,743,683</u>	<u>5,578,093</u>
Deferred Outflows of Resources	<u>24,106,200</u>	<u>4,297,721</u>
Total assets and deferred outflows of resources	<u><u>\$ 687,046,546</u></u>	<u><u>\$ 559,533,037</u></u>

Liabilities and Net Position

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Current maturities of long-term debt	\$ 6,396,786	\$ 5,788,971
Accounts payable	17,677,864	15,085,638
Accrued payroll and expenses	21,299,401	22,177,051
Accrued interest payable	3,842,718	2,382,116
Estimated self-insurance costs – current	<u>4,080,137</u>	<u>2,585,607</u>
Total current liabilities	53,296,906	48,019,383
Long-Term Debt	275,875,290	161,398,506
Other Long-Term Liabilities	9,873,598	4,862,557
Pension Liability	<u>4,956,034</u>	<u>1,812,436</u>
Total liabilities	<u>344,001,828</u>	<u>216,092,882</u>
Net Position		
Net investment in capital assets	50,724,218	47,679,957
Restricted – nonexpendable	227,441	2,932,517
Unrestricted	<u>292,093,059</u>	<u>292,827,681</u>
Total net position	<u>343,044,718</u>	<u>343,440,155</u>
Total liabilities and net position	<u>\$ 687,046,546</u>	<u>\$ 559,533,037</u>

Norman Regional Hospital Authority
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$131,510,802, 2019 – \$100,423,125	\$ 462,066,781	\$ 444,631,885
Other operating revenue	5,310,131	5,038,932
Total operating revenues	467,376,912	449,670,817
Operating Expenses		
Salaries, wages, and employee benefits	269,847,315	236,429,267
Professional fees	11,548,064	10,532,086
Purchased services	13,737,380	12,798,955
Supplies expense	97,409,258	90,173,430
Other expenses	62,598,658	56,953,015
Depreciation and amortization	22,946,635	22,291,321
Total operating expenses	478,087,310	429,178,074
Operating Income (Loss)	(10,710,398)	20,492,743
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	85,595	76,058
Government grants	10,186,687	-
Investment income	11,623,301	12,490,273
Interest expense	(8,212,916)	(6,876,338)
Total nonoperating revenues (expenses)	13,682,667	5,689,993
Excess of Revenues over Expenses Before Capital Gifts and Distributions	2,972,269	26,182,736
Gifts to Purchase Capital Assets and Other Capital Gifts	175,949	126,976
Distributions to Minority Owners	(3,543,655)	(431,675)
Increase (Decrease) in Net Position	(395,437)	25,878,037
Net Position, Beginning of Year	343,440,155	317,562,118
Net Position, End of Year	\$ 343,044,718	\$ 343,440,155

Norman Regional Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 454,612,107	\$ 439,285,637
Payments to suppliers and contractors	(179,126,740)	(169,764,426)
Payments to employees	(268,964,241)	(232,630,301)
Other receipts and payments, net	4,840,470	4,824,231
Net cash provided by operating activities	11,361,596	41,715,141
Noncapital Financing Activities		
Noncapital grants and gifts	85,595	76,058
Government grants	10,186,687	-
Net cash provided by noncapital financing activities	10,272,282	76,058
Capital and Related Financing Activities		
Gifts to purchase capital assets and other capital gifts	175,949	126,976
Proceeds from disposal of capital assets	1,091,890	413,059
Principal paid on long-term debt	(5,005,000)	(4,800,000)
Interest paid on long-term debt	(8,106,516)	(7,253,316)
Purchase of capital assets	(17,674,372)	(16,094,897)
Proceeds from issuance of long-term debt, net of underwriters' discount	120,545,279	-
Payment of bond issuance costs	(535,980)	-
Net cash provided by (used in) capital and related financing activities	90,491,250	(27,608,178)
Investing Activities		
Change in restricted assets – held by trustee and others	(6,902)	(2,880)
Proceeds from sale of short-term investments	68,042,578	13,190,330
Purchase of short-term investments	(68,178,744)	(121,143,651)
Purchase of restricted investments	(120,000,000)	-
Cash paid in acquisition, net of cash acquired (<i>Note 7</i>)	(22,778,316)	-
Distributions from joint ventures	1,243,190	1,369,926
Distributions to minority owners	(187,845)	(431,675)
Purchase of minority owners' interest	(3,355,810)	-
Investment income received	4,559,963	4,781,968
Net cash used in investing activities	(140,661,886)	(102,235,982)
Decrease in Cash and Cash Equivalents	(28,536,758)	(88,052,961)
Cash and Cash Equivalents, Beginning of Year	50,710,173	138,763,134
Cash and Cash Equivalents, End of Year	\$ 22,173,415	\$ 50,710,173

See Notes to Financial Statements

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by		
Operating Activities		
Operating income (loss)	\$ (10,710,398)	\$ 20,492,743
Depreciation and amortization	22,946,635	22,291,321
Accrued self-insurance costs	6,505,571	91,506
Gain on disposal of capital assets	(469,661)	(214,699)
Provision for uncollectible accounts	131,510,802	100,423,125
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(138,374,754)	(104,931,687)
Supplies and prepaid expenses	(193,860)	(195,696)
Estimated amounts due from/to third-party payors	(590,722)	(837,686)
Other assets	(862,853)	(509,200)
Accounts payable and accrued expenses	726,912	5,288,496
Pension liability	873,924	(183,082)
	<u>873,924</u>	<u>(183,082)</u>
Net cash provided by operating activities	<u>\$ 11,361,596</u>	<u>\$ 41,715,141</u>
Supplemental Cash Flows Information		
Capital asset purchases and other assets in accounts payable	\$ 1,274,548	\$ 476,056

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2020 and 2019

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

Nature of Operations

Norman Regional Hospital Authority (the Authority) is a public trust that, as its sole activity, operates Norman Regional Health System (the System). The System operates Norman Regional Hospital, Norman Regional Moore (purchased by the System during fiscal year 2007), Norman Regional HealthPlex (opened during fiscal year 2010), and primary and specialty clinics throughout the service area. Portions of property and equipment used by Norman Regional Hospital are subject to a 50-year lease agreement with the City of Norman, Oklahoma, commencing April 1, 1970. The term of the lease was to last until March 31, 2020, or until such date as all indebtedness of the Authority secured by its revenues is paid or defeased. However, the lease agreement could be renewed for an additional 50-year term at the option of the Authority. On July 1, 2019, the Authority exercised its option, extending the term of the lease until March 31, 2070, or such date as all indebtedness of the Authority secured by its revenues is paid or defeased.

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

Reporting Entity

The accompanying financial statements include the accounts of the Authority and its blended component units, entities for which the Authority is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government and do not issue separate audited financial statements.

Blended Component Units

NRH Medical Park West, L.L.C. (Medical Park West) is a limited liability company organized in 2005 to develop and sell land and to lease land to the Authority. Through August 2019, the Authority owned a 78.2% ownership interest in Medical Park West. Effective September 2019, the Authority purchased additional ownership from minority owners for a 99.4% 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

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2020 and 2019

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.

NHealth, LLC (NHealth) is a limited liability company organized in 2019 to improve the health of patients and reduce total health care costs, monitor, and integrate the provision of care provided by the Authority, and contract with government and private health benefit plans on behalf of the Authority's providers. The Authority is the sole member of NHealth and is responsible for its management.

Under the terms of the bond indenture discussed in *Note 10*, the Obligated Group does not include Medical Park West, Oklahoma Sleep Associates, NRHS ACO, or NHealth.

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, 2020 and 2019, cash equivalents consisted primarily of money market mutual fund accounts.

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Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, short-term disability, and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Authority is self-insured for all risks related to employees' short-term disability and for a portion of its exposure to risk of loss from medical malpractice, workers' compensation, and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

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

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

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

The Authority evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. No asset impairment was recognized during the years ended June 30, 2020 and 2019.

The Authority capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred for the year ended June 30, 2020, was:

Total interest expense incurred on borrowings for project	\$ 2,347,666
Interest income from investment of proceeds of borrowings for project	<u>(440,017)</u>
Net interest cost capitalized	<u><u>\$ 1,907,649</u></u>
Interest capitalized, net	\$ 1,907,649
Interest charged to expense	<u>8,212,916</u>
Total interest incurred	<u><u>\$ 10,120,565</u></u>

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:

	<u>2020</u>	<u>2019</u>
Loss on defeasance of long-term debt, net	\$ 3,613,801	\$ 4,086,947
Excess of cost over net position on specialty clinic purchases	18,011,951	-
Deferred outflows related to pensions	<u>2,480,448</u>	<u>210,774</u>
Total deferred outflows of resources	<u><u>\$ 24,106,200</u></u>	<u><u>\$ 4,297,721</u></u>

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Compensated Absences

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

Defined Benefit Pension Plan

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

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity, as specified by parties external to the Authority, such as permanent endowments and other members' interest in component units. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted nonexpendable net position.

Net Patient Service Revenue

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

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue

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

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is currently scheduled to sunset on December 31, 2025. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee that will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

SHOPP revenue is recorded as part of net patient service revenue, and SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses, and changes in net position. The amounts noted in the following table for the years ended June 30, 2020 and 2019, 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 \$13,357,000 in 2021.

	2020	2019
SHOPP funds received	\$ 19,967,000	\$ 19,689,000
SHOPP assessment fees paid	9,235,000	10,759,000
Net SHOPP benefit	\$ 10,732,000	\$ 8,930,000

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Note 2: Net Patient Service Revenue

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

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient rehabilitation and psychiatric unit services are paid at prospectively determined rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through June 30, 2017.

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 45% and 46% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates could change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Note 3: Deposits, Investments, and Investment Income

Deposits

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

At June 30, 2020 and 2019, none of the Authority's bank balances of approximately \$1,212,000 and \$394,000, 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 \$525,000 and \$495,000 and carrying values of approximately \$522,000 and \$458,000 at June 30, 2020 and 2019, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2020 and 2019, the

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blended component units' cash accounts exceeded federally insured limits by approximately \$169,000 and \$185,000, 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	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
2020					
Money market mutual funds	\$ 141,712,324	\$ 141,712,324	\$ -	\$ -	\$ -
Mutual funds					
Bond funds	109,306,745	-	90,593,076	14,652,043	4,061,626
Equity and other funds	<u>71,163,053</u>	<u>71,163,053</u>	<u>-</u>	<u>-</u>	<u>-</u>
	322,182,122	<u>\$ 212,875,377</u>	<u>\$ 90,593,076</u>	<u>\$ 14,652,043</u>	<u>\$ 4,061,626</u>
Hedge funds	<u>37,666,181</u>				
	<u>\$ 359,848,303</u>				
2019					
Money market mutual funds	\$ 50,041,132	\$ 50,041,132	\$ -	\$ -	\$ -
Mutual funds					
Bond funds	110,149,780	-	91,539,635	18,610,145	-
Equity and other funds	<u>70,639,224</u>	<u>70,639,224</u>	<u>-</u>	<u>-</u>	<u>-</u>
	230,830,136	<u>\$ 120,680,356</u>	<u>\$ 91,539,635</u>	<u>\$ 18,610,145</u>	<u>\$ -</u>
Hedge funds	<u>32,510,653</u>				
	<u>\$ 263,340,789</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 and equity and other mutual funds are presented as an investment with a maturity of less than one year because the average maturity of the funds is less than one year. Maturities of bond mutual funds are presented based on the average maturity of the underlying securities in the fund.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority's investment policy provides guidelines to maintain an aggregate credit rating of A or better on fixed income securities but does not place limits on

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individual investments. At June 30, 2020 and 2019, 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, 2020, none of the Authority's investments exceeded 5% of total investments. At June 30, 2019, the Authority's investment in the hedge fund of Western Asset U.S. Core Plus, L.L.C., constituted 5.4% of its total investments.

Summary of Carrying Values

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

	2020	2019
Carrying value		
Deposits	\$ 889,161	\$ 652,251
Investments	359,848,303	263,340,789
Cash on hand	23,059	21,000
	<u>\$ 360,760,523</u>	<u>\$ 264,014,040</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 22,173,415	\$ 50,710,173
Short-term investments	218,135,979	213,299,657
Restricted cash and investments – current	11,112	4,210
Noncurrent cash and investments, net	120,440,017	-
	<u>\$ 360,760,523</u>	<u>\$ 264,014,040</u>

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Investment Income

Investment income for the years ended June 30 consisted of:

	2020	2019
Interest, dividends, and realized gain on sales of investments, net	\$ 12,968,199	\$ 6,049,425
Income from joint ventures	1,553,264	1,257,099
Net increase (decrease) in fair value of investments	<u>(2,898,162)</u>	<u>5,183,749</u>
	<u>\$ 11,623,301</u>	<u>\$ 12,490,273</u>

Note 4: Patient Accounts Receivable

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

	2020	2019
Medicare	\$ 20,956,970	\$ 17,558,894
Medicaid	3,104,198	1,787,161
Other third-party payors	54,534,408	48,051,940
Patients	<u>25,362,355</u>	<u>17,501,813</u>
	103,957,931	84,899,808
Less allowance for uncollectible accounts	<u>40,035,000</u>	<u>30,835,000</u>
	<u>\$ 63,922,931</u>	<u>\$ 54,064,808</u>

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Note 5: Investment 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 \$4,073,000 and \$3,806,000 at June 30, 2020 and 2019, respectively. The audited financial position and results of operations of OHHS are summarized below as of December 31:

	<u>2019</u>	<u>2018</u>
Current assets	\$ 57,040,079	\$ 49,057,370
Property and other long-term assets, net	<u>62,363,501</u>	<u>57,600,599</u>
Total assets	<u>119,403,580</u>	<u>106,657,969</u>
Current liabilities	21,191,664	17,931,535
Long-term liabilities	<u>58,847,596</u>	<u>51,993,898</u>
Total liabilities	<u>80,039,260</u>	<u>69,925,433</u>
Members' equity	<u>\$ 39,364,320</u>	<u>\$ 36,732,536</u>
Revenues	<u>\$ 156,070,207</u>	<u>\$ 144,473,782</u>
Net income	<u>\$ 13,859,025</u>	<u>\$ 9,789,900</u>

The Authority is joint guarantor on loans of OHHS. At June 30, 2020, the Authority guaranteed approximately \$7,606,000 of the outstanding balance of the loans.

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Note 7: Specialty Clinic Acquisitions

In 2020, the Authority acquired 100% ownership in several specialty clinics in order to expand its specialty service offerings. These clinics are included in the Authority's operations similar to other specialty clinics operated and accounted for by the Authority. The acquisitions included substantially all of the assets of each specialty clinic. The acquisitions resulted in an excess of cost over the net position acquired of approximately \$19,348,000, net of amortization of \$1,335,000, which is reflected in deferred outflows of resources in the accompanying balance sheets (see *Note 1*). A summary of each clinic acquisition follows:

GI of Norman, LLC; West Norman Endoscopy Center, LLC; MPEU, LLC; and GION Anesthesia Services, P.L.L.C.

On August 31, 2019, the Authority acquired 100% equity ownership of these four clinics, which specialize in gastroenterology, outpatient ambulatory surgery, and anesthesia services, in exchange for approximately \$11,704,000. The Authority will operate and maintain these clinics and account for the operations. The acquisition included substantially all assets of the clinics and accounts payable liabilities assumed by the Authority. The acquisition value of the net position acquired was determined to be approximately \$668,000. As a result, the Authority recognized cost in excess of the net position acquired of approximately \$11,036,000.

Oklahoma Sports & Orthopedics Institute, P.L.L.C.

On December 31, 2019, the Authority acquired 100% equity ownership of this clinic, which specializes in orthopedics services, in exchange for approximately \$3,257,000. The Authority will operate and maintain this clinic and account for its operations. The acquisition included substantially all assets of the clinic. The acquisition value of the net position acquired was determined to be approximately \$2,310,000. As a result, the Authority recognized cost in excess of the net position acquired of approximately \$947,000.

Greater Norman Surgery Center, LLC d/b/a Central Oklahoma Surgical Institute (COSI)

The Authority owned a 6% interest in COSI, an outpatient ambulatory surgery center. On December 31, 2019, the Authority acquired 100% equity ownership of COSI in exchange for approximately \$7,818,000. The Authority will operate and maintain this clinic and account for its operations. The acquisition included substantially all assets of the clinic. The acquisition value of the net position acquired was determined to be approximately \$453,000. As a result, the Authority recognized cost in excess of the net position acquired of approximately \$7,365,000.

Note 8: 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

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Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$600,000 for 2020 and \$500,000 for 2019 and for workers' compensation claims up to \$750,000 for both 2020 and 2019. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amounts.

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

Activity in the Authority's accrued self-insured claims liabilities during 2020 and 2019 is summarized as follows:

	Workers' Compensation	Short-Term Disability	Employee Health
2020			
Balance, beginning of year	\$ 1,714,992	\$ -	\$ 730,361
Current year claims incurred and changes in estimates for claims incurred in prior years	693,889	234,406	12,937,714
Claims and expenses paid	<u>(716,575)</u>	<u>(234,406)</u>	<u>(12,028,228)</u>
Balance, end of year	<u><u>\$ 1,692,306</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,639,847</u></u>
2019			
Balance, beginning of year	\$ 1,771,236	\$ -	\$ 678,918
Current year claims incurred and changes in estimates for claims incurred in prior years	628,786	114,260	9,212,588
Claims and expenses paid	<u>(685,030)</u>	<u>(114,260)</u>	<u>(9,161,145)</u>
Balance, end of year	<u><u>\$ 1,714,992</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 730,361</u></u>

Note 9: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis with a significant self-insured retention limit. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on actuarially determined amounts. At June 30, 2020 and 2019, the Authority recorded an accrual of \$7,219,654 and \$3,389,000, respectively, for pending malpractice claims, which is included in estimated self-insurance costs – current and other long-term liabilities on the accompanying balance sheets. It is reasonably possible that this estimate could change materially in the near term.

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Note 10: Long-Term Obligations

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

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2020					
Long-Term Debt					
Series 2016 Hospital Revenue Refunding Bonds (A)	\$ 140,483,179	\$ -	\$ (4,878,119)	\$ 135,605,060	\$ 5,073,119
Series 2017 Hospital Revenue Refunding Bonds (B)	26,704,298	-	(910,852)	25,793,446	950,852
Series 2019 Hospital Revenue Bonds (C)	<u>-</u>	<u>121,091,045</u>	<u>(217,475)</u>	<u>120,873,570</u>	<u>372,815</u>
Total long-term debt	167,187,477	121,091,045	(6,006,446)	282,272,076	6,396,786
Other Long-Term Liabilities					
Estimated self-insurance costs	5,834,353	15,869,808	(11,152,354)	10,551,807	4,080,137
Deferred compensation plan	2,758,381	1,096,093	(1,612,884)	2,241,590	404,944
Employer payroll tax deferral	<u>-</u>	<u>1,565,282</u>	<u>-</u>	<u>1,565,282</u>	<u>-</u>
Total long-term obligations	<u>\$ 175,780,211</u>	<u>\$ 139,622,228</u>	<u>\$ (18,771,684)</u>	<u>\$ 296,630,755</u>	<u>\$ 10,881,867</u>
2019					
Long-Term Debt					
Series 2016 Hospital Revenue Refunding Bonds (A)	\$ 145,196,295	\$ -	\$ (4,713,116)	\$ 140,483,179	\$ 4,878,119
Series 2017 Hospital Revenue Refunding Bonds (B)	<u>27,575,150</u>	<u>-</u>	<u>(870,852)</u>	<u>26,704,298</u>	<u>910,852</u>
Total long-term debt	172,771,445	-	(5,583,968)	167,187,477	5,788,971
Other Long-Term Liabilities					
Estimated self-insurance costs	5,300,154	12,157,679	(11,623,480)	5,834,353	2,585,607
Deferred compensation plan	<u>3,608,810</u>	<u>966,352</u>	<u>(1,816,781)</u>	<u>2,758,381</u>	<u>1,144,570</u>
Total long-term obligations	<u>\$ 181,680,409</u>	<u>\$ 13,124,031</u>	<u>\$ (19,024,229)</u>	<u>\$ 175,780,211</u>	<u>\$ 9,519,148</u>

Revenue Bonds Payable

- (A) Due September 1, 2037; principal payable annually beginning September 1, 2017, plus semiannual interest payments at interest rates from 3.00% to 5.00%; callable on or after September 1, 2026; secured by pledge of the Authority's gross revenues.

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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:

	<u>2020</u>	<u>2019</u>
Principal amount	\$ 124,080,000	\$ 128,290,000
Plus unamortized premium	<u>11,525,060</u>	<u>12,193,179</u>
Net amount outstanding	<u>\$ 135,605,060</u>	<u>\$ 140,483,179</u>

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

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

	<u>2020</u>	<u>2019</u>
Principal amount	\$ 23,795,000	\$ 24,590,000
Plus unamortized premium	<u>1,998,446</u>	<u>2,114,298</u>
Net amount outstanding	<u>\$ 25,793,446</u>	<u>\$ 26,704,298</u>

- (C) Due September 1, 2045; principal payable annually beginning September 1, 2029, plus semiannual interest payments ranging from 3.25% to 5.00%; callable on or after September 1, 2038; secured by pledge of the Authority's gross revenues. The indenture agreement requires that certain funds be established with a trustee. Accordingly, these funds are included as assets held by others for capital acquisitions in the accompanying balance sheets.

When the Series 2019 Hospital Revenue Bonds (2019 Bonds) were issued, the bonds were sold at a premium of approximately \$9,631,000. At June 30, 2020, the outstanding balance of the 2019 Bonds was as follows:

Principal amount	\$ 111,460,000
Plus unamortized premium	<u>9,413,570</u>
Net amount outstanding	<u>\$ 120,873,570</u>

The Authority's revenue bond indentures under the Master Trust Indenture place limits on the incurrence of additional borrowings and require that the Authority satisfy certain measures of financial performance as long as the bonds are outstanding. The revenue bond indentures contain a

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provision that, in an event of default, outstanding amounts become immediately due if the Authority is unable to make payment.

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

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

Debt Service Requirements

The debt service requirements of the revenue bonds payable, excluding unamortized premiums, as of June 30, 2020, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2021	\$ 16,700,150	\$ 5,240,000	\$ 11,460,150
2022	16,701,400	5,510,000	11,191,400
2023	16,698,900	5,790,000	10,908,900
2024	16,701,900	6,090,000	10,611,900
2025	16,699,650	6,400,000	10,299,650
2026–2030	83,504,500	37,280,000	46,224,500
2031–2035	83,497,400	47,565,000	35,932,400
2036–2040	83,055,075	58,520,000	24,535,075
2041–2045	82,400,450	70,815,000	11,585,450
2046	16,478,850	16,125,000	353,850
	<u>\$ 432,438,275</u>	<u>\$ 259,335,000</u>	<u>\$ 173,103,275</u>

Line of Credit

The Authority has an unused short-term revolving bank line of credit in the amount of \$34,400,000, expiring May 5, 2021, bearing interest at one-month LIBOR plus 1.25%. The line is collateralized by gross revenues.

Note 11: Restricted Net Position

At June 30, 2020 and 2019, restricted nonexpendable net position of \$227,441 and \$2,932,517, respectively, was related to the other members' interest in Medical Park West and Oklahoma Sleep Associates.

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Note 12: Charity Care and Uncompensated Care

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

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

	2020		2019	
	Dollar	Percent	Dollar	Percent
Gross patient service revenue	\$ 2,180,458,368	100.0%	\$ 2,104,923,032	100.0%
Contractual adjustments	(1,544,794,286)	-70.8%	(1,511,364,971)	-71.8%
Provision for uncollectible accounts and charity care adjustments	(173,597,301)	-8.0%	(148,926,176)	-7.1%
Net patient service revenue	\$ 462,066,781	21.2%	\$ 444,631,885	21.1%

The estimated uncompensated costs associated with charity care services were approximately \$6,562,000 and \$7,835,000 for the years ended June 30, 2020 and 2019, respectively. The costs of charity care are estimated by applying the cost to charge ratio from the Authority's most recent Medicare cost report to the gross uncompensated charges.

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

Note 13: 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

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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. Contribution rates for the Authority expressed as a percentage of covered payroll were 1.1% and 1.2% for 2020 and 2019, respectively. Contributions actually made by the Authority were approximately \$2,265,000 and \$2,068,000 during the years ended June 30, 2020 and 2019, respectively. Plan members do not contribute to the plan.

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. Contribution rates for the Authority expressed as a percentage of covered payroll were 3.3% for 2020 and 2019. Contributions actually made by the Authority were approximately \$6,499,000 and \$5,792,000 during the years ended June 30, 2020 and 2019, respectively. Plan members do not contribute to the plan.

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

Deferred Compensation Plans

Additionally, the Authority maintains a nonqualified deferred compensation plan for certain physicians effective July 1, 2007. Contributions to the plan are made by the Authority based on call hours worked. Through June 30, 2019, the plan vested after a five- or ten-year period. Effective July 1, 2019, participants vest upon enrollment. 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, 2020 and 2019, was approximately \$1,191,000 and \$841,000, respectively, and is included in prepaid expenses and other in the accompanying balance sheets. The related liability as of June 30, 2020 and 2019, of approximately \$2,242,000 and \$2,758,000, respectively, for this plan is included in accrued payroll and expenses and other long-term liabilities in the accompanying balance sheets (see *Note 10*). Deferred compensation expense related to the plan totaled approximately \$883,000 and \$830,000 for the years ended June 30, 2020 and 2019, 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.

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Note 14: 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 completion of 30 years of service.

The employees covered by the plan at April 30 are:

	<u>2020</u>	<u>2019</u>
Inactive employees or beneficiaries currently receiving benefits	376	347
Inactive employees entitled to but not yet receiving benefits	319	335
Active employees	<u>306</u>	<u>331</u>
	<u>1,001</u>	<u>1,013</u>

Contributions

The Authority's governing body has the authority to establish and amend the contribution rates of the Authority and active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. The actuarially determined contribution was \$355,176 and \$435,030 for the years ended April 30, 2020 and 2019, respectively. For the years ended April 30, 2020 and 2019, the Authority actually contributed \$400,000 and \$1,000,000, respectively, to the plan. Participants do not contribute to the plan.

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Net Pension Liability

The Authority's net pension liability was measured as of April 30, 2020 and 2019, for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increase	4.0% average, including inflation
Ad hoc cost of living adjustments	Not applicable
Investment rate of return	7.0%, net of pension plan investment expense and including inflation

Mortality rates for the 2020 valuation were based on the Pri-2012 Blue Collar Mortality Table Projected Generationally from 2012 with the Mortality Improvement Scale MP-2019; mortality rates for the 2019 valuation were based on the RP-2014 Blue Collar Mortality Table with Generational Improvements from 2006 based on the Social Security Mortality Improvement Assumptions from the 2018 Trustee's Report.

The actuarial assumptions used in the April 30, 2020, valuation were based on the results of an actuarial experience study for the period May 1, 2011 through April 30, 2017.

Long-Term Expected Rate of Return

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 2020 and 2019 valuations for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Rate of Return (Net of Inflation)
Domestic stocks	35.0%	7.40%
International stocks	10.0%	6.40%
U.S. bonds – core plus	17.5%	0.40%
U.S. bonds – multisector	15.0%	2.40%
Real estate	7.5%	6.40%
Balanced	10.0%	4.40%
Cash	5.0%	-1.10%
	<u>100%</u>	

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Discount Rate

The discount rate used to measure the total pension liability was 7% for the years ended June 30, 2020 and 2019. 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:

	2020		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 45,018,423	\$ 43,205,987	\$ 1,812,436
Changes for the year			
Service cost	6,012	-	6,012
Interest	3,055,858	-	3,055,858
Differences between expected and actual experience	263,224	-	263,224
Contributions – employer	-	400,000	(400,000)
Net investment income	-	(494,505)	494,505
Benefit payments	(2,738,639)	(2,738,639)	-
Administrative expense	-	(155,343)	155,343
Change of assumptions	(431,344)	-	(431,344)
Net changes	155,111	(2,988,487)	3,143,598
Balance, end of year	\$ 45,173,534	\$ 40,217,500	\$ 4,956,034

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	2019		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 44,684,086	\$ 41,903,596	\$ 2,780,490
Changes for the year			
Service cost	5,817	-	5,817
Interest	3,038,862	-	3,038,862
Differences between expected and actual experience	(52,140)	-	(52,140)
Contributions – employer	-	1,000,000	(1,000,000)
Net investment income	-	3,006,756	(3,006,756)
Benefit payments	(2,555,164)	(2,555,164)	-
Administrative expense	-	(149,201)	149,201
Change of assumptions	(103,038)	-	(103,038)
Net changes	334,337	1,302,391	(968,054)
Balance, end of year	\$ 45,018,423	\$ 43,205,987	\$ 1,812,436

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

The net pension liability of the Authority has been calculated using a discount rate of 7%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate for the year ended June 30, 2020:

	1% Decrease	Current	1% Increase
	(6.0%)	Discount Rate (7.0%)	(8.0%)
Net pension liability	\$ 9,433,542	\$ 4,956,034	\$ 1,131,456

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Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended June 30, 2020 and 2019, the Authority recognized pension expense of \$1,273,924 and \$816,918, respectively. At June 30, 2020 and 2019, the Authority reported deferred outflows of resources of \$2,480,448 and \$210,774, respectively, related to the net difference between projected and actual earnings on pension plan investments. The reported deferred outflows of resources at June 30, 2020, related to pensions will be recognized in pension expense as follows:

2021	\$ 480,088
2022	661,429
2023	652,694
2024	<u>686,237</u>
Total	<u>\$ 2,480,448</u>

Pension Plan Fiduciary Net Position

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

	<u>2020</u>	<u>2019</u>
Cash and deposits	<u>\$ 1,600,874</u>	<u>\$ 1,320,172</u>
Mutual funds, at fair value		
Equities – domestic	11,969,348	11,819,339
Equities – international	6,698,125	6,726,923
Fixed income – domestic	6,812,641	7,295,264
Fixed income – international	5,894,309	7,274,311
Balanced asset allocation	4,049,741	4,284,273
Real assets	<u>3,192,462</u>	<u>4,485,705</u>
Total pooled investments, at fair value	<u>38,616,626</u>	<u>41,885,815</u>
Total plan fiduciary net position	<u>\$ 40,217,500</u>	<u>\$ 43,205,987</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 7.8% for the 12 months ended April 30, 2020.

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, 2020 and 2019, 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	Maturities in Years		
		Less than 1	1–5	6–10
2020				
Mutual funds, at fair value				
Equities – domestic	\$ 11,969,348	\$ 11,969,348	\$ -	\$ -
Equities – international	6,698,125	6,698,125	-	-
Fixed income – domestic	6,812,641	-	-	6,812,641
Fixed income – international	5,894,309	-	-	5,894,309
Balanced asset allocation	4,049,741	4,049,741	-	-
Real assets	3,192,462	3,192,462	-	-
	<u>\$ 38,616,626</u>	<u>\$ 25,909,676</u>	<u>\$ -</u>	<u>\$ 12,706,950</u>
2019				
Mutual funds, at fair value				
Equities – domestic	\$ 11,819,339	\$ 11,819,339	\$ -	\$ -
Equities – international	6,726,923	6,726,923	-	-
Fixed income – domestic	7,295,264	-	-	7,295,264
Fixed income – international	7,274,311	-	-	7,274,311
Balanced asset allocation	4,284,273	4,284,273	-	-
Real assets	4,485,705	4,485,705	-	-
	<u>\$ 41,885,815</u>	<u>\$ 27,316,240</u>	<u>\$ -</u>	<u>\$ 14,569,575</u>

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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)
2020				
Mutual Funds by Fair Value Level				
Equities – domestic	\$ 11,969,348	\$ 11,969,348	\$ -	\$ -
Equities – international	6,698,125	6,698,125	-	-
Fixed income – domestic	6,812,641	6,812,641	-	-
Fixed income – international	5,894,309	5,894,309	-	-
Balanced asset allocation	4,049,741	4,049,741	-	-
Real assets	3,192,462	3,192,462	-	-
Total pooled investments by fair value level	<u>\$ 38,616,626</u>	<u>\$ 38,616,626</u>	<u>\$ -</u>	<u>\$ -</u>
2019				
Mutual Funds by Fair Value Level				
Equities – domestic	\$ 11,819,339	\$ 11,819,339	\$ -	\$ -
Equities – international	6,726,923	6,726,923	-	-
Fixed income – domestic	7,295,264	7,295,264	-	-
Fixed income – international	7,274,311	7,274,311	-	-
Balanced asset allocation	4,284,273	4,284,273	-	-
Real assets	4,485,705	4,485,705	-	-
Total pooled investments by fair value level	<u>\$ 41,885,815</u>	<u>\$ 41,885,815</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2020 or 2019.

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Note 15: Disclosures About Fair Value of Assets

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

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

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Recurring Measurements

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

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2020				
Investments by Fair Value Level				
Money market mutual funds	\$ 141,712,324	\$ 141,712,324	\$ -	\$ -
Mutual funds				
Bond funds	109,306,745	109,306,745	-	-
Equity and other funds	71,163,053	71,163,053	-	-
Fixed income hedge fund	14,087,659	-	14,087,659	-
Total investments by fair value level	336,269,781	<u>\$ 322,182,122</u>	<u>\$ 14,087,659</u>	<u>\$ -</u>
Investments Measured at NAV				
Equity long/short hedge funds	<u>23,578,522</u>			
Total investments measured at fair value	<u>\$ 359,848,303</u>			
2019				
Investments by Fair Value Level				
Money market mutual funds	\$ 50,041,132	\$ 50,041,132	\$ -	\$ -
Mutual funds				
Bond funds	110,149,781	110,149,781	-	-
Equity and other funds	70,639,224	70,639,224	-	-
Fixed income hedge fund	14,200,256	-	14,200,256	-
Total investments by fair value level	245,030,393	<u>\$ 230,830,137</u>	<u>\$ 14,200,256</u>	<u>\$ -</u>
Investments Measured at NAV				
Equity long/short hedge funds	<u>18,310,396</u>			
Total investments measured at fair value	<u>\$ 263,340,789</u>			

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

Investments

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

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

At June 30, 2020 and 2019, investments measured at NAV consisted of investments in hedge funds that take both long and short positions, primarily in common stocks (both domestic and international) and depository receipts. Management of the funds has the ability to shift investments among differing investment strategies. The Authority has no unfunded commitments with these funds, and investors may redeem shares under no restriction period with 0 to 5 days' notice.

Note 16: 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.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 9*.

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

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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 17: 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, 2020 and 2019, the Foundation contributed approximately \$47,000 and \$10,000, respectively, in noncapital-related contributions and approximately \$111,000 and \$71,000, respectively, in capital-related contributions to the Authority.

Note 18: Subsequent Events

The Authority has approved a master plan for capital improvements known as Inspire Health. Funding for the project is financed from the proceeds of the Series 2019 Hospital Revenue Bonds as detailed in *Note 10*. While design is underway, no material construction commitments have been committed.

Note 19: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Patient volumes and the related revenues were significantly impacted as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective surgical procedures by health care facilities.

While some of these policies have been eased and the State of Oklahoma has lifted moratoriums on non-emergent procedures, some restrictions remain in place due to increasing rates of COVID-19 cases.

Beginning in mid-March, the Authority deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the final quarter of the fiscal year in accordance with state regulations.

The Authority's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Authority has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to the Authority's business, including the following:

- Implementation of targeted cost reduction initiatives
- Reduction of certain planned projects and capital expenditures
- During May 2020, execution of a new revolving line of credit of \$34,400,000 as a precautionary measure to protect liquidity against uncertain impacts of COVID-19

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In addition, the Authority received approximately \$10,168,000 in general Provider Relief Fund distributions as provided for under the Coronavirus Aid, Relief, and Economic Security Act (The CARES Act).

The extent of the COVID-19 pandemic's adverse impact on the Authority's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Authority's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Authority cannot estimate the length or severity of the impact of the pandemic on the Authority's business. Decreases in cash flows and results of operations may have an impact on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured patient accounts, and self-insured health liability reserves.

Provider Relief Funds

During the year ended June 30, 2020, the Authority received \$10,167,997 from the \$50 billion general distribution fund from the CARES Act Provider Relief Fund (collectively the Provider Relief Fund). This distribution from the Provider Relief Fund is not subject to repayment, provided the Authority is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19 as defined by the Department of Health and Human Services.

The Authority is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on the Authority's operating revenues and expenses through June 30, 2020, the Authority recognized \$10,167,997 related to the Provider Relief Funds, and these payments are recorded as nonoperating revenue – government grants in the accompanying statements of revenues, expenses, and changes in net position.

The Authority will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on the Authority's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Authority is unable to attest to or comply with current or future terms and conditions, the Authority's ability to retain some or all of the distributions received may be impacted. The Provider Relief Funds are subject to government oversight, including potential audits.

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Payroll Tax Credits

The CARES Act also provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 2021 and the remaining half until December 2022. At June 30, 2020, the Authority had deferred \$1,565,282 of payroll taxes included in other long-term liabilities (see *Note 10*) in the accompanying balance sheets.

Note 20: Future Changes in Accounting Principles

Fiduciary Activities

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, 2021, 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, 2022. The Authority is evaluating the impact GASB 87 will have on the financial statements; however, GASB 87 is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Capitalized Interest

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires interest costs incurred before the end of a construction period be recognized as expense in the period in which the costs are incurred. As a result, the interest cost incurred before the end of a construction period will no longer be included in the historical cost of a capital asset. The Authority expects to first apply GASB 89 during its fiscal year ending June 30, 2022. No retrospective application is required.

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Note 21: Combining Component Unit Information

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

	2020						Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	NHealth, LLC	Eliminations	
Assets and Deferred Outflows of Resources							
Current Assets							
Cash and cash equivalents	\$ 19,854,880	\$ 1,892,789	\$ 418,201	\$ 7,545	\$ -	\$ -	\$ 22,173,415
Short-term investments	218,135,979	-	-	-	-	-	218,135,979
Restricted cash and investments – current	11,112	-	-	-	-	-	11,112
Patient accounts receivable, net of allowance; \$40,035,000	63,922,931	-	-	-	-	-	63,922,931
Estimated amounts due from third-party payors	1,982,049	-	-	-	-	-	1,982,049
Supplies	14,223,011	-	-	-	-	-	14,223,011
Prepaid expenses and other	5,534,264	51,234	95,735	-	99,819	(181,786)	5,599,266
Total current assets	323,664,226	1,944,023	513,936	7,545	99,819	(181,786)	326,047,763
Noncurrent Cash and Investments							
Held by trustee for debt service	11,112	-	-	-	-	-	11,112
Held by others for capital acquisitions	120,440,017	-	-	-	-	-	120,440,017
	120,451,129	-	-	-	-	-	120,451,129
Less amount required to meet current obligations	11,112	-	-	-	-	-	11,112
Noncurrent cash and investments, net	120,440,017	-	-	-	-	-	120,440,017
Capital Assets, Net	198,315,959	11,702,243	198,822	-	-	(508,141)	209,708,883
Other Assets	20,795,879	-	2,911	-	-	(14,055,107)	6,743,683
Deferred Outflows of Resources	24,106,200	-	-	-	-	-	24,106,200
Total assets and deferred outflows of resources	\$ 687,322,281	\$ 13,646,266	\$ 715,669	\$ 7,545	\$ 99,819	\$ (14,745,034)	\$ 687,046,546
Liabilities and Net Position							
Current Liabilities							
Current maturities of long-term debt	\$ 6,396,786	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,396,786
Accounts payable	17,570,939	66,314	20,617	-	201,780	(181,786)	17,677,864
Accrued payroll and expenses	21,299,401	-	-	-	-	-	21,299,401
Accrued interest payable	3,842,718	-	-	-	-	-	3,842,718
Estimated self-insurance costs – current	4,080,137	-	-	-	-	-	4,080,137
Total current liabilities	53,189,981	66,314	20,617	-	201,780	(181,786)	53,296,906
Long-Term Debt	275,875,290	-	-	-	-	-	275,875,290
Other Long-Term Liabilities	9,873,598	-	-	-	-	-	9,873,598
Pension Liability	4,956,034	-	-	-	-	-	4,956,034
Total liabilities	343,894,903	66,314	20,617	-	201,780	(181,786)	344,001,828
Net Position							
Net investment in capital assets	38,823,153	11,702,243	198,822	-	-	-	50,724,218
Restricted – nonexpendable	-	-	-	-	-	227,441	227,441
Unrestricted	304,604,225	1,877,709	496,230	7,545	(101,961)	(14,790,689)	292,093,059
Total net position	343,427,378	13,579,952	695,052	7,545	(101,961)	(14,563,248)	343,044,718
Total liabilities and net position	\$ 687,322,281	\$ 13,646,266	\$ 715,669	\$ 7,545	\$ 99,819	\$ (14,745,034)	\$ 687,046,546

Norman Regional Hospital Authority
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	2019					
	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	\$ 49,813,341	\$ 488,914	\$ 398,160	\$ 9,758	\$ -	\$ 50,710,173
Short-term investments	213,299,657	-	-	-	-	213,299,657
Restricted cash and investments – current	4,210	-	-	-	-	4,210
Patient accounts receivable, net of allowance; \$30,835,000	54,064,808	-	-	-	-	54,064,808
Estimated amounts due from third-party payors	1,391,327	-	-	-	-	1,391,327
Supplies	12,944,647	-	-	-	-	12,944,647
Prepaid expenses and other	6,424,645	58,816	172,347	-	(161,809)	6,493,999
Total current assets	<u>337,942,635</u>	<u>547,730</u>	<u>570,507</u>	<u>9,758</u>	<u>(161,809)</u>	<u>338,908,821</u>
Noncurrent Cash and Investments						
Held by trustee for debt service	4,210	-	-	-	-	4,210
Less amount required to meet current obligations	4,210	-	-	-	-	4,210
Noncurrent cash and investments, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital Assets, Net	<u>198,755,298</u>	<u>12,279,084</u>	<u>222,161</u>	<u>-</u>	<u>(508,141)</u>	<u>210,748,402</u>
Other Assets	<u>16,130,266</u>	<u>-</u>	<u>2,911</u>	<u>-</u>	<u>(10,555,084)</u>	<u>5,578,093</u>
Deferred Outflows of Resources	<u>4,297,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,297,721</u>
Total assets and deferred outflows of resources	<u>\$ 557,125,920</u>	<u>\$ 12,826,814</u>	<u>\$ 795,579</u>	<u>\$ 9,758</u>	<u>\$ (11,225,034)</u>	<u>\$ 559,533,037</u>
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 5,788,971	\$ -	\$ -	\$ -	\$ -	\$ 5,788,971
Accounts payable	15,102,895	55,585	88,965	-	(161,807)	15,085,638
Accrued payroll and expenses	22,177,051	-	-	-	-	22,177,051
Accrued interest payable	2,382,116	-	-	-	-	2,382,116
Estimated self-insurance costs – current	2,585,607	-	-	-	-	2,585,607
Total current liabilities	<u>48,036,640</u>	<u>55,585</u>	<u>88,965</u>	<u>-</u>	<u>(161,807)</u>	<u>48,019,383</u>
Long-Term Debt	<u>161,398,506</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>161,398,506</u>
Other Long-Term Liabilities	<u>4,862,557</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,862,557</u>
Pension Liability	<u>1,812,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,812,436</u>
Total liabilities	<u>216,110,139</u>	<u>55,585</u>	<u>88,965</u>	<u>-</u>	<u>(161,807)</u>	<u>216,092,882</u>
Net Position						
Net investment in capital assets	35,178,712	12,279,084	222,161	-	-	47,679,957
Restricted – nonexpendable	-	-	-	-	2,932,517	2,932,517
Unrestricted	305,837,069	492,145	484,453	9,758	(13,995,744)	292,827,681
Total net position	<u>341,015,781</u>	<u>12,771,229</u>	<u>706,614</u>	<u>9,758</u>	<u>(11,063,227)</u>	<u>343,440,155</u>
Total liabilities and net position	<u>\$ 557,125,920</u>	<u>\$ 12,826,814</u>	<u>\$ 795,579</u>	<u>\$ 9,758</u>	<u>\$ (11,225,034)</u>	<u>\$ 559,533,037</u>

Norman Regional Hospital Authority
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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:

	2020						Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	NHealth, LLC	Eliminations	
Operating Revenues							
Net patient service revenue, net of provision for uncollectible accounts; \$131,510,802	\$ 462,066,781	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 462,066,781
Other operating revenue	5,012,080	980,025	2,676,569	-	201,779	(3,560,322)	5,310,131
Total operating revenues	<u>467,078,861</u>	<u>980,025</u>	<u>2,676,569</u>	<u>-</u>	<u>201,779</u>	<u>(3,560,322)</u>	<u>467,376,912</u>
Operating Expenses							
Salaries, wages, and employee benefits	268,844,697	-	1,002,618	-	-	-	269,847,315
Professional fees	11,092,019	1,200	275,033	2,213	237,599	(60,000)	11,548,064
Purchased services	16,365,345	-	166,380	-	10,480	(2,804,825)	13,737,380
Supplies expense	97,369,909	-	39,349	-	-	-	97,409,258
Other expenses	62,771,584	176,083	290,827	-	55,661	(695,497)	62,598,658
Depreciation and amortization	22,927,211	-	19,424	-	-	-	22,946,635
Total operating expenses	<u>479,370,765</u>	<u>177,283</u>	<u>1,793,631</u>	<u>2,213</u>	<u>303,740</u>	<u>(3,560,322)</u>	<u>478,087,310</u>
Operating Income (Loss)	<u>(12,291,904)</u>	<u>802,742</u>	<u>882,938</u>	<u>(2,213)</u>	<u>(101,961)</u>	<u>-</u>	<u>(10,710,398)</u>
Nonoperating Revenues (Expenses)							
Noncapital grants and gifts	85,595	-	-	-	-	-	85,595
Government grants	10,186,687	-	-	-	-	-	10,186,687
Investment income	12,468,186	5,981	-	-	-	(850,866)	11,623,301
Interest expense	(8,212,916)	-	-	-	-	-	(8,212,916)
Total nonoperating revenues (expenses)	<u>14,527,552</u>	<u>5,981</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(850,866)</u>	<u>13,682,667</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Distributions	2,235,648	808,723	882,938	(2,213)	(101,961)	(850,866)	2,972,269
Gifts to Purchase Capital Assets and Other Capital Gifts	175,949	-	-	-	-	-	175,949
Distributions to Minority Owners	-	-	(894,500)	-	-	(2,649,155)	(3,543,655)
Increase (Decrease) in Net Position	2,411,597	808,723	(11,562)	(2,213)	(101,961)	(3,500,021)	(395,437)
Net Position, Beginning of Year	<u>341,015,781</u>	<u>12,771,229</u>	<u>706,614</u>	<u>9,758</u>	<u>-</u>	<u>(11,063,227)</u>	<u>343,440,155</u>
Net Position, End of Year	<u>\$ 343,427,378</u>	<u>\$ 13,579,952</u>	<u>\$ 695,052</u>	<u>\$ 7,545</u>	<u>\$ (101,961)</u>	<u>\$ (14,563,248)</u>	<u>\$ 343,044,718</u>

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

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2020 and 2019

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

	2020						Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	NRHS ACO LLC	NHealth, LLC	Eliminations	
Net Cash Provided by (Used in) Operating Activities	\$ 9,916,658	\$ 536,525	\$ 910,626	\$ (2,213)	\$ -	\$ -	\$ 11,361,596
Net Cash Provided by Noncapital Financing Activities	10,272,282	-	-	-	-	-	10,272,282
Net Cash Provided by Capital and Related Financing Activities	89,625,966	861,369	3,915	-	-	-	90,491,250
Net Cash Provided by (Used in) Investing Activities	(139,773,367)	5,981	(894,500)	-	-	-	(140,661,886)
Increase (Decrease) in Cash and Cash Equivalents	(29,958,461)	1,403,875	20,041	(2,213)	-	-	(28,536,758)
Cash and Cash Equivalents, Beginning of Year	49,813,341	488,914	398,160	9,758	-	-	50,710,173
Cash and Cash Equivalents, End of Year	<u>\$ 19,854,880</u>	<u>\$ 1,892,789</u>	<u>\$ 418,201</u>	<u>\$ 7,545</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,173,415</u>

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

Required Supplementary Information

Norman Regional Hospital Authority

Schedule of Changes in Net Pension Liability and Related Ratios

	2020	2019	2018	2017	2016	2015
Total pension liability						
Service cost	\$ 6,012	\$ 5,817	\$ 9,540	\$ -	\$ -	\$ -
Interest	3,055,858	3,038,862	2,992,485	2,921,547	2,759,356	2,653,341
Differences between expected and actual experience	263,224	(52,140)	199,448	(233,458)	324,236	617,508
Change of assumptions	(431,344)	(103,038)	(65,143)	575,643	1,280,401	61,885
Benefit payments	(2,738,639)	(2,555,164)	(2,384,990)	(2,134,753)	(1,959,198)	(1,677,270)
Net change in total pension liability	155,111	334,337	751,340	1,128,979	2,404,795	1,655,464
Total pension liability – beginning	45,018,423	44,684,086	43,932,746	42,803,767	40,398,972	38,743,508
Total pension liability – ending (a)	45,173,534	45,018,423	44,684,086	43,932,746	42,803,767	40,398,972
Plan fiduciary net position						
Contributions – employer	400,000	1,000,000	2,000,000	3,000,000	4,500,000	8,000,000
Net investment income (loss)	(494,505)	3,006,756	2,652,453	3,331,627	(1,081,343)	1,439,097
Benefit payments	(2,738,639)	(2,555,164)	(2,384,990)	(2,134,753)	(1,959,198)	(1,677,270)
Administrative expense	(155,343)	(149,201)	(144,434)	-	-	-
Other	-	-	-	(119,139)	-	-
Net change in plan fiduciary net position	(2,988,487)	1,302,391	2,123,029	4,077,735	1,459,459	7,761,827
Plan fiduciary net position – beginning	43,205,987	41,903,596	39,780,567	35,702,832	34,243,373	26,481,546
Plan fiduciary net position – ending (b)	40,217,500	43,205,987	41,903,596	39,780,567	35,702,832	34,243,373
Net pension liability – ending (a) – (b)	\$ 4,956,034	\$ 1,812,436	\$ 2,780,490	\$ 4,152,179	\$ 7,100,935	\$ 6,155,599
Plan fiduciary net position as a percentage of the total pension liability	89.03%	95.97%	93.78%	90.55%	83.41%	84.76%
Covered payroll	\$ 145,579	\$ 219,835	\$ 213,824	\$ 275,122	\$ 384,738	\$ 573,539
Net pension liability as a percentage of covered payroll	3404.36%	824.45%	1300.36%	1509.21%	1845.65%	1073.27%

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

	2020	2019	2018	2017	2016	2015
Actuarially determined contributions	\$ 355,176	\$ 435,030	\$ 411,890	\$ 641,966	\$ 546,089	\$ 274,651
Contributions in relation to the actuarially determined contributions	<u>400,000</u>	<u>1,000,000</u>	<u>2,000,000</u>	<u>3,000,000</u>	<u>4,500,000</u>	<u>8,000,000</u>
Contribution excess	<u>\$ (44,824)</u>	<u>\$ (564,970)</u>	<u>\$ (1,588,110)</u>	<u>\$ (2,358,034)</u>	<u>\$ (3,953,911)</u>	<u>\$ (7,725,349)</u>
Covered payroll	<u>\$ 145,579</u>	<u>\$ 219,835</u>	<u>\$ 213,824</u>	<u>\$ 275,122</u>	<u>\$ 384,738</u>	<u>\$ 573,539</u>
Contributions as a percentage of covered payroll	<u>274.76%</u>	<u>454.89%</u>	<u>935.35%</u>	<u>1090.43%</u>	<u>1169.63%</u>	<u>1394.85%</u>

Methods and assumptions used to determine contribution rates:

Valuation date: April 30, 2020

Actuarial cost method: Entry age method

Amortization method: Annual interest rate assumption

Remaining amortization period: 18 years

Asset valuation method: Fair market value

Inflation: 2.75%

Salary increases: 4.0% annually

Investment rate of return: 7.0% net of investment expenses

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

Mortality: Pri-2012 Blue Collar Mortality Table Projected Generationally from 2012 with the Mortality Improvement Scale MP-2019

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, 2020, 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 28, 2020.

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 from 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 28, 2020

Norman Regional Hospital Authority
Schedule of Findings and Responses
Year Ended June 30, 2020

**Reference
Number**

Finding

No matters are reportable.