

# **Norman Regional Hospital Authority**

Auditor's Reports and Financial Statements

June 30, 2014 and 2013





# **Norman Regional Hospital Authority**

## **June 30, 2014 and 2013**

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## Independent Auditor's Report on Financial Statements and Supplementary Information

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) which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *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 respective financial position of Norman Regional Hospital Authority as of June 30, 2014 and 2013, and its changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 13* to the financial statements, in 2014, the Authority changed its method of accounting for deferred financing costs and losses on defeasance of long-term debt as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by GASB, 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 22, 2014, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*BKD, LLP*

Tulsa, Oklahoma  
September 22, 2014

# **Norman Regional Hospital Authority**

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

### **Years Ended June 30, 2014 and 2013**

#### ***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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

As discussed in *Note 13*, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2014. As a result of implementing GASB 65, deferred financing costs previously recorded as assets have been expensed in the year incurred and beginning net position restated.

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

- The Authority's hospital and medical office buildings in Moore, Oklahoma, took a direct hit from an EF-5 tornado on May 20, 2013. The facility was damaged beyond repair and ultimately determined to be a constructive total loss. The site was cleared and temporary structures have been established on the site from which emergency department and other outpatient services are being provided. The Authority had insurance coverage in place for the building, contents, business interruption, extra expenses, debris removal, emergency evacuation and other expenses related to the tornado. A permanent structure is being planned for the site and will be funded from insurance proceeds. See *Note 14* for additional information.
- Unrestricted cash and cash equivalents increased in 2014 by \$9,926 or 15% and increased in 2013 by \$16,217 or 31%.
- Short-term investments increased in 2014 by \$40,220 or 65% and increased in 2013 by \$5,692 or 10%.
- Days cash on hand increased in 2014 by 51 days or 33% compared to 2013. Days cash on hand at June 30, 2014, was 205 days compared to 154 days at June 30, 2013.
- Patient accounts receivable decreased in 2014 by \$1,376 or 3% and increased in 2013 by \$1,635 or 4%.
- Current assets less current liabilities increased by \$19,965 or 11% in 2014 and increased by \$54,736 or 42% in 2013.
- The Authority reported operating income in 2014 of \$16,271 and in 2013 of \$16,752. The operating income in 2014 was \$481 or 3% lower than the operating income reported for 2013. The operating income in 2013 was \$3,902 or 19% lower than the operating income reported for 2012.
- The Authority reported net nonoperating revenues (expenses) for 2014 of \$8,563 and for 2013 of \$10,095. The net nonoperating revenues (expenses) in 2014 decreased by \$1,532 or 15% worse than the 2013 amount. The net nonoperating revenues (expenses) in 2013 increased by \$22,606 or 181% better than the 2012 amount.

## ***Using This Annual Report***

The Authority's financial statements consist of three statements: a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position***

One of the most important questions asked about any Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and 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 them. The Authority's total net position—the difference between assets 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 its liabilities reported in the balance sheet. The Authority's net position increased by \$24,780 or 12% in 2014 from 2013 and increased by \$27,304 or 15% in 2013 from 2012 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	2014	2013 (Restated – Note 13)	2012 (Restated – Note 13)
<b>Assets and Deferred Outflows of Resources</b>			
Cash, cash equivalents and short-term investments	\$ 180,508	\$ 130,363	\$ 108,454
Patient accounts receivable, net	47,143	48,519	46,884
Other current assets	23,626	50,873	22,525
Capital assets, net	214,202	221,093	253,502
Other noncurrent assets	28,409	24,052	29,780
Deferred outflows of resources	2,243	2,462	2,026
Total assets and deferred outflows of resources	<u>\$ 496,131</u>	<u>\$ 477,362</u>	<u>\$ 463,171</u>
<b>Liabilities</b>			
Long-term debt (including current portion)	\$ 212,734	\$ 219,817	\$ 229,713
Other current and noncurrent liabilities	44,342	43,270	46,487
Total liabilities	<u>257,076</u>	<u>263,087</u>	<u>276,200</u>
<b>Net Position</b>			
Net investment in capital assets	4,014	4,858	27,074
Restricted – expendable for debt service	1,996	1,970	6,329
Restricted – nonexpendable	3,880	4,201	4,240
Unrestricted	229,165	203,246	149,328
Total net position	<u>239,055</u>	<u>214,275</u>	<u>186,971</u>
Total liabilities and net position	<u>\$ 496,131</u>	<u>\$ 477,362</u>	<u>\$ 463,171</u>

In 2014, cash, cash equivalents and short-term investments increased by \$50,145 or 39% due to cash provided by operations, insurance proceeds due to tornado damage at the Moore facilities and net gains from investments. Included in operations was the net benefit of the Supplemental Hospital Offset Payment Program (SHOPP) of \$6,553 and benefits from the Electronic Health Records (EHR) Incentive Program of \$2,245. Total insurance proceeds received in 2014 relating to the tornado damage at the Moore facilities was \$43,119. Days net revenue in accounts receivable was 52 days at June 30, 2014.

In 2013, cash, cash equivalents and short-term investments increased by \$21,909 or 20% due to cash provided by operations, insurance proceeds due to tornado damage at the Moore facilities and net gains on investments. Included in operations was the net benefit of SHOPP of \$5,932 and benefits from the EHR Incentive Program of \$2,854. Total insurance proceeds received in 2013 relating to the tornado damage at the Moore facilities was \$9,500. Days net revenue in net accounts receivable was 54 days at June 30, 2013.

Patient accounts receivable, net of allowances decreased by \$1,376 or 3% from 2013 to 2014. This decrease was primarily the result of changes in the Authority's improved collections as noted by the decrease in days net revenue in accounts receivable. Patient accounts receivable, net of allowances increased by \$1,635 or 4% from 2012 to 2013. This increase was primarily the result of an increase in net patient service revenue.



Capital assets, net of accumulated depreciation decreased by \$6,891 or 3% from 2013 to 2014 and decreased by \$32,409 or 13% from 2012 to 2013. The decrease in capital assets in 2014 was due primarily to the sale of \$1,911 of NRH Medical Park West, L.L.C. (Medical Park West) land and regular depreciation taken on the Authority's assets offset by capital asset purchases of \$15,657. The decrease in capital assets in 2013 was due primarily to the impairment of capital assets related to the Moore tornado of \$24,300 and depreciation expense of \$22,760 offset by capital asset purchases of \$15,147.

Long-term debt decreased \$7,083 or 3% from 2013 to 2014 and decreased \$9,896 or 4% from 2012 to 2013. The decrease in both 2014 and 2013 was due to the repayment of debt.

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

In 2014, the Authority's net position increased by \$24,780 or 12%. In 2013, the Authority's net position increased by \$27,304 or 15%. These changes in net position are detailed in Table 2 below.

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

	<b>2014</b>	<b>2013 (Restated – Note 13)</b>	<b>2012 (Restated – Note 13)</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 333,146	\$ 326,884	\$ 316,736
Other operating revenue	14,013	10,017	8,225
Total operating revenues	347,159	336,901	324,961
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	177,845	167,119	160,007
Professional fees	11,588	11,002	8,577
Purchased services	15,619	15,617	13,193
Supplies expense	61,586	61,695	60,339
Other expenses	44,551	41,688	38,103
Depreciation and amortization	19,699	23,028	24,088
Total operating expenses	330,888	320,149	304,307
<b>Operating Income</b>	16,271	16,752	20,654
<b>Nonoperating Revenues (Expenses)</b>			
Noncapital grants and gifts	300	250	270
Gain from insurance proceeds net of asset impairment	8,040	13,989	-
Investment income (loss)	10,619	7,098	(1,186)
Interest expense	(10,396)	(11,242)	(11,595)
Total nonoperating revenues (expenses)	8,563	10,095	(12,511)
<b>Excess of Revenues over Expenses Before Capital Grants and Gifts and Distributions</b>	24,834	26,847	8,143
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	743	743	323
<b>Distributions to Minority Owners</b>	(797)	(286)	(224)
<b>Increase in Net Position</b>	\$ 24,780	\$ 27,304	\$ 8,242

## ***Operating Income***

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

Operating income for 2014 decreased by \$481 or 3% as compared to 2013. The primary components of this decrease in operating income in 2014 were:

- An increase in total operating revenue of \$10,258 or 3%
- An increase in total operating expenses of \$10,739 or 3%

Net patient service revenue was greater in 2014 than 2013 because of higher physician revenue due to a full year of revenue from clinics acquired in 2013 and lower deductions from revenue resulting from governmental audits.

Other operating revenue increased \$3,996 or 40% in 2014 primarily due to the receipt of insurance proceeds related to the Moore tornado not related to capital assets (see *Note 14*).

Salaries, wages and employee benefits increased \$10,726 or 6% from 2013 to 2014. This increase is due to a full year of employed physicians and other normal increases in labor expenses.

Other operating expenses increased \$2,863 or 7% due to additional expenses incurred in the aftermath of the Moore tornado damage.

Operating income for 2013 decreased by \$3,902 or 19% as compared to 2012. The primary components of this decrease in operating income in 2013 were:

- An increase in total operating revenue of \$11,940 or 4%
- An increase in total operating expenses of \$15,842 or 5%

Net patient service revenue was greater in 2013 than in 2012 because of higher physician net revenue due to the acquisition of additional physician practices.

Other operating revenue increased \$1,792 or 22% in 2013 primarily due to estimated insurance proceeds related to the Moore tornado not related to capital assets.

Salaries, wages and employee benefits increased \$7,112 or 4% from 2012 to 2013. This increase is due to additional employed physicians and other normal increases in labor expenses.

Professional fees and purchased services increased \$4,849 or 22% from 2012 to 2013. This increase is due to services purchased to assist the Authority in improving productivity, identifying expense savings, strategic planning and ICD-10 conversion, as well as the addition of specialty physician coverage.

Other operating expenses increased by \$3,585 or 9% due in part to additional expenses incurred in the salvage and demolition of the Moore facilities due to the tornado damage (see *Note 14*).

## ***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 gifts, insurance recoveries, investment income (loss) and interest expense. Net nonoperating revenues and expenses decreased by \$1,532 or 15% in 2014 compared to 2013. This decrease was the result of a reduction of \$5,949 in the gain from insurance proceeds net of asset impairment related to the Moore tornado offset by an increase in investment income due to improved market return.

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

Net cash provided by operating activities in 2014 decreased by \$9,123 or 23% from 2013. Payments to suppliers, contractors and employees increased by \$20,085, while receipts from patients only increased by \$7,984 from 2013. The increase in receipts was due to a full year of collections from physician clinics acquired in fiscal year 2013.

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

### **Capital Assets**

At June 30, 2014, the Authority had \$214,202 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2014, the Authority purchased new equipment and made improvements totaling \$15,657.

At June 30, 2013, the Authority had \$221,093 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Authority purchased new equipment and made improvements totaling \$15,147.

### **Debt**

At June 30, 2014, the Authority had \$212,734 in bonds and master lease obligations outstanding. The Authority reduced the outstanding principal of its long-term debt by \$7,083. Medical Park West and Oklahoma Sleep Associates, LLC (Oklahoma Sleep Associates) did not have any outstanding debt at June 30, 2014. Medical Park West and Oklahoma Sleep Associates are not a part of the Obligated Group with respect to the Authority's bonds and bond covenants.

The Authority's debt ratings were upgraded from BB+ to BBB- by both Fitch and Standard and Poor's in September 2013 and February 2014, respectively. No action was taken by Moody's during 2014, who previously rated the Authority's debt at Baa3.

At June 30, 2013, the Authority had \$219,817 in bonds and master lease obligations outstanding. In 2013, the Authority issued \$25,000 in new bonds to partially refund other outstanding bonds at a lower interest rate. In addition to the partial refunding, the Authority reduced the outstanding principal of its long-term debt by an additional \$9,896. Medical Park West and Oklahoma Sleep Associates did not have any outstanding debt at June 30, 2013.

## ***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, 2014 and 2013

### Assets and Deferred Outflows of Resources

	2014	2013 (Restated – Note 13)
<b>Current Assets</b>		
Cash and cash equivalents	\$ 78,017,639	\$ 68,091,764
Short-term investments	102,490,539	62,271,074
Restricted cash and investments – current	6,172,129	6,077,999
Patient accounts receivable, net of allowance; 2014 – \$25,970,000, 2013 – \$33,701,000	47,142,793	48,519,159
Supplies	10,162,668	9,945,090
Receivable for insurance claims	2,412,874	31,104,251
Prepaid expenses and other	4,878,415	3,745,380
Total current assets	251,277,057	229,754,717
<b>Noncurrent Cash and Investments</b>		
Held by trustee for debt service	22,070,576	21,970,080
Held by others for capital acquisitions	80,431	80,431
	22,151,007	22,050,511
Less amount required to meet current obligations	6,172,129	6,077,999
Noncurrent cash and investments, net	15,978,878	15,972,512
<b>Capital Assets, Net</b>	214,201,752	221,092,771
<b>Other Assets</b>		
Pension asset	3,423,667	-
Other	9,006,337	8,079,695
Total other assets	12,430,004	8,079,695
<b>Deferred Outflows of Resources</b>	2,243,454	2,462,289
Total assets and deferred outflows of resources	\$ 496,131,145	\$ 477,361,984

## Liabilities and Net Position

	2014	2013 (Restated – Note 13)
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 7,975,386	\$ 7,089,340
Accounts payable	13,761,334	14,706,796
Accrued payroll and expenses	17,471,245	16,038,788
Accrued interest payable	3,265,347	3,190,940
Estimated amounts due to third-party payers	289,126	660,466
Estimated self-insurance costs – current	4,513,729	4,032,445
Total current liabilities	47,276,167	45,718,775
<b>Long-Term Debt</b>	204,758,437	212,727,803
<b>Other Long-Term Liabilities</b>	5,041,418	4,173,527
<b>Pension Liability</b>	-	466,344
Total liabilities	257,076,022	263,086,449
<b>Net Position</b>		
Net investment in capital assets	4,014,066	4,858,402
Restricted – expendable for debt service	1,995,651	1,970,419
Restricted – nonexpendable	3,880,193	4,200,844
Unrestricted	229,165,213	203,245,870
Total net position	239,055,123	214,275,535
Total liabilities and net position	\$ 496,131,145	\$ 477,361,984

**Norman Regional Hospital Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013 (Restated – Note 13)</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2014 – \$38,462,231, 2013 – \$58,722,411	\$ 333,145,552	\$ 326,883,674
Other operating revenue	14,013,282	10,016,863
Total operating revenues	347,158,834	336,900,537
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	177,844,268	167,118,475
Professional fees	11,588,198	11,001,551
Purchased services	15,619,154	15,616,611
Supplies expense	61,586,017	61,695,252
Other expenses	44,550,808	41,688,218
Depreciation and amortization	19,699,301	23,028,128
Total operating expenses	330,887,746	320,148,235
<b>Operating Income</b>	16,271,088	16,752,302
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital grants and gifts	300,000	250,000
Gain from insurance proceeds, net of asset impairment	8,040,373	13,988,855
Investment income	10,618,863	7,098,382
Interest expense	(10,396,035)	(11,242,239)
Total nonoperating revenues (expenses)	8,563,201	10,094,998
<b>Excess of Revenues over Expenses Before Capital Grants and Gifts and Distributions</b>	24,834,289	26,847,300
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	743,029	742,836
<b>Distributions to Minority Owners</b>	(797,730)	(286,474)
<b>Increase in Net Position</b>	24,779,588	27,303,662
<b>Net Position, Beginning of Year, as Previously Reported</b>	214,275,535	190,713,856
Adjustments applicable to prior years (Note 13)	-	(3,741,983)
<b>Net Position, Beginning of Year, as Restated</b>	214,275,535	186,971,873
<b>Net Position, End of Year</b>	\$ 239,055,123	\$ 214,275,535

# Norman Regional Hospital Authority

## Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013 (Restated – Note 13)
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 334,150,578	\$ 326,166,112
Payments to suppliers and contractors	(136,961,063)	(123,913,906)
Payments to employees	(179,360,647)	(172,323,126)
Other receipts and payments, net	13,007,285	10,029,670
Net cash provided by operating activities	30,836,153	39,958,750
<b>Noncapital Financing Activities</b>		
Noncapital gifts	300,000	250,000
Net cash provided by noncapital financing activities	300,000	250,000
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	743,029	742,836
Proceeds from disposal of capital assets	2,777,471	309,280
Principal paid on long-term debt	(7,083,320)	(34,895,968)
Interest paid on long-term debt	(10,073,324)	(11,324,039)
Purchase of capital assets	(16,643,266)	(13,368,785)
Proceeds from issuance of long-term debt	-	25,000,000
Payment of call premium and bond issuance costs	-	(371,600)
Insurance proceeds from tornado damage (Note 14)	40,189,217	6,965,513
Net cash provided by (used in) capital and related financing activities	9,909,807	(26,942,763)
<b>Investing Activities</b>		
Change in restricted assets – held by trustee and others	(100,496)	3,332,016
Proceeds from sale of short-term investments	24,083,753	27,641,093
Purchase of short-term investments	(55,521,563)	(28,791,090)
Distributions to minority owners	(797,730)	(286,474)
Investment income received	1,215,952	1,054,861
Net cash provided by (used in) investing activities	(31,120,084)	2,950,406
<b>Increase in Cash and Cash Equivalents</b>	9,925,876	16,216,393
<b>Cash and Cash Equivalents, Beginning of Year</b>	68,091,764	51,875,371
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 78,017,640</u>	<u>\$ 68,091,764</u>

See Notes to Financial Statements

	<b>2014</b>	<b>2013 (Restated – Note 13)</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 16,271,088	\$ 16,752,302
Depreciation and amortization	19,699,301	23,028,128
(Gain) loss on disposal of capital assets	(1,005,997)	12,807
Provision for uncollectible accounts	38,462,231	58,722,411
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(37,085,865)	(60,357,338)
Insurance receivable for operating activities	(2,808,623)	395,749
Supplies and prepaid expenses	(1,350,613)	1,452,169
Estimated amounts due from third-party payers	(371,340)	917,365
Other assets	(771,874)	4,244,848
Accounts payable and accrued expenses	(202,155)	(5,209,691)
	<u>\$ 30,836,153</u>	<u>\$ 39,958,750</u>
Net cash provided by operating activities	<u>\$ 30,836,153</u>	<u>\$ 39,958,750</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset purchases and other assets in accounts payable	\$ 376,847	\$ 2,228,533



# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

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

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

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

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

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

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

#### **Blended Component Units**

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

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

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

Under the terms of the Bond Indenture discussed in *Note 8*, the Obligated Group does not include Medical Park West or Oklahoma Sleep Associates.

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

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

The 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, liabilities and deferred outflows of resources 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 interentity 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, liabilities and deferred outflows of resources 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, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers.

### ***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 workers' compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

### ***Investments and Investment Income***

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

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

### ***Patient Accounts Receivable***

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

### ***Supplies***

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

### ***Capital Assets***

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

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

### ***Guarantees***

The Authority is joint guarantor on loans of an entity that is a joint venture between the Authority and two other hospitals. At June 30, 2014, the Authority guaranteed \$5,981,000 of the outstanding balance of the loans.

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

The Authority is also a joint guarantor on loans of an entity that is a joint venture between the Authority and five other members. At June 30, 2014, the Authority guaranteed approximately \$296,000 of the outstanding balance of the loans.

### ***Compensated Absences***

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

### ***Net Position***

Net position of the Authority is classified in four components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Authority, such as permanent endowments and other members' interest in component units. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### ***Net Patient Service Revenue***

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

### ***Charity Care***

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

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

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

### **Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. The Authority completed its third-year requirements under the Medicare program during the year ended June 30, 2014. Payments under the Medicaid program are generally made for three years based on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year may be subject to audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other grant requirements applicable for the reporting period. The revenue related to these programs, included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position, are summarized below:

	<b>2014</b>	<b>2013</b>
Medicare Hospital Program Revenue	\$ 1,733,000	\$ 1,894,000
Medicare Physician Program Revenue	284,000	276,000
Medicaid Hospital Program Revenue	207,000	684,000
Medicaid Physician Program Revenue	21,000	-
Total	<u>\$ 2,245,000</u>	<u>\$ 2,854,000</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

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

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP program is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP program is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. The amounts noted in the table below for the years ended June 30, 2014 and 2013, 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 program 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 program is not expected to be materially different than the net amounts received in 2014 and 2013.

	<b>2014</b>	<b>2013</b>
SHOPP funds received	\$ 15,292,000	\$ 13,863,000
SHOPP assessment fees paid	<u>8,739,000</u>	<u>7,931,000</u>
Net SHOPP benefit	<u>\$ 6,553,000</u>	<u>\$ 5,932,000</u>

### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the change in net position.

### **Note 2: Net Patient Service Revenue**

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

**Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation and psychiatric unit services are paid at prospectively determined rates that are based on the patients' acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority's cost reports through June 30, 2011, which is still subject to final settlement.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

**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 44% and 45% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2014 and 2013, 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 will change materially in the near term.

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

### **Note 3: Deposits, Investments and Investment Income**

#### ***Deposits***

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

At June 30, 2014 and 2013, approximately \$0 and \$7,803,000, respectively, of the Authority's bank balances of approximately \$1,367,000 and \$9,354,000 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 \$596,000 and \$617,000 and carrying values of approximately \$567,000 and \$615,000 at June 30, 2014 and 2013, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2014, the blended component units' cash accounts exceeded federally insured limits by approximately \$296,000.

#### ***Investments***

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

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

At June 30, 2014 and 2013, the Authority had the following investments and maturities:

Type	Fair Value	June 30, 2014	
		Maturities in Years	
		Less than 1	1–5
Money market mutual funds	\$ 77,116,598	\$ 77,116,598	\$ -
Mutual funds	46,514,443	46,514,443	-
U.S. Treasury obligations	49,347,216	42,990,943	6,356,273
Equities	25,429,256	25,429,256	-
	<u>\$ 198,407,513</u>	<u>\$ 192,051,240</u>	<u>\$ 6,356,273</u>

Type	Fair Value	June 30, 2013	
		Maturities in Years	
		Less than 1	1–5
Money market mutual funds	\$ 66,043,821	\$ 66,043,821	\$ -
Mutual funds	45,908,062	45,908,062	-
U.S. Treasury obligations	19,628,598	18,393,042	1,235,556
Equities	16,333,145	16,333,145	-
	<u>\$ 147,913,626</u>	<u>\$ 146,678,070</u>	<u>\$ 1,235,556</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, mutual funds and equities are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority’s investment policy provides guidelines to maintain an aggregate credit rating of A or better on fixed income securities but does not place limits on individual investments. At June 30, 2014 and 2013, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

Investments	2014	
	Moody’s	S & P
Money market mutual funds	Aaa	AAA
Mutual funds	Not rated	Not rated



# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

Investments	2013	
	Moody's	S & P
Money market mutual funds	Aaa	AAA
Mutual funds	Not rated	Not rated

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority's investment policy does not address how securities are to be held.

**Concentration of Credit Risk** – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2014 and 2013, no investments exceeded 5% of the total fair value of all investments.

### Summary of Carrying Values

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

	2014	2013
Carrying value		
Deposits	\$ 4,239,125	\$ 4,488,331
Investments	198,407,513	147,913,626
Cash on hand	12,547	11,392
	<u>\$ 202,659,185</u>	<u>\$ 152,413,349</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 78,017,639	\$ 68,091,764
Short-term investments	102,490,539	62,271,074
Restricted cash and investments – current	6,172,129	6,077,999
Noncurrent cash and investments	15,978,878	15,972,512
	<u>\$ 202,659,185</u>	<u>\$ 152,413,349</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

### ***Investment Income***

Investment income for the years ended June 30, 2014 and 2013, consisted of:

	<b>2014</b>	<b>2013</b>
Interest, dividends and realized gain on sales of investments, net	\$ 1,409,505	\$ 3,049,579
Income from joint ventures	640,734	1,497,010
Net increase in fair value of investments	8,568,624	2,551,793
	<u>\$ 10,618,863</u>	<u>\$ 7,098,382</u>

### **Note 4: Patient Accounts Receivable**

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2014 and 2013, consisted of:

	<b>2014</b>	<b>2013</b>
Medicare	\$ 13,761,171	\$ 14,486,531
Medicaid	1,955,448	2,292,144
Other third-party payers	39,022,045	38,199,736
Patients	18,374,129	27,241,748
	<u>73,112,793</u>	<u>82,220,159</u>
Less allowance for uncollectible accounts	<u>25,970,000</u>	<u>33,701,000</u>
	<u>\$ 47,142,793</u>	<u>\$ 48,519,159</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013, was:

	2014				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 16,851,447	\$ -	\$ (1,145,398)	\$ -	\$ 15,706,049
Land improvements	10,675,208	-	(608,363)	-	10,066,845
Buildings and leasehold improvements	252,792,997	725,764	-	(2,002,560)	251,516,201
Equipment	166,278,243	6,895,490	(1,102,443)	4,347,650	176,418,940
Construction in progress	420,124	7,009,694	-	(2,345,090)	5,084,728
	<u>447,018,019</u>	<u>14,630,948</u>	<u>(2,856,204)</u>	<u>-</u>	<u>458,792,763</u>
Less accumulated depreciation					
Land improvements	3,941,520	69,425	-	-	4,010,945
Buildings and leasehold improvements	97,393,340	8,270,922	-	-	105,664,262
Equipment	124,590,388	11,090,904	(765,488)	-	134,915,804
	<u>225,925,248</u>	<u>19,431,251</u>	<u>(765,488)</u>	<u>-</u>	<u>244,591,011</u>
	<u>\$ 221,092,771</u>	<u>\$ (4,800,303)</u>	<u>\$ (2,090,716)</u>	<u>\$ -</u>	<u>\$ 214,201,752</u>
	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 16,851,447	\$ -	\$ -	\$ -	\$ 16,851,447
Land improvements	10,677,808	-	-	(2,600)	10,675,208
Buildings and leasehold improvements	275,827,571	289,267	(27,075,819)	3,751,978	252,792,997
Equipment	169,384,224	10,809,106	(14,135,124)	220,037	166,278,243
Construction in progress	340,532	4,049,007	-	(3,969,415)	420,124
	<u>473,081,582</u>	<u>15,147,380</u>	<u>(41,210,943)</u>	<u>-</u>	<u>447,018,019</u>
Less accumulated depreciation					
Land improvements	3,871,201	70,319	-	-	3,941,520
Buildings and leasehold improvements	92,481,422	9,464,524	(4,552,606)	-	97,393,340
Equipment	123,227,439	13,225,761	(11,862,812)	-	124,590,388
	<u>219,580,062</u>	<u>22,760,604</u>	<u>(16,415,418)</u>	<u>-</u>	<u>225,925,248</u>
	<u>\$ 253,501,520</u>	<u>\$ (7,613,224)</u>	<u>\$ (24,795,525)</u>	<u>\$ -</u>	<u>\$ 221,092,771</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 6: Self-Insured Claims

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

Activity in the Authority's accrued self-insured claims liabilities during 2014 and 2013 is summarized as follows:

	June 30, 2014		
	Workers' Compensation	Short-Term Disability	Employee Health
Balance, beginning of year	\$ 2,364,006	\$ -	\$ 896,439
Current year claims incurred and changes in estimates for claims incurred in prior years	1,889,974	212,550	6,775,834
Claims and expenses paid	(1,685,251)	(212,550)	(6,729,273)
Balance, end of year	<u>\$ 2,568,729</u>	<u>\$ -</u>	<u>\$ 943,000</u>

	June 30, 2013		
	Workers' Compensation	Short-Term Disability	Employee Health
Balance, beginning of year	\$ 2,971,265	\$ -	\$ 866,801
Current year claims incurred and changes in estimates for claims incurred in prior years	1,535,154	220,297	5,910,972
Claims and expenses paid	(2,142,413)	(220,297)	(5,881,334)
Balance, end of year	<u>\$ 2,364,006</u>	<u>\$ -</u>	<u>\$ 896,439</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 7: Medical Malpractice Claims

The Authority purchases medical malpractice insurance coverage under a claims-made policy on a fixed premium basis with a significant self-insured retention limit. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on actuarially determined amounts. At June 30, 2014 and 2013, the Authority recorded an accrual of \$3,295,000 and \$2,887,000, respectively, for pending malpractice claims, which is included in estimated self-insurance costs on the accompanying balance sheets. It is reasonably possible the Authority's estimate of losses will change by a material amount in the near term.

### Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30, 2014 and 2013:

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Long-Term Debt</b>					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 15,500,000	\$ -	\$ (1,200,000)	\$ 14,300,000	\$ 1,200,000
Series 2002 Hospital Revenue Bonds (B)	17,340,000	-	(505,000)	16,835,000	530,000
Series 2005 Hospital Revenue Bonds (C)	67,000,000	-	-	67,000,000	-
Series 2007 Hospital Revenue Refunding Bonds (D)	86,535,000	-	(1,990,000)	84,545,000	2,130,000
Series 2013 Hospital Revenue Refunding Bonds (E)	25,000,000	-	(375,000)	24,625,000	970,000
Master lease obligation	8,442,143	-	(3,013,320)	5,428,823	3,145,386
Total long-term debt	219,817,143	-	(7,083,320)	212,733,823	7,975,386
<b>Other Long-Term Liabilities</b>					
Estimated self-insurance costs	6,147,445	9,561,197	(8,901,913)	6,806,729	4,513,729
Deferred compensation plan	2,963,218	1,470,226	(904,691)	3,528,753	780,335
Total long-term obligations	<u>\$ 228,927,806</u>	<u>\$ 11,031,423</u>	<u>\$ (16,889,924)</u>	<u>\$ 223,069,305</u>	<u>\$ 13,269,450</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Long-Term Debt</b>					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 16,550,000	\$ -	\$ (1,050,000)	\$ 15,500,000	\$ 1,200,000
Series 2002 Hospital Revenue Bonds (B)	45,965,000	-	(28,625,000)	17,340,000	505,000
Series 2005 Hospital Revenue Bonds (C)	67,000,000	-	-	67,000,000	-
Series 2007 Hospital Revenue Refunding Bonds (D)	88,540,000	-	(2,005,000)	86,535,000	1,990,000
Series 2013 Hospital Revenue Refunding Bonds (E)	-	25,000,000	-	25,000,000	375,000
Capital lease obligations	132,295	-	(132,295)	-	-
Master lease obligation	11,323,652	-	(2,881,509)	8,442,143	3,019,340
Notes payable	202,164	-	(202,164)	-	-
Total long-term debt	229,713,111	25,000,000	(34,895,968)	219,817,143	7,089,340
<b>Other Long-Term Liabilities</b>					
Estimated self-insurance costs	6,579,066	8,086,425	(8,518,046)	6,147,445	4,032,445
Deferred compensation plan	6,926,038	1,570,291	(5,533,111)	2,963,218	904,691
Total long-term obligations	<u>\$ 243,218,215</u>	<u>\$ 34,656,716</u>	<u>\$ (48,947,125)</u>	<u>\$ 228,927,806</u>	<u>\$ 12,026,476</u>

### Revenue Bonds Payable

- (A) Due September 1, 2022; principal payable annually and interest payable currently every 35 days at interest rates based on auction provisions; the interest rates at June 30, 2014 and 2013, were 0.14% and 0.18%, respectively; secured by pledge of the Authority's gross revenues and trustee-held assets.
- (B) Due September 1, 2032; principal payable annually beginning September 1, 2003, plus semiannual interest payments at interest rates from 5.00% to 5.50%; secured by pledge of the Authority's gross revenues and trustee-held assets. Approximately 61% of the outstanding bonds were advance refunded at a 1% premium during 2013 with the issuance of the 2013 bonds (see (E) below).
- (C) Due September 1, 2036; principal payable annually beginning September 1, 2022, plus semiannual interest payments at interest rates from 5.375% to 5.50%; secured by pledge of the Authority's gross revenues and trustee-held assets.
- (D) Due September 1, 2037; principal payable annually beginning September 1, 2008, plus semiannual interest payments at interest rates from 5.00% to 5.25%; secured by pledge of the Authority's gross revenues and trustee-held assets.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

- (E) Due September 1, 2023; principal payable annually beginning September 1, 2013, plus semiannual interest payments at 3.77%; callable after September 1, 2014; secured by pledge of the Authority's gross revenues.

Under the terms of the Authority's revenue bond indentures, the Authority is required to maintain certain funds with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and capital acquisitions in the accompanying balance sheets. The Authority's revenue bond indentures also place limits on the incurrence of additional borrowings and require that the Authority satisfy certain measures of financial performance as long as the bonds are outstanding.

In April 2013, the Authority issued the Series 2013 bonds in the amount of \$25,000,000 which, along with other available funds, were used to refund \$27,385,000 of the outstanding Series 2002 Bonds and pay the call premium associated with the refunding. Aggregate cash flows on the refunded Series 2002 Bonds from the refunding date through maturity of the Series 2013 Bonds total approximately \$37,750,000 while aggregate cash flows for the Series 2013 Bonds total approximately \$33,300,000 resulting in a positive net cash flow differential for the refunding transaction of approximately \$4,450,000. The economic gain (generally defined as the present value of the net cash flow discounted at the effective interest rate of the new debt) equals approximately \$3,700,000. The 2013 advance refunding transaction resulted in an accounting loss of approximately \$670,000.

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

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

The debt service requirements of the revenue bonds payable as of June 30, 2014, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2015	\$ 14,554,942	\$ 4,830,000	\$ 9,724,942
2016	14,589,224	5,040,000	9,549,224
2017	14,628,219	5,265,000	9,363,219
2018	14,668,342	5,500,000	9,168,342
2019	14,726,698	5,760,000	8,966,698
2020-2024	87,216,690	45,985,000	41,231,690
2025-2029	65,215,084	33,980,000	31,235,084
2030-2034	67,174,222	46,225,000	20,949,222
2035-2038	60,611,425	54,720,000	5,891,425
	<u>\$ 353,384,846</u>	<u>\$ 207,305,000</u>	<u>\$ 146,079,846</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

### ***Master Lease Obligation***

The Authority borrowed \$20,000,000 under a master lease agreement to purchase equipment that is accounted for as a capital lease. Assets under the master lease obligation at June 30, 2014 and 2013, had total costs of approximately \$19,505,000, and accumulated depreciation of approximately \$13,948,000 and \$10,981,000, respectively. The following is a schedule by year of future minimum lease payments under the master lease, including interest at a rate of 4.35%, together with the present value of the future minimum lease payments, as of June 30, 2014:

<b>Year Ending June 30,</b>	
2015	\$ 3,321,045
2016	<u>2,320,100</u>
Total minimum lease payments	5,641,145
Less amount representing interest	<u>212,322</u>
Present value of future minimum lease payments	<u><u>\$ 5,428,823</u></u>

### **Note 9: Restricted Net Position**

At June 30, 2014 and 2013, restricted net position of \$18,805,229 and \$18,779,140, respectively, was available for debt service.

At June 30, 2014 and 2013, restricted nonexpendable net position of \$3,880,193 and \$4,200,844, respectively, was related to the other members' interest in Medical Park West and Oklahoma Sleep Associates.

### **Note 10: 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 welfare program. The state welfare program pays providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.



# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

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

	2014	2013
Gross patient service revenue	\$1,380,673,646	\$1,331,259,677
Contractual adjustments	(953,051,196)	(907,277,912)
Provision for uncollectible accounts	(38,462,231)	(58,722,411)
Charity care adjustments	(56,014,667)	(38,375,680)
Net patient service revenue	<u>\$ 333,145,552</u>	<u>\$ 326,883,674</u>

The estimated uncompensated costs associated with charity care services were approximately \$11,112,000 and \$7,613,000 for the years ended June 30, 2014 and 2013, respectively. The costs of charity care are estimated by applying the cost to charge ratio from the Authority's most recent Medicare cost report to the gross uncompensated charges.

In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, Norman Public School 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 11: Pension Plans

#### ***Defined Contribution Plans***

The Authority contributes to a defined contribution pension plan, the Norman Regional Hospital Match Plan, covering substantially all employees who have completed a one-year period of continuous employment and elect to contribute to the plan. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for the Authority expressed as a percentage of covered payroll were 1.4% and 1.3% for 2014 and 2013, respectively. Contributions actually made by the Authority were approximately \$1,616,000 and \$1,398,000 during the years ended June 30, 2014 and 2013, respectively.

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

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 4.0% for both 2014 and 2013. Contributions actually made by the Authority were approximately \$4,339,000 and \$3,895,000 during the years ended June 30, 2014 and 2013, respectively.

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

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

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

The Authority maintains a nonqualified deferred compensation plan for certain physicians effective July 1, 2007. Contributions to the plan are made by the Authority based on call hours worked. The plan vests after a five- or ten-year period. The contributions are held in a trust that carries life insurance policies on each physician. The life insurance policies are invested in mutual funds, and the cash surrender value of the policies at June 30, 2014 and 2013, are approximately \$2,237,000 and \$2,221,000, respectively, and are included in other assets in the accompanying balance sheets. The related liability as of June 30, 2014 and 2013, of approximately \$3,529,000 and \$2,963,000, respectively, for this plan is included in accrued payroll and expenses and other long-term liabilities (see *Note 8*) in the accompanying balance sheets. Deferred compensation expense related to the plan totaled approximately \$1,470,000 and \$1,570,000 in 2014 and 2013, respectively.

### ***Defined Benefit Plan***

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 provides retirement, disability and death benefits to plan members and beneficiaries. The plan benefits were frozen on December 31, 2003. No new participants were admitted to the plan after that date. Participants who are 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 plan.

### ***Funding Policy***

The authority to establish and amend obligations of plan members and the authority to contribute to the plan is set forth in the plan document and is vested in the Authority's governing body. Plan members are not required to contribute any of their annual covered salary. The Authority contributes such amounts, if any, as it determines to be appropriate each year.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

### Annual Pension Cost and Net Pension Obligation

The Authority's annual pension cost and net pension obligation to the plan for 2014 and 2013 were as follows:

	2014	2013
Annual required contribution	\$ 1,117,362	\$ 1,303,574
Interest on net pension obligation	32,644	152,773
Adjustment to annual required contribution	(40,017)	(172,479)
Annual pension cost	1,109,989	1,283,868
Contributions made	(5,000,000)	(3,000,000)
Decrease in net pension obligation	(3,890,011)	(1,716,132)
Net pension obligation, beginning of year	466,344	2,182,476
Net pension obligation (asset), end of year	\$ (3,423,667)	\$ 466,344

The annual required contribution for 2014 and 2013 was determined as part of actuarial valuations on July 1, 2013 and 2012, using the projected unit credit actuarial cost method. The actuarial assumptions included 7% investment rate of return (net of administrative expenses), no inflation (as the plan is frozen) and projected salary increases of 4% per year. The actuarial value of the plan assets is based on market value. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at July 1, 2013, was 25 years.

### Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2014	\$ 1,109,989	450%	\$ (3,423,667)
2013	\$ 1,283,868	234%	\$ 466,344
2012	\$ 1,361,053	220%	\$ 2,182,476

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

### Funding Status and Funding Progress

The following is funded status information as of July 1, 2013, the most recent actuarial valuation date:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
\$ 24,673,606	\$ 37,694,844	\$ 13,021,238	65.5%	\$ 586,976	2218.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

The actuarial valuation as of July 1, 2014, indicated the Unfunded Actuarial Accrued Liability decreased to \$6,590,869 and the Funded Ratio increased to 83.1%. This valuation does not reflect the impact of GASB 68 (see *Note 16*).

### Note 12: Contingencies and Other Matters

#### *Litigation*

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

#### *Investments*

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

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

### **Note 13: Change in Accounting Principle**

In 2014, the Authority changed its accounting for deferred financing costs and losses on defeasance of long-term debt as a result of the implementation of GASB 65, *Items Previously Recorded as Assets and Liabilities*, which became effective for reporting periods beginning after December 15, 2012. The impact of the change in accounting principle was to recognize as expense deferred financing costs that were previously classified as assets and reclassify losses on defeasance of long-term debt, which were previously reported as a reduction of long-term debt, as deferred outflows of resources. These changes decreased net position of the Authority as of July 1, 2012, by \$3,741,983 and increased the previously reported change in net position for the year ended June 30, 2013, by \$145,404 as a result of removing previously recorded amortization expense.

### **Note 14: Moore Tornado and Related Insurance Matters**

The Authority's hospital and medical office buildings in Moore, Oklahoma, took a direct hit from an EF-5 tornado on May 20, 2013. The facility was damaged beyond repair and ultimately determined to be a constructive total loss. The site was cleared and temporary structures have been established on the site from which emergency department and other outpatient services are being provided. The Authority had insurance coverage in place for the building, contents, business interruption, extra expenses, debris removal, emergency evacuation and other expenses related to the tornado. A permanent structure is being planned for the site and will be funded from insurance proceeds.

The Authority has recorded insurance proceeds totaling approximately \$55,032,000 during the fiscal years ended June 30, 2014 and 2013, as detailed on the following page. Of that amount, approximately \$46,936,000 related to building and contents, while the remaining \$8,096,000 related to other aspects of insurance coverage. The \$8,096,000 of proceeds not related to building and contents has been reported on the accompanying statements of revenues, expenses and changes in net position as other operating revenue, as detailed on the following page. The \$46,936,000 of proceeds related to building and contents, net of sales and write-offs of impaired assets, has been reported as gain from insurance proceeds, net of asset impairment, in nonoperating revenues on the accompanying statements of revenues, expenses and changes in net position, as detailed on the following page. The total insurance proceeds recorded of \$55,032,000 less insurance proceeds received to date of approximately \$52,619,000 equals the \$2,413,000 reported in current assets as receivable for insurance claims on the accompanying balance sheets. The Authority continues to work collaboratively with the insurer to recover insured losses related to the tornado.

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

Below is a recap of insurance proceeds recorded and received for the years ended June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Building and contents insurance proceeds recorded	\$ 8,476,000	\$ 38,460,000
Other insurance proceeds included in other operating revenue	5,952,000	2,144,000
	<u>\$ 14,428,000</u>	<u>\$ 40,604,000</u>
Building and contents insurance proceeds recorded	\$ 8,476,000	\$ 38,460,000
Proceeds from sale of impaired assets	191,000	-
Write-off of impaired assets	(626,000)	(24,471,000)
	<u>\$ 8,041,000</u>	<u>\$ 13,989,000</u>
Gain from insurance proceeds, net of asset impairment		
Insurance proceeds received for capital-related items	\$ 40,189,000	\$ 6,966,000
Insurance proceeds received for operating-related expenses	2,930,000	2,534,000
	<u>\$ 43,119,000</u>	<u>\$ 9,500,000</u>
Total insurance proceeds recorded through June 30, 2014	\$ 55,032,000	
Total insurance proceeds received through June 30, 2014	<u>52,619,000</u>	
Receivable for insurance claims at June 30, 2014	<u>\$ 2,413,000</u>	

#### **Note 15: Transactions with 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, 2014 and 2013, the Foundation contributed \$300,000 and \$250,000, respectively, in cash contributions and \$111,000 and \$490,000, respectively, in capital contributions to the Authority.

#### **Note 16: Future Changes in Accounting Principles**

GASB recently issued its Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. GASB 68 requires recognition of the unfunded obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Authority expects to first apply GASB 68 during the year ending June 30, 2015, using a retrospective recognition method. The impact of applying GASB 68 has not been determined but is likely to reduce the Authority's net position by an amount estimated to be between \$7,000,000 and \$10,000,000.

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

#### Note 17: Combining Component Unit Information

The following tables include combining balance sheet information for the Authority and its component units as of June 30, 2014 and 2013.

	June 30, 2014				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
<b>Assets and Deferred Outflows of Resources</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 77,013,759	\$ 436,888	\$ 566,992	\$ -	\$ 78,017,639
Short-term investments	102,490,539	-	-	-	102,490,539
Restricted cash and investments – current	6,172,129	-	-	-	6,172,129
Patient accounts receivable, net of allowance; \$25,970,000	47,142,793	-	-	-	47,142,793
Supplies	10,162,668	-	-	-	10,162,668
Receivable for insurance claims	2,412,874	-	-	-	2,412,874
Prepaid expenses and other	4,715,134	77,723	132,971	(47,413)	4,878,415
Total current assets	250,109,896	514,611	699,963	(47,413)	251,277,057
<b>Noncurrent Cash and Investments</b>					
Held by trustee for debt service	22,070,576	-	-	-	22,070,576
Held by others for capital acquisitions	80,431	-	-	-	80,431
	22,151,007	-	-	-	22,151,007
Less amount required to meet current obligations	6,172,129	-	-	-	6,172,129
Noncurrent cash and investments, net	15,978,878	-	-	-	15,978,878
<b>Capital Assets, Net</b>	197,991,273	16,603,953	114,667	(508,141)	214,201,752
<b>Other Assets</b>					
Pension asset	3,423,667	-	-	-	3,423,667
Other	22,950,477	-	3,573	(13,947,713)	9,006,337
Total other assets	26,374,144	-	3,573	(13,947,713)	12,430,004
<b>Deferred Outflows of Resources</b>	2,243,454	-	-	-	2,243,454
Total assets and deferred outflows of resources	\$ 492,697,645	\$ 17,118,564	\$ 818,203	\$ (14,503,267)	\$ 496,131,145

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

	June 30, 2014				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 7,975,386	\$ -	\$ -	\$ -	\$ 7,975,386
Accounts payable	13,707,282	76,991	24,474	(47,413)	13,761,334
Accrued payroll and expenses	17,463,850	-	7,395	-	17,471,245
Accrued interest payable	3,265,347	-	-	-	3,265,347
Estimated amounts due to third-party payers	289,126	-	-	-	289,126
Estimated self-insurance costs – current	4,513,729	-	-	-	4,513,729
Total current liabilities	47,214,720	76,991	31,869	(47,413)	47,276,167
<b>Long-Term Debt</b>	204,758,437	-	-	-	204,758,437
<b>Other Long-Term Liabilities</b>	5,041,418	-	-	-	5,041,418
Total liabilities	257,014,575	76,991	31,869	(47,413)	257,076,022
<b>Net Position</b>					
Net investment in capital assets	4,014,066	16,603,953	114,667	(16,718,620)	4,014,066
Restricted – expendable for debt service	1,995,651	-	-	-	1,995,651
Restricted – nonexpendable	-	-	-	3,880,193	3,880,193
Unrestricted	229,673,353	437,620	671,667	(1,617,427)	229,165,213
Total net position	235,683,070	17,041,573	786,334	(14,455,854)	239,055,123
Total liabilities and net position	\$ 492,697,645	\$ 17,118,564	\$ 818,203	\$ (14,503,267)	\$ 496,131,145



# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

	June 30, 2013				
	Norman Regional Health System (Restated – Note 13)	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance (Restated – Note 13)
<b>Assets and Deferred Outflows of Resources</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 67,476,252	\$ 509,448	\$ 106,064	\$ -	\$ 68,091,764
Short-term investments	62,271,074	-	-	-	62,271,074
Restricted cash and investments – current	6,077,999	-	-	-	6,077,999
Patient accounts receivable, net of allowance; \$33,701,000	48,519,159	-	-	-	48,519,159
Supplies	9,945,090	-	-	-	9,945,090
Receivable for insurance claims	31,104,251	-	-	-	31,104,251
Prepaid expenses and other	3,604,969	63,509	208,448	(131,546)	3,745,380
Total current assets	228,998,794	572,957	314,512	(131,546)	229,754,717
<b>Noncurrent Cash and Investments</b>					
Held by trustee for debt service	21,970,080	-	-	-	21,970,080
Held by others for capital acquisitions	80,431	-	-	-	80,431
	22,050,511	-	-	-	22,050,511
Less amount required to meet current obligations	6,077,999	-	-	-	6,077,999
Noncurrent cash and investments, net	15,972,512	-	-	-	15,972,512
<b>Capital Assets, Net</b>	203,095,571	18,357,714	147,627	(508,141)	221,092,771
<b>Other Assets</b>	23,163,595	-	1,126	(15,085,026)	8,079,695
<b>Deferred Outflows of Resources</b>	2,462,289	-	-	-	2,462,289
Total assets and deferred outflows of resources	\$ 473,692,761	\$ 18,930,671	\$ 463,265	\$ (15,724,713)	\$ 477,361,984

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

June 30, 2013					
	Norman Regional Health System (Restated – Note 13)	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance (Restated – Note 13)
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 7,089,340	\$ -	\$ -	\$ -	\$ 7,089,340
Accounts payable	14,734,778	79,217	24,347	(131,546)	14,706,796
Accrued payroll and expenses	16,034,286	-	4,502	-	16,038,788
Accrued interest payable	3,190,940	-	-	-	3,190,940
Estimated amounts due to third-party payers	660,466	-	-	-	660,466
Estimated self-insurance costs – current	4,032,445	-	-	-	4,032,445
Total current liabilities	45,742,255	79,217	28,849	(131,546)	45,718,775
<b>Long-Term Debt</b>	212,727,803	-	-	-	212,727,803
<b>Other Long-Term Liabilities</b>	4,173,527	-	-	-	4,173,527
<b>Pension Liability</b>	466,344	-	-	-	466,344
Total liabilities	263,109,929	79,217	28,849	(131,546)	263,086,449
<b>Net Position</b>					
Net investment in capital assets	4,858,402	18,357,714	147,627	(18,505,341)	4,858,402
Restricted – expendable for debt service	1,970,419	-	-	-	1,970,419
Restricted – nonexpendable	-	-	-	4,200,844	4,200,844
Unrestricted	203,754,011	493,740	286,789	(1,288,670)	203,245,870
Total net position	210,582,832	18,851,454	434,416	(15,593,167)	214,275,535
Total liabilities and net position	\$ 473,692,761	\$ 18,930,671	\$ 463,265	\$ (15,724,713)	\$ 477,361,984

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

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, 2014 and 2013.

	Year Ended June 30, 2014				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts – \$38,462,231	\$ 333,145,552	\$ -	\$ -	\$ -	\$ 333,145,552
Other operating revenue	12,881,551	1,631,590	2,387,842	(2,887,701)	14,013,282
Total operating revenues	346,027,103	1,631,590	2,387,842	(2,887,701)	347,158,834
<b>Operating Expenses</b>					
Salaries, wages and employee benefits	177,083,178	-	761,090	-	177,844,268
Professional fees	11,230,063	13,340	344,795	-	11,588,198
Purchased services	17,737,823	-	115,789	(2,234,458)	15,619,154
Supplies expense	61,558,672	-	27,345	-	61,586,017
Other expenses	44,723,101	228,179	252,771	(653,243)	44,550,808
Depreciation and amortization	19,641,977	-	57,324	-	19,699,301
Total operating expenses	331,974,814	241,519	1,559,114	(2,887,701)	330,887,746
<b>Operating Income</b>	14,052,289	1,390,071	828,728	-	16,271,088
<b>Nonoperating Revenues (Expenses)</b>					
Noncapital grants and gifts	300,000	-	-	-	300,000
Gain from insurance proceeds, net of asset impairment	8,040,373	-	-	-	8,040,373
Investment income	12,360,582	48	-	(1,741,767)	10,618,863
Interest expense	(10,396,035)	-	-	-	(10,396,035)
Total nonoperating revenues (expenses)	10,304,920	48	-	(1,741,767)	8,563,201
<b>Excess of Revenues over Expenses Before Capital Grants and Gifts and Distributions</b>	24,357,209	1,390,119	828,728	(1,741,767)	24,834,289
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	743,029	-	-	-	743,029
<b>Distributions to Minority Owners</b>	-	(3,200,000)	(476,810)	2,879,080	(797,730)
<b>Increase (Decrease) in Net Position</b>	25,100,238	(1,809,881)	351,918	1,137,313	24,779,588
<b>Net Position, Beginning of Year</b>	210,582,832	18,851,454	434,416	(15,593,167)	214,275,535
<b>Net Position, End of Year</b>	<u>\$ 235,683,070</u>	<u>\$ 17,041,573</u>	<u>\$ 786,334</u>	<u>\$ (14,455,854)</u>	<u>\$ 239,055,123</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2014 and 2013

	Year Ended June 30, 2013				
	Norman Regional Health System (Restated – Note 13)	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance (Restated – Note 13)
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts – \$58,722,411	\$ 326,883,674	\$ -	\$ -	\$ -	\$ 326,883,674
Other operating revenue	9,873,571	686,456	1,993,819	(2,536,983)	10,016,863
Total operating revenues	336,757,245	686,456	1,993,819	(2,536,983)	336,900,537
<b>Operating Expenses</b>					
Salaries, wages and employee benefits	166,517,701	-	600,774	-	167,118,475
Professional fees	10,698,098	14,788	288,665	-	11,001,551
Purchased services	17,366,591	-	100,547	(1,850,527)	15,616,611
Supplies expense	61,682,154	-	13,098	-	61,695,252
Other expenses	41,925,588	227,883	221,203	(686,456)	41,688,218
Depreciation and amortization	22,976,702	-	51,426	-	23,028,128
Total operating expenses	321,166,834	242,671	1,275,713	(2,536,983)	320,148,235
<b>Operating Income</b>	15,590,411	443,785	718,106	-	16,752,302
<b>Nonoperating Revenues (Expenses)</b>					
Noncapital grants and gifts	250,000	-	-	-	250,000
Gain from insurance proceeds, net of asset impairment	13,988,855	-	-	-	13,988,855
Investment income	8,012,721	20	-	(914,359)	7,098,382
Interest expense	(11,242,239)	-	-	-	(11,242,239)
Total nonoperating revenues (expenses)	11,009,337	20	-	(914,359)	10,094,998
<b>Excess of Revenues over Expenses Before Capital Grants and Gifts and Distributions</b>	26,599,748	443,805	718,106	(914,359)	26,847,300
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	742,836	-	-	-	742,836
<b>Distributions to Minority Owners</b>	-	(500,000)	(845,116)	1,058,642	(286,474)
<b>Increase (Decrease) in Net Position</b>	27,342,584	(56,195)	(127,010)	144,283	27,303,662
<b>Net Position, Beginning of Year, as Previously Reported</b>	186,982,231	18,907,649	561,426	(15,737,450)	190,713,856
Adjustments applicable to prior years (Note 13)	(3,741,983)	-	-	-	(3,741,983)
<b>Net Position, Beginning of Year, as Restated</b>	183,240,248	18,907,649	561,426	(15,737,450)	186,971,873
<b>Net Position, End of Year</b>	\$ 210,582,832	\$ 18,851,454	\$ 434,416	\$ (15,593,167)	\$ 214,275,535

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

The following tables include condensed combining statements of cash flow information for the Authority and its component units for the years ended June 30, 2014 and 2013.

	Year Ended June 30, 2014				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
Net Cash Provided by Operating Activities	\$ 29,478,767	\$ 395,284	\$ 962,102	\$ -	\$ 30,836,153
Net Cash Provided by Noncapital Financing Activities	300,000	-	-	-	300,000
Net Cash Provided by (Used in) Capital and Related Financing Activities	7,202,062	2,732,108	(24,364)	-	9,909,806
Net Cash Used in Investing Activities	<u>(27,443,322)</u>	<u>(3,199,952)</u>	<u>(476,810)</u>	<u>-</u>	<u>(31,120,084)</u>
Change in Cash and Cash Equivalents	9,537,507	(72,560)	460,928	-	9,925,875
Cash and Cash Equivalents, Beginning of Year	<u>67,476,252</u>	<u>509,448</u>	<u>106,064</u>	<u>-</u>	<u>68,091,764</u>
Cash and Cash Equivalents, End of Year	<u>\$ 77,013,759</u>	<u>\$ 436,888</u>	<u>\$ 566,992</u>	<u>\$ -</u>	<u>\$ 78,017,639</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2014 and 2013

	Year Ended June 30, 2013				
	Norman Regional Health System (Restated – Note 13)	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance (Restated – Note 13)
Net Cash Provided by Operating Activities	\$ 38,732,783	\$ 452,702	\$ 773,265	\$ -	\$ 39,958,750
Net Cash Provided by Noncapital Financing Activities	250,000	-	-	-	250,000
Net Cash Used in Capital and Related Financing Activities	(26,874,827)	-	(67,936)	-	(26,942,763)
Net Cash Provided by (Used in) Investing Activities	<u>4,295,502</u>	<u>(499,980)</u>	<u>(845,116)</u>	<u>-</u>	<u>2,950,406</u>
Change in Cash and Cash Equivalents	16,403,458	(47,278)	(139,787)	-	16,216,393
Cash and Cash Equivalents, Beginning of Year	<u>51,072,794</u>	<u>556,726</u>	<u>245,851</u>	<u>-</u>	<u>51,875,371</u>
Cash and Cash Equivalents, End of Year	<u>\$ 67,476,252</u>	<u>\$ 509,448</u>	<u>\$ 106,064</u>	<u>\$ -</u>	<u>\$ 68,091,764</u>

**Norman Regional Hospital Authority**  
**Required Supplementary Information – Schedule of Funding Progress**  
**Year Ended June 30, 2014**

***Defined Benefit Pension Plan***

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a)/c</b>
July 1, 2013	\$ 24,673,606	\$ 37,694,844	\$ 13,021,238	65.5%	\$ 586,976	2218.4%
July 1, 2012	\$ 21,036,907	\$ 36,452,675	\$ 15,415,768	57.7%	\$ 732,763	2103.8%
July 1, 2011	\$ 23,140,419	\$ 39,670,376	\$ 16,529,957	58.3%	\$ 743,392	2223.6%

The actuarial accrued liability is based on the projected unit credit method. The plan benefits were frozen on December 31, 2003. No new participants were admitted after December 31, 2003. 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.

For further information, see *Note 11*.

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

Board of Trustees  
Norman Regional Hospital Authority  
Norman, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Norman Regional Hospital Authority (the Authority), which comprise the balance sheet as of June 30, 2014, 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 22, 2014, which contained an *Emphasis of Matter* paragraph regarding a change in accounting principles.

***Internal Control over Financial Reporting***

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.



Board of Trustees  
Norman Regional Hospital Authority

### ***Compliance***

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

### ***Purpose of this Report***

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

*BKD, LLP*

Tulsa, Oklahoma  
September 22, 2014

**Norman Regional Hospital Authority**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2014**

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

**Norman Regional Hospital Authority**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2014**

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