

Norman Regional Hospital Authority

Accountants' Reports and Financial Statements

June 30, 2012 and 2011



Norman Regional Hospital Authority
June 30, 2012 and 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Norman Regional Hospital Authority
Norman, Oklahoma

We have audited the accompanying balance sheets of Norman Regional Hospital Authority (the Authority) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. The financial statements of Norman Regional Health Foundation, Inc., which are included in the Authority's financial statements, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norman Regional Hospital Authority as of June 30, 2012 and 2011, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2012, 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 and 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* and should be considered in assessing the results of our audit.

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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were performed for the purpose of forming an opinion on the Authority's basic financial statements as a whole. The accompanying combining information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

September 24, 2012

Norman Regional Hospital Authority

Management's Discussion and Analysis

Years Ended June 30, 2012 and 2011

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, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- Unrestricted cash and cash equivalents increased in 2012 by \$13,309 or 34% and increased in 2011 by \$2,156 or 6%.
- Short-term investments increased in 2012 by \$2,643 or 5% and increased in 2011 by \$24,408 or 77%.
- Days cash on hand increased in 2012 by 7 days or 5% compared to 2011. Days cash on hand at June 30, 2012, was 139 days compared to 132 days at June 30, 2011.
- Patient accounts receivable increased in 2012 by \$3,966 or 9% and decreased in 2011 by \$747 or 2%.
- Current assets less current liabilities increased by \$13,177 or 11% in 2012 and increased by \$23,264 or 25% in 2011.
- The Authority reported operating income in 2012 of \$20,135 and in 2011 of \$13,764. The operating income in 2012 was \$6,371 or 46% higher than the operating income reported for 2011. The operating income in 2011 was \$4,358 or 46% higher than the operating income reported for 2010.
- The Authority reported net nonoperating revenues (expenses) for 2012 of \$(12,452) and for 2011 of \$(2,537). The net nonoperating revenues (expenses) in 2012 declined by \$9,915 or 391% worse than the 2011 amount. The net nonoperating revenues (expenses) in 2011 improved by \$5,670 or 69% better than the 2010 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 assets; 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 Assets

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 assets 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 assets and changes in them. The Authority's total net assets—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 assets 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 Assets

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheet. The Authority's net assets increased by \$7,726 or 4% in 2012 from 2011 and increased by \$12,885 or 8% in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Cash and cash equivalents	\$ 52,255	\$ 38,946	\$ 36,790
Short-term investments	58,669	56,026	31,618
Patient accounts receivable, net	46,884	42,918	43,665
Other current assets	22,809	22,919	25,282
Capital assets, net	253,502	271,694	288,159
Other noncurrent assets	33,524	33,597	34,064
	<u>467,643</u>	<u>466,100</u>	<u>459,578</u>
Total assets	\$ 467,643	\$ 466,100	\$ 459,578
Liabilities			
Long-term debt (including current portion)	\$ 227,687	\$ 238,784	\$ 246,733
Other current and noncurrent liabilities	46,549	41,692	40,349
	<u>274,236</u>	<u>280,476</u>	<u>287,082</u>
Total liabilities	274,236	280,476	287,082
Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC	<u>4,240</u>	<u>4,183</u>	<u>3,940</u>
Net Assets			
Invested in capital assets, net of related debt	12,461	20,533	29,873
Restricted expendable	22,136	21,975	21,879
Unrestricted	154,570	138,933	116,804
	<u>189,167</u>	<u>181,441</u>	<u>168,556</u>
Total net assets	189,167	181,441	168,556
Total liabilities and net assets	\$ 467,643	\$ 466,100	\$ 459,578

In 2012, cash and cash equivalents increased by \$13,309 or 34% due to an increase in net cash provided by operating activities. Days net revenue in net accounts receivable was 54 days at June 30, 2012, as compared to 56 days at June 30, 2011.

In 2011, cash and cash equivalents increased by \$2,156 or 6% due to an increase in net cash provided by operating activities. Days net revenue in net accounts receivable was 56 days at June 30, 2011, as compared to 59 days at June 30, 2010.

Patient accounts receivable, net of allowances increased by \$3,966 or 9% from 2011 to 2012. This increase was the result of an increase in net patient service revenue. Patient accounts receivable, net of allowances decreased by \$747 or 2% from 2010 to 2011. This decrease was the result of continued improved collections.

Short-term investments increased by \$2,643 or 5% from 2011 to 2012 and increased by \$24,408 or 77% from 2010 to 2011. The increase in short-term investments in 2012 was primarily due to a transfer of \$5,000 from cash and decreases in market value. The increase in short-term investments in 2011 was primarily due to the increases in market value and a transfer of approximately \$5,000 from cash.

Capital assets, net of accumulated depreciation decreased by \$18,192 or 7% from 2011 to 2012 and decreased by \$16,465 or 6% from 2010 to 2011. The decrease in capital assets in 2012 was due primarily to depreciation expense of \$23,881 offset by capital asset purchases of \$8,809 along with sales of NRH Medical Park West, L.L.C. (MPW) land of \$2,778. The decrease in capital assets in 2011 was due primarily to depreciation expense of \$24,064 offset by capital asset purchases of \$8,312.

Long-term debt decreased \$11,097 or 5% from 2011 to 2010 and decreased \$7,949 or 3% from 2010 to 2011. The decrease in both 2012 and 2011 was due to the repayment of debt.

Operating Results and Changes in the Authority's Net Assets

In 2012, the Authority's net assets increased by \$7,726 or 4% as shown in Table 2. This increase is made up of several different components and represents a decrease of \$5,159 or 40% compared with the increase in net assets for 2011 of \$12,885.

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenues			
Net patient service revenue	\$ 316,736	\$ 281,197	\$ 268,110
Other operating revenue	8,225	6,799	9,192
Total operating revenues	<u>324,961</u>	<u>287,996</u>	<u>277,302</u>
Operating Expenses			
Salaries, wages and employee benefits	160,007	147,356	146,647
Professional fees	8,604	8,565	7,969
Purchased services	13,193	10,436	10,677
Supplies expense	60,339	55,997	53,316
Other expenses	38,407	27,422	26,268
Depreciation and amortization	24,276	24,457	23,019
Total operating expenses	<u>304,826</u>	<u>274,233</u>	<u>267,896</u>
Operating Income	<u>20,135</u>	<u>13,763</u>	<u>9,406</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	455	290	937
Investment income (loss)	(1,312)	9,404	1,493
Interest expense	(11,595)	(12,230)	(10,637)
Total nonoperating revenues (expenses)	<u>(12,452)</u>	<u>(2,536)</u>	<u>(8,207)</u>
Income Before Minority Interest and Capital Grants and Gifts	7,683	11,227	1,199
Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC Income	(280)	(379)	(559)
Capital Grants and Gifts	<u>323</u>	<u>2,037</u>	<u>977</u>
Change in Net Assets	<u>\$ 7,726</u>	<u>\$ 12,885</u>	<u>\$ 1,617</u>

Operating Income

The first component of the overall change in the Authority's net assets 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 2012 increased by \$6,371 or 46% as compared to 2011. The primary components of the increase in operating income in 2012 were:

- An increase in total operating revenue of \$36,965 or 13%
- An increase in total operating expenses of \$30,593 or 11%

Net patient service revenue was greater in 2012 than in 2011 because of approximately \$13,080 of Supplemental Hospital Offset Payment Program (SHOPP) payments received during 2012. For details on this program, see *Note 1*. In addition, net patient service revenue increased due to an increase in patient volume. Adjusted discharges were approximately 37,000 in 2012 and 32,800 in 2011, representing an increase of 13%.

Other operating revenue increased \$1,426 or 21% in 2012 due primarily to an increase in payments received from Medicare of \$1,565 for meeting the first year requirements of meaningful use for an electronic health record (EHR) system, see *Note 1*.

Salaries, wages and employee benefits increased \$12,651 or 9% from 2011 to 2012. This increase is due to patient volume increases, additional employed physicians and other normal increases in labor expenses.

Other operating expenses increased by \$10,985 or 40% due in part to payments made into the state fund for the SHOPP program of approximately \$7,771.

Operating income for 2011 increased by \$4,357 or 46% as compared to 2010. The primary components of the increase in operating income in 2011 were:

- An increase in total operating revenue of \$10,694 or 4%
- An increase in total operating expenses of \$6,337 or 2%

Net patient service revenue was greater in 2011 than in 2010 because of increased hospital outpatient business and the addition of several local cardiologists to the Authority's cardiovascular clinic. Adjusted discharges were approximately 32,800 in 2011 and 31,900 in 2010, representing a 3% increase.

Salaries, wages and employee benefits were \$147,356 in 2011 and \$146,647 in 2010, an increase of \$709 or 1%.

Supplies expense was \$55,997 in 2011 and \$53,316 in 2010, an increase of \$2,681 or 5%. This increase was consistent with volume and normal inflation.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital gifts, investment income (loss) and interest expense. Net nonoperating revenues and expenses decreased by \$9,916 or 391% in 2012 compared to 2011. This decline was the result of declines in investment return of \$10,716 or 114%, which was partially offset by decreased interest expense of \$635 or 5%. Investment return decline is consistent with the decline in the overall financial markets. Interest expense decreased in 2012 compared to 2011 due to the payoff of MPW's note payable during the year and decreased interest rates on the variable rate bonds.

The Authority's Cash Flows

Net cash provided by operating activities in 2012 increased by \$3,522 or 8% from 2011. Although payments to suppliers, contractors and employees increased by \$27,019, receipts from patients increased by \$29,161 from 2011. The increase in receipts reflects the increase in patient revenue associated with the increase in patient volume.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the Authority had \$253,502 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2012, the Authority purchased new equipment and made improvements totaling \$8,809.

At June 30, 2011, the Authority had \$271,694 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2011, the Authority purchased new equipment and made improvements totaling \$8,312.

Debt

At June 30, 2012, the Authority had \$227,687 in bonds, capital lease obligations and master lease obligations outstanding. In 2012, Norman Regional Health System reduced the principal of its long-term debt by \$7,467. MPW made payments of \$3,791, paying off their only outstanding loan during the year ended June 30, 2012. Norman Regional Health Foundation, Inc. (the Foundation) did not have any long-term debt at June 30, 2012. MPW, Oklahoma Sleep Associates, LLC (OSA) and the Foundation are not a part of the Obligated Group with respect to the Authority's bonds and bond covenants.

The Authority's debt rating of BB+ by Fitch and Standard and Poor's were affirmed in October 2011 and December 2011, respectively. The Authority's debt rating was upgraded from Ba1 to Baa3 by Moody's in May 2012.

At June 30, 2011, the Authority had \$238,784 in bonds, capital lease obligations and master lease obligations outstanding. In 2011, Norman Regional Health System reduced the principal of its long-term debt by \$7,343. MPW made payments of \$766 during the year ended June 30, 2011. The Foundation did not have any long-term debt at June 30, 2011.

The Authority's debt rating of BB+ by Standard and Poor's was affirmed in December 2010 and the debt rating of Ba1 by Moody's was affirmed in April 2011. The Authority's debt rating was lowered to BB+ from BBB- by Fitch in October 2010.

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, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	\$ 52,254,945	\$ 38,945,647
Short-term investments	58,668,936	56,025,840
Restricted cash and investments – current	7,126,038	7,016,844
Patient accounts receivable, net of allowance; 2012 – \$33,143,000, 2011 – \$30,661,000	46,884,232	42,917,948
Estimated amounts due from third-party payers	256,899	1,466,429
Supplies	10,491,622	10,015,095
Prepaid expenses and other	4,934,974	4,421,220
Total current assets	180,617,646	160,809,023
Noncurrent Cash and Investments		
Held by trustee for debt service	25,304,191	25,195,151
Held by others for capital acquisitions	78,336	78,336
	25,382,527	25,273,487
Less amount required to meet current obligations	7,126,038	7,016,844
Noncurrent cash and investments, net	18,256,489	18,256,643
Capital Assets, Net	253,501,520	271,693,764
Other Assets		
Deferred financing costs, net	4,814,821	5,052,295
Other	10,452,287	10,287,951
Total other assets	15,267,108	15,340,246
Total assets	\$ 467,642,763	\$ 466,099,676

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current maturities of long-term debt	\$ 7,315,501	\$ 7,459,766
Accounts payable	13,226,899	10,719,509
Accrued payroll and expenses	21,008,213	18,325,992
Accrued interest payable	3,552,309	3,615,601
Estimated self-insurance costs – current	<u>4,711,066</u>	<u>3,061,499</u>
Total current liabilities	49,813,988	43,182,367
Long-Term Debt	220,371,559	231,324,717
Estimated Self-Insurance Costs	1,868,000	2,147,000
Pension Liability	<u>2,182,476</u>	<u>3,821,423</u>
Total liabilities	<u>274,236,023</u>	<u>280,475,507</u>
Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC	<u>4,239,766</u>	<u>4,183,058</u>
Net Assets		
Invested in capital assets, net of related debt	12,461,153	20,533,419
Restricted – expendable for		
Debt service	21,751,882	21,579,550
Specific operating activities	364,677	375,204
Restricted – nonexpendable for permanent endowments	19,815	19,765
Unrestricted	<u>154,569,447</u>	<u>138,933,173</u>
Total net assets	<u>189,166,974</u>	<u>181,441,111</u>
Total liabilities and net assets	<u>\$ 467,642,763</u>	<u>\$ 466,099,676</u>

Norman Regional Hospital Authority
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$61,248,453, 2011 – \$64,315,001	\$ 316,735,810	\$ 281,197,190
Other operating revenue	8,224,653	6,799,088
Total operating revenues	324,960,463	287,996,278
Operating Expenses		
Salaries, wages and employee benefits	160,006,770	147,355,534
Professional fees	8,603,755	8,564,813
Purchased services	13,193,400	10,436,192
Supplies expense	60,338,892	55,997,078
Other expenses	38,406,931	27,421,777
Depreciation and amortization	24,275,597	24,457,187
Total operating expenses	304,825,345	274,232,581
Operating Income	20,135,118	13,763,697
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	454,930	289,617
Investment income (loss)	(1,312,031)	9,403,763
Interest expense	(11,594,596)	(12,229,925)
Total nonoperating revenues (expenses)	(12,451,697)	(2,536,545)
Income Before Minority Interest and Capital Grants and Gifts	7,683,421	11,227,152
Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC Income	(280,337)	(379,399)
Excess of Revenues over Expenses Before Capital Grants and Gifts	7,403,084	10,847,753
Gifts to Purchase Capital Assets and Other Capital Gifts	322,779	2,037,298
Change in Net Assets	7,725,863	12,885,051
Net Assets, Beginning of Year	181,441,111	168,556,060
Net Assets, End of Year	\$ 189,166,974	\$ 181,441,111

Norman Regional Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 313,979,056	\$ 284,818,051
Payments to suppliers and contractors	(118,858,747)	(103,094,749)
Payments to employees	(157,284,929)	(146,030,307)
Other receipts and payments, net	7,314,433	5,935,042
Net cash provided by operating activities	45,149,813	41,628,037
Noncapital Financing Activities		
Noncapital gifts	454,930	289,617
Net cash provided by noncapital financing activities	454,930	289,617
Capital and Related Financing Activities		
Capital grants and gifts	322,779	2,037,298
Proceeds from disposal of capital assets	3,998,446	1,659,087
Principal paid on long-term debt	(11,258,588)	(8,109,503)
Interest paid on long-term debt	(11,446,876)	(12,060,031)
Purchase of capital assets	(9,048,729)	(8,080,844)
Net cash used in capital and related financing activities	(27,432,968)	(24,553,993)
Investing Activities		
Change in restricted assets – held by trustee for debt service	(109,040)	(100,712)
Proceeds from sale of short-term investments	13,287,313	47,842,957
Purchase of short-term investments	(19,501,671)	(64,148,659)
Distributions to minority owners	(223,629)	(136,500)
Investment income received	1,684,550	1,334,927
Net cash used in investing activities	(4,862,477)	(15,207,987)
Increase in Cash and Cash Equivalents	13,309,298	2,155,674
Cash and Cash Equivalents, Beginning of Year	38,945,647	36,789,973
Cash and Cash Equivalents, End of Year	\$ 52,254,945	\$ 38,945,647

	<u>2012</u>	<u>2011</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	\$ 20,135,118	\$ 13,763,697
Depreciation and amortization	24,275,597	24,457,187
Gain on disposal of capital assets	(910,220)	(960,443)
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(3,966,284)	747,126
Supplies and prepaid expenses	(990,281)	(490,887)
Estimated amounts due from third-party payers	1,209,530	2,873,735
Other assets	335,870	6,606
Accounts payable and accrued expenses	5,060,483	1,231,016
	<u>\$ 45,149,813</u>	<u>\$ 41,628,037</u>
Net cash provided by operating activities		
	<u>\$ 45,149,813</u>	<u>\$ 41,628,037</u>
Supplemental Cash Flows Information		
Capital asset purchases and other assets in accounts payable	\$ 535,716	\$ 674,968

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2012 and 2011

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

Nature of Operations and Reporting Entity

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. The accompanying financial statements include the accounts of the Authority and the following blended component units:

- Norman Regional Health Foundation, Inc.
- NRH Medical Park West, L.L.C.
- Oklahoma Sleep Associates, LLC

Norman Regional Health Foundation, Inc. (the Foundation) is a nonprofit corporation organized and operated to serve as the legal conduit for acceptance, investment and distribution of private gifts for the exclusive benefit and support of the Authority.

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.

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

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

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2012 and 2011

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 and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, cash equivalents consisted primarily of money market accounts with brokers.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to workers' compensation, short-term disability and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition are carried at amortized cost. The 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

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Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method and are included in other assets on the accompanying balance sheets.

Guarantees

The Authority is a joint guarantor on a loan for an entity that is a joint venture between the Authority and seven other members. At June 30, 2012, the Authority guaranteed approximately \$497,000 of the outstanding balance of the loan.

The Authority is also a joint guarantor on loans of an entity that is a joint venture between the Authority and two other hospitals. At June 30, 2012, the Authority guaranteed \$6,560,000 of the outstanding balance of the loans.

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, 2012, the Authority guaranteed approximately \$614,000 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 Assets

Net assets of the Authority are classified in four components. Net assets invested in capital assets, net of related debt, consist 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 assets are 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 assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Authority, such as permanent endowments. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the above definitions.

Norman Regional Hospital Authority

Notes to Financial Statements

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Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

The Foundation has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation 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 Internal Revenue Code 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 technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. The Authority completed its first-year requirements under the Medicare program during the year ended June 30, 2012. Payments under the Medicaid program are generally made for up to four years based on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital 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.

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The Authority recognizes revenue 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 assets, are summarized below:

	2012	2011
Medicare Hospital Program Revenue	\$ 2,663,655	\$ -
Medicare Physician Program Revenue	216,000	-
Medicaid Hospital Program Revenue	-	1,188,648
Medicaid Physician Program Revenue	-	126,250
Total	\$ 2,879,655	\$ 1,314,898

Supplemental Hospital Offset Payment Program

On January 17, 2012, the Centers for Medicare and Medicaid Services (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, 2014. 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.

During the current year, the Authority received approximately \$13,080,000 in SHOPP funds and paid approximately \$7,771,000 in SHOPP assessment fees, which are the estimated annual amounts to be received and paid by the Authority over the term of the SHOPP program. 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 assets.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the changes in financial position.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2012 and 2011

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, 2010, but are still subject to final settlement.

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 43% and 38% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2012 and 2011, 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 compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Oklahoma; bonds of any city, county, school district or special road district of the state of Oklahoma; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2012 and 2011, none of the Authority's bank balances of approximately \$2,991,000 and \$2,771,000, respectively, were uninsured and uncollateralized.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2012 and 2011

The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$688,000 and \$756,000 and carrying values of approximately \$675,000 and \$731,000 at June 30, 2012 and 2011, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2012, the blended component units' cash accounts do not exceed federally insured limits.

Investments

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

At June 30, 2012 and 2011, the Authority had the following investments and maturities:

Type	Fair Value	June 30, 2012	
		Maturities in Years	
		Less than 1	1-5
Money market mutual funds	\$ 81,187,935	\$ 81,187,935	\$ -
Mutual funds	16,062,905	16,062,905	-
Equities	37,446,498	37,446,498	-
	<u>\$ 134,697,338</u>	<u>\$ 134,697,338</u>	<u>\$ -</u>
Type	Fair Value	June 30, 2011	
		Maturities in Years	
		Less than 1	1-5
Money market mutual funds	\$ 68,471,962	\$ 68,471,962	\$ -
Mutual funds	14,461,388	14,461,388	-
Equities	36,440,273	36,440,273	-
	<u>\$ 119,373,623</u>	<u>\$ 119,373,623</u>	<u>\$ -</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 while not limiting the duration of individual investments. The money market mutual funds and mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

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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 but does not place limits on individual investments. At June 30, 2012 and 2011, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

Investments	2012	
	Moody’s	S & P
Money market mutual funds	Aaa	AAA
Mutual funds	Not rated	Not rated

Investments	2011	
	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.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2012 and 2011, the following investments exceeded 5% of the total fair value of all investments:

Investments	2012		2011	
	Fair Value	Percentage of Total	Fair Value	Percentage of Total
Cavanal Hill U.S. Treasury	\$ 25,304,190	18.8%	\$ 25,195,150	21.1%
Alliance Bernstein Bond Fund Income Advisor	\$ 13,613,011	10.1%	\$ 11,955,801	10.0%
Bernstein Overlay A Portfolio Class 2	\$ 10,334,335	7.7%	\$ 9,841,225	8.2%

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2012 and 2011

Summary of Carrying Values

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

	<u>2012</u>	<u>2011</u>
Carrying value		
Deposits	\$ 1,597,678	\$ 860,059
Investments	134,697,338	119,373,623
Cash on hand	<u>11,392</u>	<u>11,292</u>
	<u>\$ 136,306,408</u>	<u>\$ 120,244,974</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 52,254,945	\$ 38,945,647
Short-term investments	58,668,936	56,025,840
Restricted cash and investments – current	7,126,038	7,016,844
Noncurrent cash and investments	<u>18,256,489</u>	<u>18,256,643</u>
	<u>\$ 136,306,408</u>	<u>\$ 120,244,974</u>

Investment Income (Loss)

Investment income (loss) for the years ended June 30, 2012 and 2011, consisted of:

	<u>2012</u>	<u>2011</u>
Interest, dividends and realized gain (loss) on sales of investments, net	\$ (937,185)	\$ 1,860,531
Income (loss) from joint ventures	574,681	(33,540)
Net increase (decrease) in fair value of investments	<u>(949,527)</u>	<u>7,576,772</u>
	<u>\$ (1,312,031)</u>	<u>\$ 9,403,763</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012 and 2011, consisted of:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 13,210,340	\$ 11,310,802
Medicaid	2,299,326	1,728,126
Other third-party payers	39,265,402	33,539,840
Patients	<u>25,252,164</u>	<u>27,000,180</u>
	80,027,232	73,578,948
Less allowance for uncollectible accounts	<u>33,143,000</u>	<u>30,661,000</u>
	<u>\$ 46,884,232</u>	<u>\$ 42,917,948</u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011, was:

	<u>2012</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 18,519,464	\$ 146,299	\$ (1,814,316)	\$ -	\$ 16,851,447
Land improvements	11,638,859	2,600	(963,651)	-	10,677,808
Buildings and leasehold improvements	271,500,642	489,726	(371,131)	4,208,334	275,827,571
Equipment	164,882,776	5,775,287	(1,560,080)	286,241	169,384,224
Construction in progress	<u>2,439,587</u>	<u>2,395,520</u>	<u>-</u>	<u>(4,494,575)</u>	<u>340,532</u>
	<u>468,981,328</u>	<u>8,809,432</u>	<u>(4,709,178)</u>	<u>-</u>	<u>473,081,582</u>
Less accumulated depreciation					
Land improvements	3,799,912	71,289	-	-	3,871,201
Buildings and leasehold improvements	83,110,508	9,553,174	(182,260)	-	92,481,422
Equipment	<u>110,377,144</u>	<u>14,256,358</u>	<u>(1,406,063)</u>	<u>-</u>	<u>123,227,439</u>
	<u>197,287,564</u>	<u>23,880,821</u>	<u>(1,588,323)</u>	<u>-</u>	<u>219,580,062</u>
	<u>\$ 271,693,764</u>	<u>\$ (15,071,389)</u>	<u>\$ (3,120,855)</u>	<u>\$ -</u>	<u>\$ 253,501,520</u>

Norman Regional Hospital Authority
Notes to Financial Statements
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	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 17,748,448	\$ -	\$ (254,237)	\$ 1,025,253	\$ 18,519,464
Land improvements	11,773,894	-	(135,035)	-	11,638,859
Buildings and leasehold improvements	272,292,827	214,327	(26,598)	(979,914)	271,500,642
Equipment	166,586,618	5,296,412	(7,333,842)	333,588	164,882,776
Construction in progress	16,900	2,801,614	-	(378,927)	2,439,587
	<u>468,418,687</u>	<u>8,312,353</u>	<u>(7,749,712)</u>	<u>-</u>	<u>468,981,328</u>
Less accumulated depreciation					
Land improvements	3,704,624	95,288	-	-	3,799,912
Buildings and leasehold improvements	73,721,306	9,396,335	(7,133)	-	83,110,508
Equipment	<u>102,833,583</u>	<u>14,572,297</u>	<u>(7,028,736)</u>	<u>-</u>	<u>110,377,144</u>
	<u>180,259,513</u>	<u>24,063,920</u>	<u>(7,035,869)</u>	<u>-</u>	<u>197,287,564</u>
	<u>\$ 288,159,174</u>	<u>\$ (15,751,567)</u>	<u>\$ (713,843)</u>	<u>\$ -</u>	<u>\$ 271,693,764</u>

Note 6: Self-Insured Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's workers' compensation, short-term disability and employee health insurance plans. 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 \$500,000. 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 that the Authority's estimates will change by a material amount in the near term.

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Notes to Financial Statements
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Activity in the Authority's accrued claims liabilities during 2012 and 2011 is summarized as follows:

	June 30, 2012		
	Workers' Compensation	Short-Term Disability	Employee Health
Balance, beginning of year	\$ 1,240,659	\$ -	\$ 918,840
Current year claims incurred and changes in estimates for claims incurred in prior years	5,396,562	230,932	3,496,260
Claims and expenses paid	<u>(3,665,956)</u>	<u>(230,932)</u>	<u>(3,548,299)</u>
Balance, end of year	<u>\$ 2,971,265</u>	<u>\$ -</u>	<u>\$ 866,801</u>

	June 30, 2011		
	Workers' Compensation	Short-Term Disability	Employee Health
Balance, beginning of year	\$ 1,527,841	\$ -	\$ 1,137,315
Current year claims incurred and changes in estimates for claims incurred in prior years	1,442,053	177,710	2,243,217
Claims and expenses paid	<u>(1,729,235)</u>	<u>(177,710)</u>	<u>(2,461,692)</u>
Balance, end of year	<u>\$ 1,240,659</u>	<u>\$ -</u>	<u>\$ 918,840</u>

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, 2012 and 2011, the Authority recorded an accrual of \$2,741,000 and \$3,049,000, respectively, for pending malpractice claims, which is included in estimated self-insurance costs on the accompanying balance sheets. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2012 and 2011

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30, 2012 and 2011:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 17,650,000	\$ -	\$ (1,100,000)	\$ 16,550,000	\$ 1,050,000
Series 2002 Hospital Revenue Bonds (B)	47,150,000	-	(1,185,000)	45,965,000	1,240,000
Series 2005 Hospital Revenue Bonds (C)	67,000,000	-	-	67,000,000	-
Series 2007 Hospital Revenue Refunding Bonds (D)	90,360,000	-	(1,820,000)	88,540,000	2,005,000
Capital lease obligations	457,717	-	(325,422)	132,295	132,295
Master lease obligation	13,893,573	-	(2,569,921)	11,323,652	2,891,042
Notes payable	669,243	-	(467,079)	202,164	202,164
	<u>237,180,533</u>	<u>-</u>	<u>(7,467,422)</u>	<u>229,713,111</u>	<u>7,520,501</u>
Total cost					
Unamortized loss on refinancing 1991 and 1996A Bonds	<u>(2,187,216)</u>	<u>-</u>	<u>161,165</u>	<u>(2,026,051)</u>	<u>(205,000)</u>
Total long-term debt of Obligated Group	234,993,317	-	(7,306,257)	227,687,060	7,315,501
Line of credit – Medical Park West	<u>3,791,166</u>	<u>-</u>	<u>(3,791,166)</u>	<u>-</u>	<u>-</u>
Total long-term debt	238,784,483	-	(11,097,423)	227,687,060	7,315,501
Other Long-Term Liabilities					
Estimated self-insurance costs	5,208,499	9,710,615	(8,340,048)	6,579,066	4,711,066
Pension liability	<u>3,821,423</u>	<u>1,361,053</u>	<u>(3,000,000)</u>	<u>2,182,476</u>	<u>-</u>
Total long-term obligations	<u>\$ 247,814,405</u>	<u>\$ 11,071,668</u>	<u>\$ (22,437,471)</u>	<u>\$ 236,448,602</u>	<u>\$ 12,026,567</u>

Norman Regional Hospital Authority
Notes to Financial Statements
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	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 18,550,000	\$ -	\$ (900,000)	\$ 17,650,000	\$ 1,100,000
Series 2002 Hospital Revenue Bonds (B)	48,280,000	-	(1,130,000)	47,150,000	1,185,000
Series 2005 Hospital Revenue Bonds (C)	67,000,000	-	-	67,000,000	-
Series 2007 Hospital Revenue Refunding Bonds (D)	92,255,000	-	(1,895,000)	90,360,000	1,820,000
Capital lease obligations	771,230	-	(313,513)	457,717	324,492
Master lease obligation	16,546,254	-	(2,652,681)	13,893,573	2,768,195
Notes payable	1,121,407	-	(452,164)	669,243	467,079
Total cost	244,523,891	-	(7,343,358)	237,180,533	7,664,766
Unamortized loss on refinancing 1991 and 1996A Bonds	(2,348,382)	-	161,166	(2,187,216)	(205,000)
Total long-term debt of Obligated Group	242,175,509	-	(7,182,192)	234,993,317	7,459,766
Line of credit – Medical Park West	4,557,311	-	(766,145)	3,791,166	-
Total long-term debt	246,732,820	-	(7,948,337)	238,784,483	7,459,766
Other Long-Term Liabilities					
Estimated self-insurance costs	5,415,156	4,468,341	(4,674,998)	5,208,499	3,061,499
Pension liability	2,496,196	1,325,227	-	3,821,423	-
Total long-term obligations	<u>\$ 254,644,172</u>	<u>\$ 5,793,568</u>	<u>\$ (12,623,335)</u>	<u>\$ 247,814,405</u>	<u>\$ 10,521,265</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, 2012 and 2011, were 0.400% and 1.340%, respectively; secured by pledge of Authority's gross revenues and trustee-held assets.

Norman Regional Hospital Authority
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- (B) Due September 1, 2032; principal payable annually beginning September 1, 2003, plus semiannual interest payments at interest rates from 4.40% to 5.50%; secured by pledge of Authority's gross revenues and trustee-held assets.
- (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 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 4.5% to 5.25%; secured by pledge of Authority's gross revenues and trustee-held assets.

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.

The Authority defeased its outstanding 1996A Hospital Revenue Refunding Bonds with the issuance and delivery of the Series 2007 Hospital Revenue Refunding Bonds. Additionally, upon issuance and delivery of the 1996A Hospital Revenue Refunding Bonds, the Authority defeased its outstanding Series 1991 Hospital Revenue Bonds. Proceeds from the Series 2007 Hospital Revenue Refunding Bonds and 1996A Hospital Revenue Refunding Bonds were used to purchase securities that were deposited in trust under escrow agreements sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. These advance refunding transactions resulted in extinguishment of debt since the Authority was legally released from its obligation on the 1996A Hospital Revenue Refunding Bonds and Series 1991 Hospital Revenue Bonds at the time of the defeasance. The 1996A Hospital Revenue Refunding Bonds and Series 1991 Hospital Revenue Bonds are no longer outstanding.

The advance refunding of the 1996A Hospital Revenue Refunding Bonds and Series 1991 Hospital Revenue Bonds resulted in an accounting loss on the extinguishment of the long-term debt. This loss on refunding is shown as a reduction of the outstanding long-term debt on the accompanying balance sheets and is being amortized using the straight-line method over the life of the respective new bond issues.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2012 and 2011

The debt service requirements of the Revenue Bonds Payable as of June 30, 2012, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2013	\$ 14,917,956	\$ 4,295,000	\$ 10,622,956
2014	14,945,656	4,490,000	10,455,656
2015	14,976,231	4,695,000	10,281,231
2016	15,010,872	4,915,000	10,095,872
2017	15,043,169	5,145,000	9,898,169
2018–2022	75,843,463	29,695,000	46,148,463
2023–2027	76,538,792	37,790,000	38,748,792
2028–2032	76,256,647	48,905,000	27,351,647
2033–2037	75,881,566	63,370,000	12,511,566
2038	<u>15,133,097</u>	<u>14,755,000</u>	<u>378,097</u>
	<u>\$ 394,547,449</u>	<u>\$ 218,055,000</u>	<u>\$ 176,492,449</u>

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2012 and 2011, had total costs of \$1,482,335 and accumulated depreciation of \$1,284,690 and \$988,223, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 3.73%, together with the present value of the future minimum lease payments, as of June 30, 2012:

Year Ending June 30,	
2013	\$ 134,116
Less amount representing interest	<u>1,821</u>
Present value of future minimum lease payments	<u>\$ 132,295</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2012 and 2011

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, 2012 and 2011, had total costs of approximately \$19,994,000 and \$19,701,000, respectively, and accumulated depreciation of approximately \$8,062,000 and \$5,213,000, 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, 2012:

Year Ending June 30,	
2013	\$ 3,319,321
2014	3,319,321
2015	3,319,321
2016	2,300,915
Total minimum lease payments	12,258,878
Less amount representing interest	935,226
Present value of future minimum lease payments	\$ 11,323,652

Notes Payable

The notes payable are due December 1, 2012, with principal and interest at the prime rate as of the note date (3.25%) payable monthly. These notes are unsecured. The debt service requirements for these notes as of June 30, 2012, are:

Year Ending June 30,	Total to be Paid	Principal	Interest
2013	\$ 204,437	\$ 202,164	\$ 2,273

Line of Credit – Medical Park West

During December 2006, Medical Park West entered into a line of credit for \$4,560,000 due June 22, 2011. In December 2009, Medical Park West restructured the agreement to provide funds up to \$10,560,000 due December 18, 2012, with interest at the greater of the Wall Street Journal prime rate or 5.5% payable monthly. The line of credit is an obligation of Medical Park West and is not guaranteed by the System. The line of credit is secured by the ground lease between Medical Park West and the System. The line of credit was paid in full during 2012.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2012 and 2011

Note 9: Restricted Net Assets

At June 30, 2012 and 2011, restricted net assets were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Debt service	\$ 21,751,882	\$ 21,579,550
Specific operating activities	364,677	375,204
Nonexpendable for permanent endowments	<u>19,815</u>	<u>19,765</u>
Total restricted net assets	<u>\$ 22,136,374</u>	<u>\$ 21,974,519</u>

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.

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

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$1,266,048,159	\$1,172,136,918
Contractual adjustments	(851,867,535)	(796,950,506)
Provision for uncollectible accounts	(61,248,453)	(64,315,001)
Charity care allowances	<u>(36,196,361)</u>	<u>(29,674,221)</u>
Net patient service revenue	<u>\$ 316,735,810</u>	<u>\$ 281,197,190</u>

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, prenatal education and care, community educational services and various support groups.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2012 and 2011

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. Contributions actually made by the Authority were approximately \$1,400,000 and \$1,287,000 during the years ended June 30, 2012 and 2011, respectively.

The Authority also contributes to another defined contribution pension plan, the Norman Regional Hospital Defined Contribution Plan, covering substantially all employees who have completed a one-year period of continuous employment. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit and contribution provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contributions actually made by the Authority were approximately \$3,893,000 and \$3,576,000 during the years ended June 30, 2012 and 2011, 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 for each physician. The life insurance policies are invested in mutual funds, and the cash surrender value of the policies at June 30, 2012 and 2011, are approximately \$6,160,000 and \$5,663,000, respectively, and are included in other assets in the accompanying balance sheets. The related liability as of June 30, 2012 and 2011, of approximately \$6,926,000 and \$6,269,000, respectively, for this plan is included in accrued payroll and expenses in the accompanying balance sheets. Deferred compensation expense related to the plan totaled approximately \$1,237,000 and \$1,429,000 in 2012 and 2011, respectively.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2012 and 2011

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 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.

Annual Pension Cost and Net Pension Obligation

The Authority's annual pension cost and net pension obligation to the plan for 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 1,391,501	\$ 1,341,192
Interest on net pension obligation	267,500	176,364
Adjustment to annual required contribution	(297,948)	(192,329)
Annual pension cost	<u>1,361,053</u>	<u>1,325,227</u>
Contributions made	(3,000,000)	-
Increase (decrease) in net pension obligation	(1,638,947)	1,325,227
Net pension obligation, beginning of year	<u>3,821,423</u>	<u>2,496,196</u>
Net pension obligation, end of year	<u>\$ 2,182,476</u>	<u>\$ 3,821,423</u>

The annual required contribution for 2012 and 2011 was determined as part of actuarial valuations on July 1, 2011 and January 1, 2011, 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, 2011, was 27 years.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2012 and 2011

Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 1,361,053	220%	\$ 2,182,476
2011	\$ 1,325,227	0%	\$ 3,821,423
2010	\$ 1,183,319	0%	\$ 2,496,196

Funding Status and Funding Progress

The following is funded status information as of July 1, 2011, 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
\$ 23,140,419	\$ 39,670,376	\$ 16,529,957	58.3%	\$ 743,392	2223.6%

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.

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
Required Supplementary Information – Schedule of Funding Progress
Year Ended June 30, 2012

Defined Benefit Pension Plan

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
July 1, 2011	\$ 23,140,419	\$ 39,670,376	\$ 16,529,957	58.3%	\$ 743,392	2223.6%
January 1, 2011	\$ 22,775,335	\$ 38,907,657	\$ 16,132,322	58.5%	\$ 725,774	2222.8%
January 1, 2010	\$ 22,501,637	\$ 37,119,664	\$ 14,618,027	60.6%	\$ 955,573	1529.8%

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.

Norman Regional Hospital Authority
Combining Schedule – Balance Sheet Information
June 30, 2012

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
Assets							
Current Assets							
Cash and cash equivalents	\$ 51,072,794	\$ 379,574	\$ 556,726	\$ 245,851	\$ 52,254,945	\$ -	\$ 52,254,945
Short-term investments	56,578,866	2,090,070	-	-	58,668,936	-	58,668,936
Restricted cash and investments – current	7,126,038	-	-	-	7,126,038	-	7,126,038
Patient accounts receivable, net of allowance; \$33,143,000	46,884,232	-	-	-	46,884,232	-	46,884,232
Estimated amounts due from third-party payers	256,899	-	-	-	256,899	-	256,899
Supplies	10,491,622	-	-	-	10,491,622	-	10,491,622
Prepaid expenses and other	4,567,252	283,957	78,770	206,299	5,136,278	(201,304)	4,934,974
Total current assets	176,977,703	2,753,601	635,496	452,150	180,818,950	(201,304)	180,617,646
Noncurrent Cash and Investments							
Held by trustee for debt service	25,304,191	-	-	-	25,304,191	-	25,304,191
Held by others for capital acquisitions	78,336	-	-	-	78,336	-	78,336
	25,382,527	-	-	-	25,382,527	-	25,382,527
Less amount required to meet current obligations	7,126,038	-	-	-	7,126,038	-	7,126,038
Noncurrent cash and investments, net	18,256,489	-	-	-	18,256,489	-	18,256,489
Capital Assets, Net	235,520,830	-	18,357,714	131,117	254,009,661	(508,141)	253,501,520
Other Assets							
Deferred financing costs, net	4,814,821	-	-	-	4,814,821	-	4,814,821
Other	25,680,433	1,163	-	-	25,681,596	(15,229,309)	10,452,287
Total other assets	30,495,254	1,163	-	-	30,496,417	(15,229,309)	15,267,108
Total assets	\$ 461,250,276	\$ 2,754,764	\$ 18,993,210	\$ 583,267	\$ 483,581,517	\$ (15,938,754)	\$ 467,642,763

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
Liabilities and Net Assets							
Current Liabilities							
Current maturities of long-term debt	\$ 7,315,501	\$ -	\$ -	\$ -	\$ 7,315,501	\$ -	\$ 7,315,501
Accounts payable	13,262,816	61,880	85,561	17,946	13,428,203	(201,304)	13,226,899
Accrued payroll and expenses	21,004,318	-	-	3,895	21,008,213	-	21,008,213
Accrued interest payable	3,552,309	-	-	-	3,552,309	-	3,552,309
Estimated self-insurance cost – current	4,711,066	-	-	-	4,711,066	-	4,711,066
Total current liabilities	49,846,010	61,880	85,561	21,841	50,015,292	(201,304)	49,813,988
Long-Term Debt	220,371,559	-	-	-	220,371,559	-	220,371,559
Estimated Self-Insurance Costs	1,868,000	-	-	-	1,868,000	-	1,868,000
Pension Liability	2,182,476	-	-	-	2,182,476	-	2,182,476
Total liabilities	274,268,045	61,880	85,561	21,841	274,437,327	(201,304)	274,236,023
Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC	-	-	-	-	-	4,239,766	4,239,766
Net Assets							
Invested in capital assets, net of related debt	12,461,153	-	18,357,714	131,117	30,949,984	(18,488,831)	12,461,153
Restricted – expendable for							
Debt service	21,751,882	-	-	-	21,751,882	-	21,751,882
Specific operating activities	-	364,677	-	-	364,677	-	364,677
Restricted – nonexpendable for permanent endowments	-	19,815	-	-	19,815	-	19,815
Unrestricted	152,769,196	2,308,392	549,935	430,309	156,057,832	(1,488,385)	154,569,447
Total net assets	186,982,231	2,692,884	18,907,649	561,426	209,144,190	(19,977,216)	189,166,974
Total liabilities and net assets	\$ 461,250,276	\$ 2,754,764	\$ 18,993,210	\$ 583,267	\$ 483,581,517	\$ (15,938,754)	\$ 467,642,763

Norman Regional Hospital Authority
Combining Schedule – Balance Sheet Information
June 30, 2011

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
Assets							
Current Assets							
Cash and cash equivalents	\$ 37,174,576	\$ 235,735	\$ 1,084,085	\$ 451,251	\$ 38,945,647	\$ -	\$ 38,945,647
Short-term investments	53,549,541	2,476,299	-	-	56,025,840	-	56,025,840
Restricted cash and investments – current	7,016,844	-	-	-	7,016,844	-	7,016,844
Patient accounts receivable, net of allowance; \$30,661,000	42,917,948	-	-	-	42,917,948	-	42,917,948
Estimated amounts due from third-party payers	1,466,429	-	-	-	1,466,429	-	1,466,429
Supplies	10,015,095	-	-	-	10,015,095	-	10,015,095
Prepaid expenses and other	4,071,617	293,981	76,727	219,383	4,661,708	(240,488)	4,421,220
Total current assets	<u>156,212,050</u>	<u>3,006,015</u>	<u>1,160,812</u>	<u>670,634</u>	<u>161,049,511</u>	<u>(240,488)</u>	<u>160,809,023</u>
Noncurrent Cash and Investments							
Held by trustee for debt service	25,195,151	-	-	-	25,195,151	-	25,195,151
Held by others for capital acquisitions	78,336	-	-	-	78,336	-	78,336
	<u>25,273,487</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,273,487</u>	<u>-</u>	<u>25,273,487</u>
Less amount required to meet current obligations	7,016,844	-	-	-	7,016,844	-	7,016,844
Noncurrent cash and investments, net	<u>18,256,643</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,256,643</u>	<u>-</u>	<u>18,256,643</u>
Capital Assets, Net	<u>250,901,175</u>	<u>-</u>	<u>21,135,683</u>	<u>165,047</u>	<u>272,201,905</u>	<u>(508,141)</u>	<u>271,693,764</u>
Other Assets							
Deferred financing costs, net	5,052,295	-	-	-	5,052,295	-	5,052,295
Other	25,318,258	4,652	-	-	25,322,910	(15,034,959)	10,287,951
Total other assets	<u>30,370,553</u>	<u>4,652</u>	<u>-</u>	<u>-</u>	<u>30,375,205</u>	<u>(15,034,959)</u>	<u>15,340,246</u>
Total assets	<u>\$ 455,740,421</u>	<u>\$ 3,010,667</u>	<u>\$ 22,296,495</u>	<u>\$ 835,681</u>	<u>\$ 481,883,264</u>	<u>\$ (15,783,588)</u>	<u>\$ 466,099,676</u>

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
Liabilities and Net Assets							
Current Liabilities							
Current maturities of long-term debt	\$ 7,459,766	\$ -	\$ -	\$ -	\$ 7,459,766	\$ -	\$ 7,459,766
Accounts payable	10,803,786	46,109	96,013	14,089	10,959,997	(240,488)	10,719,509
Accrued payroll and expenses	18,313,101	-	-	12,891	18,325,992	-	18,325,992
Accrued interest payable	3,615,601	-	-	-	3,615,601	-	3,615,601
Estimated self-insurance cost – current	3,061,499	-	-	-	3,061,499	-	3,061,499
Total current liabilities	43,253,753	46,109	96,013	26,980	43,422,855	(240,488)	43,182,367
Long-Term Debt	227,533,551	-	3,791,166	-	231,324,717	-	231,324,717
Estimated Self-Insurance Costs	2,147,000	-	-	-	2,147,000	-	2,147,000
Pension Liability	3,821,423	-	-	-	3,821,423	-	3,821,423
Total liabilities	276,755,727	46,109	3,887,179	26,980	280,715,995	(240,488)	280,475,507
Minority Interest in Medical Park West	-	-	-	-	-	4,183,058	4,183,058
Net Assets							
Invested in capital assets, net of related debt	20,533,419	-	17,344,517	165,047	38,042,983	(17,509,564)	20,533,419
Restricted – expendable for							
Debt service	21,579,550	-	-	-	21,579,550	-	21,579,550
Specific operating activities	-	375,204	-	-	375,204	-	375,204
Restricted – nonexpendable for permanent endowments	-	19,765	-	-	19,765	-	19,765
Unrestricted	136,871,725	2,569,589	1,064,799	643,654	141,149,767	(2,216,594)	138,933,173
Total net assets	178,984,694	2,964,558	18,409,316	808,701	201,167,269	(19,726,158)	181,441,111
Total liabilities and net assets	\$ 455,740,421	\$ 3,010,667	\$ 22,296,495	\$ 835,681	\$ 481,883,264	\$ (15,783,588)	\$ 466,099,676

Norman Regional Hospital Authority
Combining Schedule – Statement of Revenues, Expenses and Changes in Net Assets Information
Year Ended June 30, 2012

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
Operating Revenues							
Net patient service revenue, net of provision for uncollectible accounts	\$ 316,735,810	\$ -	\$ -	\$ -	\$ 316,735,810	\$ -	\$ 316,735,810
Other operating revenue	7,799,038	-	929,061	2,019,035	10,747,134	(2,522,481)	8,224,653
Total operating revenues	<u>324,534,848</u>	<u>-</u>	<u>929,061</u>	<u>2,019,035</u>	<u>327,482,944</u>	<u>(2,522,481)</u>	<u>324,960,463</u>
Operating Expenses							
Salaries, wages and employee benefits	159,441,977	-	-	564,793	160,006,770	-	160,006,770
Professional fees	8,220,108	26,767	58,925	297,955	8,603,755	-	8,603,755
Purchased services	14,971,970	-	-	99,878	15,071,848	(1,878,448)	13,193,400
Supplies expense	60,330,039	-	-	8,853	60,338,892	-	60,338,892
Other expenses	38,293,804	574,080	272,366	180,714	39,320,964	(914,033)	38,406,931
Depreciation and amortization	24,226,375	-	-	49,222	24,275,597	-	24,275,597
Total operating expenses	<u>305,484,273</u>	<u>600,847</u>	<u>331,291</u>	<u>1,201,415</u>	<u>307,617,826</u>	<u>(2,792,481)</u>	<u>304,825,345</u>
Operating Income (Loss)	<u>19,050,575</u>	<u>(600,847)</u>	<u>597,770</u>	<u>817,620</u>	<u>19,865,118</u>	<u>270,000</u>	<u>20,135,118</u>
Nonoperating Revenues (Expenses)							
Noncapital grants and gifts	270,000	454,930	-	-	724,930	(270,000)	454,930
Investment income (loss)	(150,703)	(125,757)	45	-	(276,415)	(1,035,616)	(1,312,031)
Interest expense	(11,495,114)	-	(99,482)	-	(11,594,596)	-	(11,594,596)
Total nonoperating revenue (expenses)	<u>(11,375,817)</u>	<u>329,173</u>	<u>(99,437)</u>	<u>-</u>	<u>(11,146,081)</u>	<u>(1,305,616)</u>	<u>(12,451,697)</u>
Income (Loss) Before Minority Interest and Capital Grants and Gifts	<u>7,674,758</u>	<u>(271,674)</u>	<u>498,333</u>	<u>817,620</u>	<u>8,719,037</u>	<u>(1,035,616)</u>	<u>7,683,421</u>
Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC Income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(280,337)</u>	<u>(280,337)</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts	<u>7,674,758</u>	<u>(271,674)</u>	<u>498,333</u>	<u>817,620</u>	<u>8,719,037</u>	<u>(1,315,953)</u>	<u>7,403,084</u>
Capital Grants and Gifts	<u>322,779</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>322,779</u>	<u>-</u>	<u>322,779</u>
Additional Paid-in Capital (Distributions)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,064,895)</u>	<u>(1,064,895)</u>	<u>1,064,895</u>	<u>-</u>
Change in Net Assets	<u>7,997,537</u>	<u>(271,674)</u>	<u>498,333</u>	<u>(247,275)</u>	<u>7,976,921</u>	<u>(251,058)</u>	<u>7,725,863</u>
Net Assets, Beginning of Year	<u>178,984,694</u>	<u>2,964,558</u>	<u>18,409,316</u>	<u>808,701</u>	<u>201,167,269</u>	<u>(19,726,158)</u>	<u>181,441,111</u>
Net Assets, End of Year	<u>\$ 186,982,231</u>	<u>\$ 2,692,884</u>	<u>\$ 18,907,649</u>	<u>\$ 561,426</u>	<u>\$ 209,144,190</u>	<u>\$ (19,977,216)</u>	<u>\$ 189,166,974</u>

Norman Regional Hospital Authority
Combining Schedule – Statement of Revenues, Expenses and Changes in Net Assets Information
Year Ended June 30, 2011

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
Operating Revenues							
Net patient service revenue, net of provision for uncollectible accounts	\$ 281,197,190	\$ -	\$ -	\$ -	\$ 281,197,190	\$ -	\$ 281,197,190
Other operating revenue	5,877,726	-	1,426,089	1,979,419	9,283,234	(2,484,146)	6,799,088
Total operating revenues	287,074,916	-	1,426,089	1,979,419	290,480,424	(2,484,146)	287,996,278
Operating Expenses							
Salaries, wages and employee benefits	146,896,266	-	-	459,268	147,355,534	-	147,355,534
Professional fees	8,212,421	26,951	100,928	224,513	8,564,813	-	8,564,813
Purchased services	12,124,123	-	-	96,397	12,220,520	(1,784,328)	10,436,192
Supplies expense	55,979,056	-	-	18,022	55,997,078	-	55,997,078
Other expenses	27,245,955	675,181	223,550	211,909	28,356,595	(934,818)	27,421,777
Depreciation and amortization	24,400,821	-	6,033	50,333	24,457,187	-	24,457,187
Total operating expenses	274,858,642	702,132	330,511	1,060,442	276,951,727	(2,719,146)	274,232,581
Operating Income (Loss)	12,216,274	(702,132)	1,095,578	918,977	13,528,697	235,000	13,763,697
Nonoperating Revenues (Expenses)							
Noncapital grants and gifts	235,000	289,617	-	-	524,617	(235,000)	289,617
Investment income	10,296,794	501,608	49	-	10,798,451	(1,394,688)	9,403,763
Interest expense	(11,989,408)	-	(240,517)	-	(12,229,925)	-	(12,229,925)
Total nonoperating revenues (expenses)	(1,457,614)	791,225	(240,468)	-	(906,857)	(1,629,688)	(2,536,545)
Income Before Minority Interest and Capital Grants and Gifts	10,758,660	89,093	855,110	918,977	12,621,840	(1,394,688)	11,227,152
Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC Income	-	-	-	-	-	(379,399)	(379,399)
Excess of Revenues over Expenses Before Capital Grants and Gifts	10,758,660	89,093	855,110	918,977	12,621,840	(1,774,087)	10,847,753
Capital Grants and Gifts	2,037,298	-	-	-	2,037,298	-	2,037,298
Additional Paid-in Capital (Distributions)	-	-	-	(650,000)	(650,000)	650,000	-
Change in Net Assets	12,795,958	89,093	855,110	268,977	14,009,138	(1,124,087)	12,885,051
Net Assets, Beginning of Year	166,188,736	2,875,465	17,554,206	539,724	187,158,131	(18,602,071)	168,556,060
Net Assets, End of Year	\$ 178,984,694	\$ 2,964,558	\$ 18,409,316	\$ 808,701	\$ 201,167,269	\$ (19,726,158)	\$ 181,441,111

**Independent Accountants' 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 the financial statements of Norman Regional Hospital Authority (the Authority) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 24, 2012. We conducted our audit 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 Health Foundation, Inc., which are included in the Authority's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Board of Trustees
Norman Regional Hospital Authority

Compliance and Other Matters

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

This report is intended solely for the information and use of the governing body, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

September 24, 2012

Norman Regional Hospital Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Reference Number	Finding
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No matters are reportable.