

Norman Regional Hospital Authority

Independent Auditor's Reports and Financial Statements

June 30, 2016 and 2015



Norman Regional Hospital Authority
June 30, 2016 and 2015

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Independent Auditor's Report

Board of Trustees
Norman Regional Hospital Authority
Norman, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of Norman Regional Hospital Authority (the Authority) as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norman Regional Hospital Authority as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
September 26, 2016

Norman Regional Hospital Authority

Management's Discussion and Analysis

Years Ended June 30, 2016 and 2015

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, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, during the year ended June 30, 2015. As part of the implementation of GASB 68, management determined it was not practical to restate 2014 and prior years. Therefore, as a result of implementing GASB 68 and 71, a liability associated with the unfunded status of the defined benefit pension plan was recorded, deferred outflows as required by GASB 71 were recorded and the beginning net position of fiscal year 2015 was restated.

Financial Highlights

- The Authority's hospital and medical office buildings in Moore, Oklahoma, took a direct hit from an EF-5 tornado on May 20, 2013. The facility was damaged beyond repair and ultimately determined to be a constructive total loss. The site was cleared and temporary structures were established on the site from which emergency department and other outpatient services were provided. The Authority had insurance coverage in place for the building, contents, business interruption, extra expenses, debris removal, emergency evacuation and other expenses related to the tornado. Using insurance proceeds, a new permanent structure was constructed on the site. The new structure was completed and opened in June 2016 as Norman Regional Moore. See *Note 16* for more information.
- Cash and cash equivalents decreased in 2016 by \$1,784 or 2% and increased in 2015 by \$30,674 or 39%.
- Short-term investments decreased in 2016 by \$15 or 0% and decreased in 2015 by \$27,292 or 27%.
- Days cash on hand decreased in 2016 by 7 days or 3% compared to 2015. Days cash on hand at June 30, 2016, was 197 days compared to 204 days at June 30, 2015.
- Patient accounts receivable increased in 2016 by \$3,582 or 8% and decreased in 2015 by \$1,449 or 3%.
- Current assets less current liabilities increased by \$6,583 or 3% in 2016 and increased by \$3,225 or 2% in 2015.
- The Authority reported operating income in 2016 of \$29,949 and in 2015 of \$21,858. The operating income in 2016 was \$8,091 or 37% higher than the operating income reported for 2015. The operating income in 2015 was \$5,587 or 34% higher than the operating income reported for 2014.
- The Authority reported net nonoperating revenues (expenses) of \$(6,215) and \$(4,572) for 2016 and 2015, respectively. The net nonoperating revenues (expenses) in 2016 decreased by \$1,643 or 36% compared to the 2015 amount. The net nonoperating revenues (expenses) in 2015 decreased by \$13,135 or 153% compared to the 2014 amount.

Using This Annual Report

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

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

One of the most important questions asked about any authority's finances is, "Is the authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and deferred outflows of resources and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. The Authority's total net position—the difference between assets, deferred outflows of resources and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets, deferred outflows of resources and liabilities reported in the balance sheet. The Authority's net position increased by \$23,358 or 9% in 2016 from 2015 and increased by \$7,123 or 3% in 2015 from 2014 as shown in Table 1.

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

	2016	2015	2014
Assets and Deferred Outflows of Resources			
Cash, cash equivalents and short-term investments	\$ 182,090	\$ 183,890	\$ 180,508
Patient accounts receivable, net	49,276	45,694	47,143
Other current assets	23,425	25,838	23,437
Capital assets, net	231,515	219,206	214,202
Other noncurrent assets	22,143	24,424	27,806
Deferred outflows of resources	<u>5,136</u>	<u>2,797</u>	<u>2,244</u>
 Total assets and deferred outflows of resources	 <u>\$ 513,585</u>	 <u>\$ 501,849</u>	 <u>\$ 495,340</u>
Liabilities			
Long-term debt (including current portion)	\$ 195,455	\$ 202,626	\$ 212,131
Other current and noncurrent liabilities	<u>48,593</u>	<u>53,044</u>	<u>44,153</u>
 Total liabilities	 <u>244,048</u>	 <u>255,670</u>	 <u>256,284</u>
Net Position			
Net investment in capital assets	50,689	31,949	20,336
Restricted – expendable for debt service	2,834	2,572	2,996
Restricted – nonexpendable	3,579	4,108	3,880
Unrestricted	<u>212,435</u>	<u>207,550</u>	<u>211,844</u>
 Total net position	 <u>269,537</u>	 <u>246,179</u>	 <u>239,056</u>
 Total liabilities and net position	 <u>\$ 513,585</u>	 <u>\$ 501,849</u>	 <u>\$ 495,340</u>

In 2016, cash, cash equivalents and short-term investments decreased by \$1,800 or 1%. In 2015, cash, cash equivalents and short-term investments increased by \$3,382 or 2% from 2014 due to cash provided by operations and insurance proceeds related to tornado damage at the Moore facilities. These increases in cash were offset by increased capital expenditures in 2015 of \$5,942. Included in operations was the net benefit of the Supplemental Hospital Offset Payment Program (SHOPP) of \$6,418 and benefits from the Electronic Health Records (EHR) Incentive Program of \$675. Total insurance proceeds received in 2015 relating to the tornado damage at the Moore facilities were \$5,220.

Patient accounts receivable, net of allowances increased by \$3,582 or 8% from 2015 to 2016. This increase was primarily the result of increases in patient revenue and volume. Days net revenue in accounts receivable was 48 days at June 30, 2015, compared to 49 days at June 30, 2016. Patient accounts receivable, net of allowances decreased by \$1,449 or 3% from 2014 to 2015. This decrease was primarily the result of improved collections as noted by the decrease in days net revenue in accounts receivable from 52 days to 48 days.

Capital assets, net of accumulated depreciation increased by \$12,309 or 6% from 2015 to 2016 and increased by \$5,004 or 2% from 2014 to 2015. The increase in capital assets in 2016 and 2015 was due primarily to the \$24,600 and \$15,157, respectively, of construction-in-progress additions related to the construction of the new Norman Regional Moore, offset by regular depreciation taken on the Authority's assets.

Long-term debt decreased \$7,171 or 4% from 2015 to 2016 and decreased \$9,505 or 4% from 2014 to 2015. The decrease in both 2016 and 2015 was due to the repayment of debt.

Other noncurrent liabilities increased in 2015 primarily due to the recording of a pension liability of \$6,156 as a result of the implementation of GASB 68 (see *Note 13* for more information).

Operating Results and Changes in the Authority's Net Position

In 2016, the Authority's net position increased by \$23,358 or 9%. In 2015, the Authority's net position increased by \$7,123 or 3%. These changes in net position are detailed in Table 2 below.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Net patient service revenue	\$ 368,693	\$ 348,068	\$ 333,145
Other operating revenue	<u>10,058</u>	<u>12,135</u>	<u>14,036</u>
Total operating revenues	<u>378,751</u>	<u>360,203</u>	<u>347,181</u>
Operating Expenses			
Salaries, wages and employee benefits	194,378	185,950	179,087
Professional fees	10,544	10,777	11,598
Purchased services	15,366	16,263	15,910
Supplies expense	65,098	61,459	61,435
Other expenses	43,955	44,437	43,181
Depreciation and amortization	<u>19,461</u>	<u>19,459</u>	<u>19,699</u>
Total operating expenses	<u>348,802</u>	<u>338,345</u>	<u>330,910</u>
Operating Income	<u>29,949</u>	<u>21,858</u>	<u>16,271</u>
Nonoperating Revenues (Expenses)			
Noncapital grants and gifts	1,058	72	300
Gain from insurance proceeds, net of asset impairment	-	-	8,040
Investment income	1,231	4,983	10,619
Interest expense	<u>(8,504)</u>	<u>(9,627)</u>	<u>(10,396)</u>
Total nonoperating revenues (expenses)	<u>(6,215)</u>	<u>(4,572)</u>	<u>8,563</u>
Excess of Revenues over Expenses Before Capital Gifts and Distributions	23,734	17,286	24,834
Gifts to Purchase Capital Assets and Other Capital Gifts	691	655	743
Distributions to Minority Owners	<u>(1,067)</u>	<u>(132)</u>	<u>(798)</u>
Increase in Net Position	23,358	17,809	24,779
Adjustment applicable to prior years (GASB 68)	<u>-</u>	<u>(10,686)</u>	<u>-</u>
Increase in Net Position	<u>\$ 23,358</u>	<u>\$ 7,123</u>	<u>\$ 24,779</u>

Operating Income

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

Operating income for 2016 increased by \$8,091 or 37% as compared to 2015. The primary components of this increase in operating income in 2016 were:

- An increase in total operating revenue of \$18,548 or 5%
- An increase in total operating expenses of \$10,457 or 3%

Net patient service revenue was greater in 2016 than 2015 because of higher inpatient and outpatient volume, increased case mix index and reduced denials.

Other operating revenue decreased \$2,077 or 17% in 2016 primarily due to the decrease in revenue related to noncapital insurance proceeds related to Norman Regional Moore and the EHR Incentive Program.

Salaries, wages and employee benefits increased \$8,428 or 5% from 2015 to 2016. This increase is due to normal annual salary increases and an increase in pension and retirement expense offset by a decrease in group health insurance expense.

Operating income for 2015 increased by \$5,587 or 34% as compared to 2014. The primary components of this increase in operating income in 2015 were:

- An increase in total operating revenue of \$13,022 or 4%
- An increase in total operating expenses of \$7,435 or 2%

Net patient service revenue was greater in 2015 than 2014 because of higher outpatient revenue, an improved payer mix and a group appeal settlement.

Other operating revenue decreased \$1,901 or 14% in 2015 primarily due to the decrease in revenue related to the EHR Incentive Program.

Salaries, wages and employee benefits increased \$6,863 or 4% from 2014 to 2015. This increase is due to normal annual salary increases and an increase in group health insurance expense.

Nonoperating Revenues and Expenses

Another major component of the Authority's change in net position is its nonoperating revenues and expenses. Nonoperating revenues and expenses consist primarily of noncapital grants and gifts, capital-related insurance recoveries, investment income and interest expense. In 2016, net nonoperating revenues and expenses decreased primarily due to the decrease in investment income of \$3,752 or 75% compared to 2015. Net nonoperating revenues and expenses decreased by \$13,135 or 153% in 2015 compared to 2014. This decrease was the result of a reduction of \$8,040 in the gain from insurance proceeds, net of asset impairment related to the Moore tornado and a decrease in investment income of \$5,636 or 53% due to declining market returns.

The Authority's Cash Flows

Net cash provided by operating activities in 2016 increased by \$6,111 or 16% from 2015. Payments to suppliers, contractors and employees increased by \$6,744, while receipts from patients increased by \$15,294 from 2015. The increase in receipts from patients is consistent with the increased net patient service revenue and the change in patient accounts receivable.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016, the Authority had \$231,515 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2016, the Authority purchased new equipment and made improvements totaling \$33,816.

At June 30, 2015, the Authority had \$219,206 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2015, the Authority purchased new equipment and made improvements totaling \$24,800.

Debt

At June 30, 2016, the Authority had \$195,455 in bonds and master lease obligations outstanding, net of related discounts, as detailed in *Note 9* to the financial statements. In 2016, the Authority did not issue any new debt. The Authority reduced the outstanding principal of its long-term debt by \$7,172. NRH Medical Park West, L.L.C. (Medical Park West) and Oklahoma Sleep Associates, LLC (Oklahoma Sleep Associates) did not have any outstanding debt at June 30, 2016.

The Authority's debt ratings by Standard & Poor's were upgraded to BBB in June 2016. In addition, the Authority's debt ratings with Moody's (Baa2) and Fitch (BBB-) were affirmed during fiscal year 2016. In September 2016, Fitch upgraded the Authority's rating to BBB and then withdrew their rating at the Authority's request.

At June 30, 2015, the Authority had \$202,626 in bonds and master lease obligations outstanding, net of related discounts, as detailed in *Note 9* to the financial statements. In 2015, the Authority issued the Series 2015 Hospital Revenue Refunding Bonds to refund the outstanding balance of the Series 2002 Hospital Revenue Bonds. The Authority reduced the outstanding principal of its long-term debt by \$9,505. Medical Park West and Oklahoma Sleep Associates did not have any outstanding debt at June 30, 2015.

Medical Park West and Oklahoma Sleep Associates are not a part of the Obligated Group with respect to the Authority's bonds and bond covenants.

The Authority is contemplating a bond issue in late 2016 which may be used to refund certain outstanding bond obligations (see *Note 9* for additional information).

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, 2016 and 2015

Assets and Deferred Outflows of Resources

	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 106,906,957	\$ 108,691,280
Short-term investments	75,183,320	75,198,277
Restricted cash and investments – current	5,608,943	5,520,613
Patient accounts receivable, net of allowance; 2016 – \$16,449,000, 2015 – \$17,936,000	49,275,801	45,694,417
Supplies	10,586,594	10,841,577
Receivable for insurance claims	-	2,399,112
Estimated amounts due from third-party payers	454,321	-
Prepaid expenses and other	6,775,091	7,076,986
	<u>254,791,027</u>	<u>255,422,262</u>
Noncurrent Cash and Investments		
Held by trustee for debt service	20,204,269	20,027,107
Held by others for capital acquisitions	73,336	80,431
	<u>20,277,605</u>	<u>20,107,538</u>
Less amount required to meet current obligations	5,608,943	5,520,613
	<u>14,668,662</u>	<u>14,586,925</u>
	<u>231,514,565</u>	<u>219,206,524</u>
Capital Assets, Net		
	<u>7,474,026</u>	<u>9,836,635</u>
Other Assets		
	<u>5,136,029</u>	<u>2,796,726</u>
Deferred Outflows of Resources		
	<u>\$ 513,584,309</u>	<u>\$ 501,849,072</u>
Total assets and deferred outflows of resources		

Liabilities and Net Position

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Current maturities of long-term debt	\$ 5,505,000	\$ 7,188,217
Accounts payable	12,573,001	14,205,884
Accrued payroll and expenses	16,266,212	19,276,130
Accrued interest payable	3,006,009	3,098,308
Estimated amounts due to third-party payers	-	68,331
Estimated self-insurance costs – current	2,881,036	3,608,294
	<u>40,231,258</u>	<u>47,445,164</u>
Total current liabilities	40,231,258	47,445,164
Long-Term Debt	189,949,605	195,438,040
Other Long-Term Liabilities	6,765,707	6,631,889
Pension Liability	<u>7,100,935</u>	<u>6,155,599</u>
Total liabilities	<u>244,047,505</u>	<u>255,670,692</u>
Net Position		
Net investment in capital assets	50,688,808	31,947,613
Restricted – expendable for debt service	2,834,493	2,572,127
Restricted – nonexpendable	3,578,506	4,108,163
Unrestricted	<u>212,434,997</u>	<u>207,550,477</u>
Total net position	<u>269,536,804</u>	<u>246,178,380</u>
Total liabilities and net position	<u>\$ 513,584,309</u>	<u>\$ 501,849,072</u>

Norman Regional Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 – \$57,012,838, 2015 – \$31,613,936	\$ 368,693,310	\$ 348,067,575
Other operating revenue	10,057,555	12,134,869
Total operating revenues	378,750,865	360,202,444
Operating Expenses		
Salaries, wages and employee benefits	194,378,464	185,950,784
Professional fees	10,544,132	10,776,973
Purchased services	15,365,781	16,262,671
Supplies expense	65,097,827	61,459,046
Other expenses	43,954,100	44,436,742
Depreciation and amortization	19,460,784	19,458,804
Total operating expenses	348,801,088	338,345,020
Operating Income	29,949,777	21,857,424
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	1,057,745	72,217
Investment income	1,231,563	4,982,518
Interest expense	(8,504,267)	(9,626,703)
Total nonoperating revenues (expenses)	(6,214,959)	(4,571,968)
Excess of Revenues over Expenses Before Capital Gifts and Distributions	23,734,818	17,285,456
Gifts to Purchase Capital Assets and Other Capital Gifts	690,536	655,100
Distributions to Minority Owners	(1,066,930)	(131,670)
Increase in Net Position	23,358,424	17,808,886
Net Position, Beginning of Year	246,178,380	228,369,494
Net Position, End of Year	\$ 269,536,804	\$ 246,178,380

Norman Regional Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 364,589,274	\$ 349,295,156
Payments to suppliers and contractors	(129,775,821)	(133,787,457)
Payments to employees	(199,373,783)	(188,617,976)
Other receipts and payments, net	9,018,211	11,456,964
Net cash provided by operating activities	44,457,881	38,346,687
Noncapital Financing Activities		
Noncapital grants and gifts	1,057,745	72,217
Net cash provided by noncapital financing activities	1,057,745	72,217
Capital and Related Financing Activities		
Gifts to purchase capital assets and other capital gifts	690,536	655,100
Proceeds from disposal of capital assets	3,261,046	1,189,052
Principal paid on long-term debt	(7,188,217)	(24,485,606)
Interest paid on long-term debt	(9,064,771)	(9,748,339)
Purchase of capital assets	(33,157,464)	(22,585,401)
Proceeds from issuance of long-term debt	-	14,730,000
Net cash used in capital and related financing activities	(45,458,870)	(40,245,194)
Investing Activities		
Change in restricted assets – held by trustee and others	(170,067)	2,043,469
Proceeds from sale of short-term investments	12,170,148	49,932,423
Purchase of short-term investments	(13,913,308)	(20,822,105)
Distributions to minority owners	(1,066,930)	(131,670)
Investment income received	1,139,078	1,477,814
Net cash provided by (used in) investing activities	(1,841,079)	32,499,931
Change in Cash and Cash Equivalents	(1,784,323)	30,673,641
Cash and Cash Equivalents, Beginning of Year	108,691,280	78,017,639
Cash and Cash Equivalents, End of Year	\$ 106,906,957	\$ 108,691,280

	<u>2016</u>	<u>2015</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	\$ 29,949,777	\$ 21,857,424
Depreciation and amortization	19,460,784	19,458,804
Gain on disposal of capital assets	(1,039,344)	(677,905)
Provision for uncollectible accounts	57,012,838	31,613,936
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(60,594,222)	(30,165,560)
Insurance receivable for operating activities	2,399,112	13,762
Supplies and prepaid expenses	556,878	(3,066,480)
Estimated amounts due from/to third-party payers	(522,652)	(220,795)
Other assets	4,038,692	78,894
Accounts payable and accrued expenses	(5,162,651)	1,125,694
Pension liability	(1,641,331)	(1,671,087)
	<u>\$ 44,457,881</u>	<u>\$ 38,346,687</u>
Net cash provided by operating activities		
	<u>\$ 44,457,881</u>	<u>\$ 38,346,687</u>
Supplemental Cash Flows Information		
Capital asset purchases and other assets in accounts payable	\$ 2,301,034	\$ 2,374,624

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2016 and 2015

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

Nature of Operations

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

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

Reporting Entity

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

Blended Component Units

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

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

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

Under the terms of the Bond Indenture discussed in *Note 9*, the Obligated Group does not include Medical Park West or Oklahoma Sleep Associates.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2016 and 2015

Basis of Accounting and Presentation

The accompanying financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and deferred outflows of resources and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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

Use of Estimates

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

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents consisted primarily of money market accounts.

Risk Management

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

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

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2016 and 2015

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 (NAV) per share.

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition or 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

The Authority capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	<u>2016</u>	<u>2015</u>
Interest capitalized, net	\$ 732,134	\$ 217,026
Interest charged to expense	<u>8,504,267</u>	<u>9,626,703</u>
Total interest incurred	<u>\$ 9,236,401</u>	<u>\$ 9,843,729</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

Deferred Outflows of Resources

The Authority is required to account for certain transactions that do not qualify for treatment as either assets or liabilities as deferred outflows or inflows of resources. Deferred outflows and inflows of resources are defined as a consumption (deferred outflows) or an acquisition (deferred inflows) of net position by the Authority that is applicable to a future reporting period.

At June 30, 2016 and 2015, the deferred outflows of resources reported by the Authority on the accompanying balance sheets consisted of the following items:

	2016	2015
Loss on defeasance of long-term debt, net	\$ 1,984,638	\$ 2,232,002
Deferred outflows related to pensions	3,151,391	564,724
Total deferred outflows of resources	\$ 5,136,029	\$ 2,796,726

Guarantees

The Authority is joint guarantor on loans of an entity that is a joint venture between the Authority and two other hospitals. At June 30, 2016, the Authority guaranteed approximately \$6,602,000 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, 2016, the Authority guaranteed approximately \$240,000 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.

Defined Benefit Pension Plan

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

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2016 and 2015

Net Position

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

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

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

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

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2016 and 2015

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. The Authority completed its fourth and final year requirements under the Medicare program during the year ended June 30, 2015. Payments under the Medicaid program are generally made for three years based on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The Authority completed its third and final year requirements under the Medicaid program during the year ended June 30, 2014. Payments under both programs are contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year may be subject to audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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

	2016	2015
Medicare Hospital Program Revenue	\$ 135,000	\$ 499,000
Medicare Physician Program Revenue	96,000	176,000
Total	<u>\$ 231,000</u>	<u>\$ 675,000</u>

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma's Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2020. The SHOPP 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.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. The amounts noted in the table below for the years ended June 30, 2016 and 2015, represent the approximate amounts received and paid by the Authority. The annual amounts to be received and paid by the Authority over the term of the SHOPP are subject to change annually based on various factors involved in determining the amount of federal matching funds. Based on the current information available, the annual net benefit to the Authority over the term of the SHOPP is not expected to be materially different than the net amounts received in 2016 and 2015.

	2016	2015
SHOPP funds received	\$ 16,481,000	\$ 15,884,000
SHOPP assessment fees paid	9,745,000	9,466,000
Net SHOPP benefit	\$ 6,736,000	\$ 6,418,000

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. The reclassifications had no effect on the change in net position.

Note 2: Net Patient Service Revenue

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

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation and psychiatric unit services are paid at prospectively determined rates that are based on the patients’ acuity. The Authority is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the Authority’s cost reports through June 30, 2014.

Medicaid – The Authority has also been reimbursed for services rendered to patients covered by the state Medicaid program at prospectively determined rates per discharge and fee schedules with no retroactive adjustment. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Approximately 44% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2016 and 2015. 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.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

At June 30, 2016 and 2015, approximately \$0 and \$160,000, respectively, of the Authority's bank balances of approximately \$771,000 and \$1,809,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$724,000 and \$422,000 and carrying values of approximately \$700,000 and \$267,000 at June 30, 2016 and 2015, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2016, the blended component units' cash accounts exceeded federally insured limits by approximately \$423,000.

Investments

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

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

Type	June 30, 2016			
	Fair Value	Maturities in Years		
		Less than 1	1-5	6-10
Money market mutual funds	\$ 108,922,656	\$ 108,922,656	\$ -	\$ -
Mutual funds				
Bond funds	16,028,060	-	3,509,557	12,518,503
Equity and other funds	31,761,565	31,761,565	-	-
U.S. Treasury obligations	16,924,040	11,605,068	5,318,972	-
Equities	27,552,163	27,552,163	-	-
	<u>\$ 201,188,484</u>	<u>\$ 179,841,452</u>	<u>\$ 8,828,529</u>	<u>\$ 12,518,503</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

Type	June 30, 2015			
	Fair Value	Maturities in Years		
		Less than 1	1–5	6–10
Money market mutual funds	\$ 110,293,590	\$ 110,293,590	\$ -	\$ -
Mutual funds				
Bond funds	15,182,847	-	3,427,268	11,755,579
Equity and other funds	32,405,259	32,405,259	-	-
U.S. Treasury obligations	16,834,649	8,295,076	8,539,573	-
Equities	27,552,620	27,552,620	-	-
	<u>\$ 202,268,965</u>	<u>\$ 178,546,545</u>	<u>\$ 11,966,841</u>	<u>\$ 11,755,579</u>

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority’s investment policy provides guidelines to maintain an aggregate credit rating of A or better on fixed income securities but does not place limits on individual investments. At June 30, 2016 and 2015, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

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

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

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2016 and 2015, no investments exceeded 5% of the total fair value of all investments.

Norman Regional Hospital Authority

Notes to Financial Statements

June 30, 2016 and 2015

Summary of Carrying Values

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

	<u>2016</u>	<u>2015</u>
Carrying value		
Deposits	\$ 1,155,821	\$ 1,714,653
Investments	201,188,484	202,268,965
Cash on hand	<u>23,577</u>	<u>13,477</u>
	<u>\$ 202,367,882</u>	<u>\$ 203,997,095</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 106,906,957	\$ 108,691,280
Short-term investments	75,183,320	75,198,277
Restricted cash and investments – current	5,608,943	5,520,613
Noncurrent cash and investments	<u>14,668,662</u>	<u>14,586,925</u>
	<u>\$ 202,367,882</u>	<u>\$ 203,997,095</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	<u>2016</u>	<u>2015</u>
Interest, dividends and realized gain on sales of investments, net	\$ 2,649,253	\$ 3,453,021
Income from joint ventures	1,878,420	1,709,581
Net decrease in fair value of investments	<u>(3,296,110)</u>	<u>(180,084)</u>
	<u>\$ 1,231,563</u>	<u>\$ 4,982,518</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

Note 4: Patient Accounts Receivable

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

	2016	2015
Medicare	\$ 13,268,086	\$ 13,833,555
Medicaid	2,014,637	1,904,092
Other third-party payers	39,787,038	35,846,881
Patients	<u>10,786,040</u>	<u>12,045,889</u>
	65,855,801	63,630,417
Less allowance for uncollectible accounts	<u>16,580,000</u>	<u>17,936,000</u>
	<u><u>\$ 49,275,801</u></u>	<u><u>\$ 45,694,417</u></u>

Note 5: Investments in Joint Ventures

The investments in joint ventures included in other assets on the accompanying balance sheets relates to the Authority's ownership in multiple joint ventures. The two significant joint ventures are recapped below:

Oklahoma Heart Hospital South, LLC

The Authority has an approximate 12% ownership in Oklahoma Heart Hospital South, LLC (OHHS). The Authority's investment in OHHS amounted to approximately \$3,603,000 and \$4,047,000 at June 30, 2016 and 2015, respectively. The audited financial position and results of operations of OHHS are summarized below as of December 31:

	2015	2014
Current assets	\$ 45,558,090	\$ 30,450,310
Property and other long-term assets, net	<u>58,397,938</u>	<u>56,707,875</u>
Total assets	<u>103,956,028</u>	<u>87,158,185</u>
Current liabilities	16,493,282	10,989,681
Long-term liabilities	<u>48,751,534</u>	<u>47,758,718</u>
Total liabilities	<u>65,244,816</u>	<u>58,748,399</u>
Members' equity	<u><u>\$ 38,711,212</u></u>	<u><u>\$ 28,409,786</u></u>
Revenues	<u><u>\$ 130,432,103</u></u>	<u><u>\$ 107,134,630</u></u>
Net income	<u><u>\$ 22,660,654</u></u>	<u><u>\$ 9,697,804</u></u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

Norman Specialty Hospital, LLC

The Authority has an approximate 38.5% ownership in Norman Specialty Hospital, LLC (NSH). The Authority's investment in NSH amounted to approximately \$1,015,000 and \$1,591,000 at June 30, 2016 and 2015, respectively. The unaudited financial position and results of operations of NSH are summarized below as of December 31:

	2015	2014
Current assets	\$ 3,930,144	\$ 4,441,446
Property and other long-term assets, net	609,884	861,992
Total assets	4,540,028	5,303,438
Current and total liabilities	1,054,192	989,594
Members' equity	\$ 3,485,836	\$ 4,313,844
Revenues	\$ 14,993,865	\$ 16,729,071
Net loss	\$ (828,007)	\$ (1,114,086)

In July 2016, NSH stopped admitting patients and effectively ceased ongoing operations.

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 15,363,967	\$ -	\$ (1,190,869)	\$ -	\$ 14,173,098
Land improvements	9,885,152	8,198	(554,809)	-	9,338,541
Buildings and leasehold improvements	259,505,552	599,923	(22,100)	31,880,423	291,963,798
Equipment	186,555,674	7,057,532	(4,773,862)	5,507,557	194,346,901
Construction in progress	11,407,196	26,150,355	-	(37,387,980)	169,571
	<u>482,717,541</u>	<u>33,816,008</u>	<u>(6,541,640)</u>	<u>-</u>	<u>509,991,909</u>
Less accumulated depreciation					
Land improvements	4,076,452	49,459	-	-	4,125,911
Buildings and leasehold improvements	114,183,742	8,685,248	(20,057)	-	122,848,933
Equipment	145,250,823	10,614,962	(4,363,285)	-	151,502,500
	<u>263,511,017</u>	<u>19,349,669</u>	<u>(4,383,342)</u>	<u>-</u>	<u>278,477,344</u>
	<u>\$ 219,206,524</u>	<u>\$ 14,466,339</u>	<u>\$ (2,158,298)</u>	<u>\$ -</u>	<u>\$ 231,514,565</u>

Norman Regional Hospital Authority
Notes to Financial Statements
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	2015				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 15,706,049	\$ -	\$ (342,082)	\$ -	\$ 15,363,967
Land improvements	10,066,845	-	(181,693)	-	9,885,152
Buildings and leasehold improvements	251,516,201	623,020	-	7,366,331	259,505,552
Equipment	176,418,940	9,020,156	(351,651)	1,468,229	186,555,674
Construction in progress	5,084,728	15,157,028	-	(8,834,560)	11,407,196
	<u>458,792,763</u>	<u>24,800,204</u>	<u>(875,426)</u>	<u>-</u>	<u>482,717,541</u>
Less accumulated depreciation					
Land improvements	4,010,945	65,507	-	-	4,076,452
Buildings and leasehold improvements	105,664,262	8,519,480	-	-	114,183,742
Equipment	134,915,804	10,682,861	(347,842)	-	145,250,823
	<u>244,591,011</u>	<u>19,267,848</u>	<u>(347,842)</u>	<u>-</u>	<u>263,511,017</u>
	<u>\$ 214,201,752</u>	<u>\$ 5,532,356</u>	<u>\$ (527,584)</u>	<u>\$ -</u>	<u>\$ 219,206,524</u>

Construction Project

The Authority entered into an agreement for approximately \$32,447,000 for the construction of the new Norman Regional Moore structure during fiscal year 2015 after it was destroyed by a tornado during fiscal year 2013 (see *Note 16*). The new structure was completed and opened in June 2016 and was funded solely from insurance proceeds.

Note 7: Self-Insured Claims

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

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

Activity in the Authority's accrued self-insured claims liabilities during 2016 and 2015 is summarized as follows:

	June 30, 2016		
	Workers' Compensation	Short-Term Disability	Employee Health
Balance, beginning of year	\$ 2,136,000	\$ -	\$ 1,324,662
Current year claims incurred and changes in estimates for claims incurred in prior years	677,222	199,279	6,721,619
Claims and expenses paid	<u>(750,222)</u>	<u>(199,279)</u>	<u>(6,992,689)</u>
Balance, end of year	<u><u>\$ 2,063,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,053,592</u></u>

	June 30, 2015		
	Workers' Compensation	Short-Term Disability	Employee Health
Balance, beginning of year	\$ 2,568,729	\$ -	\$ 943,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,195,962	162,090	8,051,355
Claims and expenses paid	<u>(1,628,691)</u>	<u>(162,090)</u>	<u>(7,669,693)</u>
Balance, end of year	<u><u>\$ 2,136,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,324,662</u></u>

Note 8: Medical Malpractice Claims

The Authority purchases medical malpractice insurance coverage under a claims-made policy on a fixed premium basis with a significant self-insured retention limit. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on actuarially determined amounts. At June 30, 2016 and 2015, the Authority recorded an accrual of \$3,773,000 and \$3,828,000, respectively, for pending malpractice claims, which is included in estimated self-insurance costs on the accompanying balance sheets. It is reasonably possible the Authority's estimate of losses will change by a material amount in the near term.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

Note 9: Long-Term Obligations

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

	2016				Current Portion
	Beginning Balance	Additions	Deductions	Ending Balance	
Long-Term Debt					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 13,100,000	\$ -	\$ (1,350,000)	\$ 11,750,000	\$ 1,350,000
Series 2005 Hospital Revenue Bonds (C)	66,731,452	12,788	-	66,744,240	-
Series 2007 Hospital Revenue Refunding Bonds (D)	82,331,588	-	(2,126,223)	80,205,365	2,285,000
Series 2013 Hospital Revenue Refunding Bonds (E)	23,655,000	-	(1,005,000)	22,650,000	1,045,000
Series 2015 Hospital Revenue Refunding Bonds (F)	14,730,000	-	(625,000)	14,105,000	825,000
Master lease obligation	2,078,217	-	(2,078,217)	-	-
Total long-term debt	202,626,257	12,788	(7,184,440)	195,454,605	5,505,000
Other Long-Term Liabilities					
Estimated self-insurance costs	7,288,662	7,627,645	(8,026,715)	6,889,592	2,881,036
Deferred compensation plan	3,840,179	837,478	(927,802)	3,749,855	992,704
Total long-term obligations	<u>\$ 213,755,098</u>	<u>\$ 8,477,911</u>	<u>\$ (16,138,957)</u>	<u>\$ 206,094,052</u>	<u>\$ 9,378,740</u>

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	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-Term Debt					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 14,300,000	\$ -	\$ (1,200,000)	\$ 13,100,000	\$ 1,350,000
Series 2002 Hospital Revenue Bonds (B)	16,600,588	-	(16,600,588)	-	-
Series 2005 Hospital Revenue Bonds (C)	66,718,664	12,788	-	66,731,452	-
Series 2007 Hospital Revenue Refunding Bonds (D)	84,457,811	-	(2,126,223)	82,331,588	2,130,000
Series 2013 Hospital Revenue Refunding Bonds (E)	24,625,000	-	(970,000)	23,655,000	1,005,000
Series 2015 Hospital Revenue Refunding Bonds (F)	-	14,730,000	-	14,730,000	625,000
Master lease obligation	5,428,823	-	(3,350,606)	2,078,217	2,078,217
Total long-term debt	212,130,886	14,742,788	(24,247,417)	202,626,257	7,188,217
Other Long-Term Liabilities					
Estimated self-insurance costs	6,617,729	10,443,922	(9,772,989)	7,288,662	3,608,294
Deferred compensation plan	3,528,753	1,082,979	(771,553)	3,840,179	888,658
Total long-term obligations	<u>\$ 222,277,368</u>	<u>\$ 26,269,689</u>	<u>\$ (34,791,959)</u>	<u>\$ 213,755,098</u>	<u>\$ 11,685,169</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, 2016 and 2015, were 0.56% and 0.16%, respectively; callable at any time; secured by pledge of the Authority's gross revenues and trustee-held assets.
- (B) Due September 1, 2032; principal payable annually beginning September 1, 2003, plus semiannual interest payments at interest rates from 5.00% to 5.50%; secured by pledge of the Authority's gross revenues and trustee-held assets. Approximately 61% of the outstanding bonds were advance refunded at a 1% premium during 2013 with the issuance of the 2013 bonds (see (E) below). The remaining outstanding bonds were advance refunded at par during 2015 with the issuance of the 2015 bonds (see (F) below).
- (C) Due September 1, 2036; principal payable annually beginning September 1, 2022, plus semiannual interest payments at interest rates from 5.375% to 5.50%; callable on or after September 1, 2016; secured by pledge of the Authority's gross revenues and trustee-held assets.

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When the Series 2005 Hospital Revenue Bonds (2005 Bonds) were issued, the bonds were sold at a discount of approximately \$384,000. At June 30, 2016 and 2015, the outstanding balance of the 2005 Bonds was as follows:

	2016	2015
Principal amount	\$ 67,000,000	\$ 67,000,000
Less unamortized discount	(255,760)	(268,548)
Net amount outstanding	<u>\$ 66,744,240</u>	<u>\$ 66,731,452</u>

- (D) Due September 1, 2037; principal payable annually beginning September 1, 2008, plus semiannual interest payments at interest rates from 5.00% to 5.25%; callable on or after September 1, 2017; secured by pledge of the Authority's gross revenues and trustee-held assets.

When the Series 2007 Hospital Revenue Refunding Bonds (2007 Bonds) were issued, the bonds were sold at a discount of approximately \$113,000. At June 30, 2016 and 2015, the outstanding balance of the 2007 Bonds was as follows:

	2016	2015
Principal amount	\$ 80,285,000	\$ 82,415,000
Less unamortized discount	(79,635)	(83,412)
Net amount outstanding	<u>\$ 80,205,365</u>	<u>\$ 82,331,588</u>

- (E) Due September 1, 2023; principal payable annually beginning September 1, 2013, plus semiannual interest payments at 3.77%; callable on or after September 1, 2014; secured by pledge of the Authority's gross revenues.
- (F) Due September 1, 2029; principal payable annually beginning September 1, 2015, plus semiannual interest payments at 3.00%; callable on or after September 1, 2019; secured by pledge of the Authority's gross revenues.

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

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In January 2015, the Authority issued the Series 2015 Hospital Revenue Refunding Bonds (2015 Bonds) in the amount of \$14,730,000 which, along with other available funds, were used to refund \$16,305,000 of the outstanding 2002 Bonds. Aggregate cash flows on the refunded 2002 Bonds from the refunding date through maturity of the 2015 Bonds total approximately \$26,700,000 while aggregate cash flows for the 2015 Bonds total approximately \$18,500,000 resulting in a positive net cash flow differential for the refunding transaction of approximately \$8,200,000. The economic gain (generally defined as the present value of the net cash flow discounted at the effective interest rate of the new debt) equals approximately \$3,400,000. The 2015 advance refunding transaction resulted in an accounting loss of approximately \$227,000.

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

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

The debt service requirements of the revenue bonds payable, excluding unamortized discounts, as of June 30, 2016, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2017	\$ 14,474,401	\$ 5,505,000	\$ 8,969,401
2018	14,510,442	5,735,000	8,775,442
2019	14,565,955	5,990,000	8,575,955
2020	14,598,330	6,230,000	8,368,330
2021	14,559,857	6,405,000	8,154,857
2022–2026	82,868,943	47,155,000	35,713,943
2027–2031	62,943,631	36,730,000	26,213,631
2032–2036	68,671,644	53,270,000	15,401,644
2037–2038	30,275,081	28,770,000	1,505,081
	<u>\$ 317,468,284</u>	<u>\$ 195,790,000</u>	<u>\$ 121,678,284</u>

Potential Refinancing

The Authority is currently contemplating a bond issue (the Refunding Bonds) the proceeds of which may be used to refund all or a significant portion of the outstanding bonds. Whether the Refunding Bonds are issued will depend upon market conditions at the time of pricing of the planned bond issue.

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Master Lease Obligation

The Authority borrowed \$20,000,000 under a master lease agreement at a rate of 4.35% to purchase equipment that is accounted for as a capital lease. Assets under the master lease obligation at June 30, 2015, had total costs of approximately \$19,505,000 and accumulated depreciation of approximately \$15,686,000. The master lease obligation was paid in full in August 2015.

Note 10: Restricted Net Position

At June 30, 2016 and 2015, restricted net position of \$2,834,493 and \$2,572,127, respectively, was available for debt service.

At June 30, 2016 and 2015, restricted nonexpendable net position of \$3,578,506 and \$4,108,163, respectively, was related to the other members' interest in Medical Park West and Oklahoma Sleep Associates.

Note 11: Charity Care and Uncompensated Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under the state Medicaid program. The state Medicaid program pays providers amounts 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:

	2016		2015	
	Dollar	Percent	Dollar	Percent
Gross patient service revenue	\$1,597,372,173	100.0%	\$1,478,141,568	100.0%
Contractual adjustments	(1,126,170,397)	-70.5%	(1,042,855,186)	-70.6%
Provision for uncollectible accounts and charity care adjustments	<u>(102,508,466)</u>	<u>-6.4%</u>	<u>(87,218,807)</u>	<u>-5.9%</u>
Net patient service revenue	<u>\$ 368,693,310</u>	<u>23.1%</u>	<u>\$ 348,067,575</u>	<u>23.5%</u>

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The estimated uncompensated costs associated with charity care services were approximately \$8,472,000 and \$10,354,000 for the years ended June 30, 2016 and 2015, respectively. The costs of charity care are estimated by applying the cost to charge ratio from the Authority's most recent Medicare cost report to the gross uncompensated charges.

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

Note 12: Defined Contribution and Deferred Compensation Plans

Defined Contribution Plans

The Authority contributes to a defined contribution pension plan, the Norman Regional Hospital Match Plan, covering substantially all employees who have completed a one-year period of continuous employment and elect to contribute to the plan. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. The contribution rate for the Authority expressed as a percentage of covered payroll was 1.3% for both 2016 and 2015. Contributions actually made by the Authority were approximately \$1,732,000 and \$1,657,000 during the years ended June 30, 2016 and 2015, respectively.

The Authority also contributes to another defined contribution pension plan, the Norman Regional Hospital Defined Contribution Plan, covering substantially all employees who have completed a one-year period of continuous employment. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit and contribution provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. The contribution rate for the Authority expressed as a percentage of covered payroll was 3.8% for both 2016 and 2015. Contributions actually made by the Authority were approximately \$4,715,000 and \$4,521,000 during the years ended June 30, 2016 and 2015, respectively.

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

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

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Deferred Compensation Plan

Additionally, the Authority maintains a nonqualified deferred compensation plan for certain physicians effective July 1, 2007. Contributions to the plan are made by the Authority based on call hours worked. The plan vests after a five- or ten-year period. The contributions are held in a trust that carries life insurance policies on each physician. The life insurance policies are invested in mutual funds, and the cash surrender value of the policies at June 30, 2016 and 2015, are approximately \$2,859,000 and \$3,171,000, respectively, and are included in prepaid expenses and other assets in the accompanying balance sheets. The related liability as of June 30, 2016 and 2015, of approximately \$3,750,000 and \$3,840,000, respectively, for this plan is included in accrued payroll and expenses and other long-term liabilities in the accompanying balance sheets (see *Note 9*). Deferred compensation expense related to the plan totaled approximately \$1,083,000 in 2016 and 2015.

Note 13: Defined Benefit Pension Plan

Plan Description

The Authority's defined benefit pension plan, the Pension Plan for Employees of Norman Regional Hospital, is a single-employer defined benefit pension plan administered by the Authority's governing body. The plan benefits were frozen on December 31, 2003. No new participants were admitted to the plan after that date. Participants who were over age 60 or had 25 or more years of service as of December 31, 2003, continue to accrue benefits under the plan. The authority to establish and amend benefit provisions is vested in the Authority's governing body. There is no publicly available financial report for the defined benefit pension plan. The Authority uses an April 30 measurement date.

Benefits Provided

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

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Defined Benefit Plan Under GASB 68 and 71

The employees covered by the plan at April 30, 2016 and 2015, are:

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	274	241
Inactive employees entitled to but not yet receiving benefits	365	381
Active employees	425	457
	1,064	1,079

Contributions

The Authority's governing body has the authority to establish and amend the contribution requirements of the Authority and active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year with an additional amount to finance any unfunded accrued liability. For the years ended April 30, 2016 and 2015, the Authority contributed \$4,500,000 and \$8,000,000, respectively, to the plan. Participants do not contribute to the plan.

Net Pension Liability

The Authority's net pension liability was measured as of April 30, 2016 and 2015, for the years ended June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates.

The total pension liability in the April 30, 2016 and 2015, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates for the 2016 valuation were based on the RP-2014 Blue Collar Mortality Table, and mortality rates for the 2015 valuation were based on the RP-2000 Combined Healthy Mortality Table, projected to 2015 using scale AA.

The plan has not performed an experience study in the past 10 years. Due to the frozen nature of the plan, the benefits of an experience study are estimated by the actuary to be minimal.

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The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These expected future real rates of return are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic rates of return for both the 2016 and 2015 valuations for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Rates of Return
Domestic stocks	40%	6.25%
International stocks	12%	6.00%
Emerging markets stocks	3%	7.50%
U.S. bonds	25%	2.00%
International bonds	10%	2.50%
Real estate	5%	3.50%
Balanced	0%	6.25%
Alternative investments	0%	0.00%
Cash	5%	-1.00%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7% for the years ended June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that the Authority's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	June 30, 2016		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 40,398,972	\$ 34,243,373	\$ 6,155,599
Changes for the year			
Interest	2,759,356	-	2,759,356
Differences between expected and actual experience	324,236	-	324,236
Contributions – employer	-	4,500,000	(4,500,000)
Net investment income	-	(1,081,343)	1,081,343
Benefit payments	(1,959,198)	(1,959,198)	-
Change of assumptions	1,280,401	-	1,280,401
Net changes	<u>2,404,795</u>	<u>1,459,459</u>	<u>945,336</u>
Balance, end of year	<u>\$ 42,803,767</u>	<u>\$ 35,702,832</u>	<u>\$ 7,100,935</u>
	June 30, 2015		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 38,743,508	\$ 26,481,546	\$ 12,261,962
Changes for the year			
Interest	2,653,341	-	2,653,341
Differences between expected and actual experience	617,508	-	617,508
Contributions – employer	-	8,000,000	(8,000,000)
Net investment income	-	1,439,097	(1,439,097)
Benefit payments	(1,677,270)	(1,677,270)	-
Change of assumptions	61,885	-	61,885
Net changes	<u>1,655,464</u>	<u>7,761,827</u>	<u>(6,106,363)</u>
Balance, end of year	<u>\$ 40,398,972</u>	<u>\$ 34,243,373</u>	<u>\$ 6,155,599</u>

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

	June 30, 2016		
	Current		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	\$ 11,167,293	\$ 7,100,935	\$ 3,387,366
	June 30, 2015		
	Current		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	\$ 9,993,501	\$ 6,155,599	\$ 2,650,665

Pension Expense and Deferred Outflows of Resources Related to Pensions

For the years ended June 30, 2016 and 2015, the Authority recognized pension expense of \$2,858,671 and \$1,328,911, respectively. At June 30, 2016 and 2015, the Authority reported deferred outflows of resources of \$3,151,391 and \$564,724, respectively, related to the net difference between projected and actual earnings on pension plan investments. The reported deferred outflows of resources at June 30, 2016, related to pensions will be recognized in pension expense as follows:

2017	\$ 823,142
2018	823,142
2019	823,144
2020	681,963
Total	\$ 3,151,391

Note 14: Disclosures About Fair Value of Assets and Liabilities

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

Level 1 Quoted prices in active markets for identical assets or liabilities

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

Recurring Measurements

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

Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Investments by Fair Value Level				
Money market mutual funds	\$ 108,922,656	\$ 108,922,656	\$ -	\$ -
Mutual funds				
Bond funds	15,182,847	16,028,060	-	-
Equity and other funds	11,538,810	11,538,810	-	-
U.S. Treasury obligations	<u>16,924,040</u>	<u>16,924,040</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	180,965,729	<u>\$ 180,965,729</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at NAV				
Mutual funds	<u>20,222,755</u>			
Total investments measured at fair value	<u>\$ 201,188,484</u>			

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Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015				
Investments by Fair Value Level				
Money market mutual funds	\$ 110,293,590	\$ 110,293,590	\$ -	\$ -
Equity and other funds	10,963,330	10,963,330	-	-
U.S. Treasury obligations	16,834,649	16,834,649	-	-
Equities	<u>27,552,620</u>	<u>27,552,620</u>	<u>-</u>	<u>-</u>
Total investments by fair value level	180,827,036	<u>\$ 180,827,036</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at NAV				
Mutual funds	<u>21,441,929</u>			
Total investments measured at fair value	<u>\$ 202,268,965</u>			

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

Investments

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

Investments measured at NAV consist of investments in two Dynamic Asset Overlay funds and a European Opportunities fund.

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The investment objective of the Dynamic Asset Overlay funds is to moderate the volatility of an equity-oriented asset allocation with one fund and a fixed income-oriented asset allocation with another fund over the long term as part of a client's overall asset allocation managed by Sanford C. Bernstein & Co. LLC. The Dynamic Asset Overlay funds may invest in a diversified portfolio of securities and other financial instruments, including derivative instruments that provide investment exposure to a variety of asset classes. These asset classes may include equity securities and fixed income instruments of issuers located within and outside the United States, real estate-related securities, below investment grade or high yield securities, currencies and commodities. Withdrawals from the funds may be made on the last business day of each month with 30 days' notice. The Authority did not have any unfunded commitments to the fund at June 30, 2016 and 2015.

The investment objective of the European Opportunities fund is to generate attractive returns over the long term by investing in a concentrated portfolio of European and European-related publicly listed securities that can achieve superior returns through strong cash flow generation. The fund primarily invests in equity securities. The fund also uses derivatives for non-hedging purposes to earn income and enhance returns and as a means of making direct investments in foreign currencies. Withdrawals from the fund may be made on the last business day of each month with 30 days' notice. The Authority did not have any unfunded commitments to the fund at June 30, 2016 and 2015.

Note 15: Contingencies and Other Matters

Litigation

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

Investigation

The Authority is aware of a potential investigation regarding specific federal payer program billing issues. Management is currently reviewing the Authority's medical records and billings submitted and intends to vigorously defend the Authority should any claim against the Authority be made. No provision has been made in the accompanying financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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Investments

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

Note 16: Moore Tornado and Related Insurance Matters

The Authority's hospital and medical office buildings in Moore, Oklahoma, took a direct hit from an EF-5 tornado on May 20, 2013. The facility was damaged beyond repair and ultimately determined to be a constructive total loss. The site was cleared and temporary structures were established on the site from which emergency department and other outpatient services were provided. The Authority had insurance coverage in place for the building, contents, business interruption, extra expenses, debris removal, emergency evacuation and other expenses related to the tornado. Using insurance proceeds, a new permanent structure was constructed on the site. The new structure was completed and opened in June 2016 as Norman Regional Moore (see *Note 6*).

The Authority recorded insurance proceeds totaling approximately \$64,125,000, as detailed below. Of that amount, approximately \$47,000,000 was related to building and contents, while the remaining \$17,125,000 was related to other aspects of insurance coverage. The \$17,125,000 of proceeds not related to building and contents has been reported on the accompanying statements of revenues, expenses and changes in net position as other operating revenue, as detailed below. The \$47,000,000 of proceeds related to building and contents, net of sales and write-offs of impaired assets has been reported as gain from insurance proceeds, net of asset impairment in nonoperating revenues on the accompanying statements of revenues, expenses and changes in net position, as detailed below. During fiscal year 2016, the Authority finalized and received all remaining insured losses related to the tornado.

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Below is a recap of insurance proceeds recorded and received for the years ended June 30, 2016 to June 30, 2013:

	2016	2015	2014	2013
Building and contents insurance proceeds recorded	\$ -	\$ -	\$ 8,540,000	\$ 38,460,000
Other insurance proceeds included in other operating revenue	3,887,000	5,206,000	5,888,000	2,144,000
Total insurance proceeds recorded	\$ 3,887,000	\$ 5,206,000	\$ 14,428,000	\$ 40,604,000
Building and contents insurance proceeds recorded	\$ -	\$ -	\$ 8,540,000	\$ 38,460,000
Proceeds from sale of impaired assets	-	-	215,000	-
Write-off of impaired assets	-	(4,000)	(714,000)	(24,471,000)
Gain from insurance proceeds, net of asset impairment	\$ -	\$ (4,000)	\$ 8,041,000	\$ 13,989,000
Insurance proceeds received for capital-related items	\$ -	\$ -	\$ (159,000)	\$ 6,966,000
Insurance proceeds received for operating-related expenses	6,286,000	5,220,000	43,278,000	2,534,000
Total insurance proceeds received during the year	\$ 6,286,000	\$ 5,220,000	\$ 43,119,000	\$ 9,500,000
Total cumulative insurance proceeds recorded through June 30	\$ 64,125,000	\$ 60,238,000	\$ 55,032,000	\$ 40,604,000
Total cumulative insurance proceeds received through June 30	64,125,000	57,839,000	52,619,000	9,500,000
Receivable for insurance claims at June 30	\$ -	\$ 2,399,000	\$ 2,413,000	\$ 31,104,000

Note 17: Transactions with Norman Regional Health Foundation, Inc.

Norman Regional Health Foundation, Inc. (the Foundation) is a nonprofit corporation organized to serve as the legal conduit for receiving and distributing gifts for the support of the Authority. During the years ended June 30, 2016 and 2015, the Foundation contributed approximately \$8,000 and \$76,000, respectively, in noncapital-related contributions and \$627,000 and \$393,000, respectively, in capital-related contributions to the Authority.

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

Note 18: Combining Component Unit Information

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

	June 30, 2016				Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	
Assets and Deferred Outflows of Resources					
Current Assets					
Cash and cash equivalents	\$ 105,229,124	\$ 1,023,254	\$ 654,579	\$ -	\$ 106,906,957
Short-term investments	75,183,320	-	-	-	75,183,320
Restricted cash and investments – current	5,608,943	-	-	-	5,608,943
Patient accounts receivable, net of allowance; \$16,449,000	49,275,801	-	-	-	49,275,801
Supplies	10,586,594	-	-	-	10,586,594
Estimated amounts due from third-party payers	454,321	-	-	-	454,321
Prepaid expenses and other	6,677,370	60,466	126,423	(89,168)	6,775,091
Total current assets	<u>253,015,473</u>	<u>1,083,720</u>	<u>781,002</u>	<u>(89,168)</u>	<u>254,791,027</u>
Noncurrent Cash and Investments					
Held by trustee for debt service	20,204,269	-	-	-	20,204,269
Held by others for capital acquisitions	73,336	-	-	-	73,336
	<u>20,277,605</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,277,605</u>
Less amount required to meet current obligations	5,608,943	-	-	-	5,608,943
Noncurrent cash and investments, net	<u>14,668,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,668,662</u>
Capital Assets, Net	<u>217,362,051</u>	<u>14,480,801</u>	<u>179,854</u>	<u>(508,141)</u>	<u>231,514,565</u>
Other Assets	<u>20,338,951</u>	<u>-</u>	<u>6,484</u>	<u>(12,871,409)</u>	<u>7,474,026</u>
Deferred Outflows of Resources	<u>5,136,029</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,136,029</u>
Total assets and deferred outflows of resources	<u>\$ 510,521,166</u>	<u>\$ 15,564,521</u>	<u>\$ 967,340</u>	<u>\$ (13,468,718)</u>	<u>\$ 513,584,309</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

	June 30, 2016				Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	
Liabilities and Net Position					
Current Liabilities					
Current maturities of long-term debt	\$ 5,505,000	\$ -	\$ -	\$ -	\$ 5,505,000
Accounts payable	12,580,224	61,545	20,400	(89,168)	12,573,001
Accrued payroll and expenses	16,266,212	-	-	-	16,266,212
Accrued interest payable	3,006,009	-	-	-	3,006,009
Estimated self-insurance costs – current	2,881,036	-	-	-	2,881,036
Total current liabilities	40,238,481	61,545	20,400	(89,168)	40,231,258
Long-Term Debt	189,949,605	-	-	-	189,949,605
Other Long-Term Liabilities	6,765,707	-	-	-	6,765,707
Pension Liability	7,100,935	-	-	-	7,100,935
Total liabilities	244,054,728	61,545	20,400	(89,168)	244,047,505
Net Position					
Net investment in capital assets	36,028,153	14,480,801	179,854	-	50,688,808
Restricted – expendable for debt service	2,834,493	-	-	-	2,834,493
Restricted – nonexpendable	-	-	-	3,578,506	3,578,506
Unrestricted	227,603,792	1,022,175	767,086	(16,958,056)	212,434,997
Total net position	266,466,438	15,502,976	946,940	(13,379,550)	269,536,804
Total liabilities and net position	\$ 510,521,166	\$ 15,564,521	\$ 967,340	\$ (13,468,718)	\$ 513,584,309

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

	June 30, 2015				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
Assets and Deferred Outflows of Resources					
Current Assets					
Cash and cash equivalents	\$ 106,365,952	\$ 2,106,780	\$ 218,548	\$ -	\$ 108,691,280
Short-term investments	75,198,277	-	-	-	75,198,277
Restricted cash and investments – current	5,520,613	-	-	-	5,520,613
Patient accounts receivable, net of allowance; \$17,936,000	45,694,417	-	-	-	45,694,417
Supplies	10,841,577	-	-	-	10,841,577
Receivable for insurance claims	2,399,112	-	-	-	2,399,112
Prepaid expenses and other	6,866,880	63,108	262,348	(115,350)	7,076,986
Total current assets	<u>252,886,828</u>	<u>2,169,888</u>	<u>480,896</u>	<u>(115,350)</u>	<u>255,422,262</u>
Noncurrent Cash and Investments					
Held by trustee for debt service	20,027,107	-	-	-	20,027,107
Held by others for capital acquisitions	80,431	-	-	-	80,431
	<u>20,107,538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,107,538</u>
Less amount required to meet current obligations	5,520,613	-	-	-	5,520,613
Noncurrent cash and investments, net	<u>14,586,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,586,925</u>
Capital Assets, Net	<u>203,424,133</u>	<u>16,080,178</u>	<u>210,354</u>	<u>(508,141)</u>	<u>219,206,524</u>
Other Assets	<u>24,592,210</u>	<u>-</u>	<u>6,484</u>	<u>(14,762,059)</u>	<u>9,836,635</u>
Deferred Outflows of Resources	<u>2,796,726</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,796,726</u>
Total assets and deferred outflows of resources	<u>\$ 498,286,822</u>	<u>\$ 18,250,066</u>	<u>\$ 697,734</u>	<u>\$ (15,385,550)</u>	<u>\$ 501,849,072</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

	June 30, 2015				Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	
Liabilities and Net Position					
Current Liabilities					
Current maturities of long-term debt	\$ 7,188,217	\$ -	\$ -	\$ -	\$ 7,188,217
Accounts payable	14,243,657	73,000	4,577	(115,350)	14,205,884
Accrued payroll and expenses	19,276,130	-	-	-	19,276,130
Accrued interest payable	3,098,308	-	-	-	3,098,308
Estimated amounts due to third-party payers	68,331	-	-	-	68,331
Estimated self-insurance costs – current	3,608,294	-	-	-	3,608,294
Total current liabilities	47,482,937	73,000	4,577	(115,350)	47,445,164
Long-Term Debt	195,438,040	-	-	-	195,438,040
Other Long-Term Liabilities	6,631,889	-	-	-	6,631,889
Pension Liability	6,155,599	-	-	-	6,155,599
Total liabilities	<u>255,708,465</u>	<u>73,000</u>	<u>4,577</u>	<u>(115,350)</u>	<u>255,670,692</u>
Net Position					
Net investment in capital assets	15,657,081	16,080,178	210,354	-	31,947,613
Restricted – expendable for debt service	2,572,127	-	-	-	2,572,127
Restricted – nonexpendable	-	-	-	4,108,163	4,108,163
Unrestricted	224,349,149	2,096,888	482,803	(19,378,363)	207,550,477
Total net position	<u>242,578,357</u>	<u>18,177,066</u>	<u>693,157</u>	<u>(15,270,200)</u>	<u>246,178,380</u>
Total liabilities and net position	<u>\$ 498,286,822</u>	<u>\$ 18,250,066</u>	<u>\$ 697,734</u>	<u>\$ (15,385,550)</u>	<u>\$ 501,849,072</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

The following tables include combining statements of revenues, expenses and changes in net position information for the Authority and its component units for the years ended June 30:

	Year Ended June 30, 2016				Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts; \$57,012,838	\$ 368,693,310	\$ -	\$ -	\$ -	\$ 368,693,310
Other operating revenue	8,467,057	1,942,872	2,964,329	(3,316,703)	10,057,555
Total operating revenues	377,160,367	1,942,872	2,964,329	(3,316,703)	378,750,865
Operating Expenses					
Salaries, wages and employee benefits	193,316,112	-	1,062,352	-	194,378,464
Professional fees	9,937,352	35,362	583,418	(12,000)	10,544,132
Purchased services	17,838,366	-	162,379	(2,634,964)	15,365,781
Supplies expense	65,066,191	-	31,636	-	65,097,827
Other expenses	44,116,161	182,174	325,504	(669,739)	43,954,100
Depreciation and amortization	19,428,527	-	32,257	-	19,460,784
Total operating expenses	349,702,709	217,536	2,197,546	(3,316,703)	348,801,088
Operating Income	27,457,658	1,725,336	766,783	-	29,949,777
Nonoperating Revenues (Expenses)					
Noncapital grants and gifts	1,057,745	-	-	-	1,057,745
Investment income	3,186,409	574	-	(1,955,420)	1,231,563
Interest expense	(8,504,267)	-	-	-	(8,504,267)
Total nonoperating revenues (expenses)	(4,260,113)	574	-	(1,955,420)	(6,214,959)
Excess of Revenues over Expenses Before Capital Gifts and Distributions	23,197,545	1,725,910	766,783	(1,955,420)	23,734,818
Gifts to Purchase Capital Assets and Other Capital Gifts	690,536	-	-	-	690,536
Distributions to Minority Owners	-	(4,400,000)	(513,000)	3,846,070	(1,066,930)
Increase (Decrease) in Net Position	23,888,081	(2,674,090)	253,783	1,890,650	23,358,424
Net Position, Beginning of Year	242,578,357	18,177,066	693,157	(15,270,200)	246,178,380
Net Position, End of Year	\$ 266,466,438	\$ 15,502,976	\$ 946,940	\$ (13,379,550)	\$ 269,536,804

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

	Year Ended June 30, 2015				Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts; \$31,613,936	\$ 348,067,575	\$ -	\$ -	\$ -	\$ 348,067,575
Other operating revenue	11,266,113	1,338,822	2,424,340	(2,894,406)	12,134,869
Total operating revenues	<u>359,333,688</u>	<u>1,338,822</u>	<u>2,424,340</u>	<u>(2,894,406)</u>	<u>360,202,444</u>
Operating Expenses					
Salaries, wages and employee benefits	184,871,799	-	1,078,985	-	185,950,784
Professional fees	10,424,630	12,145	340,198	-	10,776,973
Purchased services	18,360,925	-	121,580	(2,219,834)	16,262,671
Supplies expense	61,413,682	-	45,364	-	61,459,046
Other expenses	44,643,073	191,308	276,933	(674,572)	44,436,742
Depreciation and amortization	19,431,346	-	27,458	-	19,458,804
Total operating expenses	<u>339,145,455</u>	<u>203,453</u>	<u>1,890,518</u>	<u>(2,894,406)</u>	<u>338,345,020</u>
Operating Income	<u>20,188,233</u>	<u>1,135,369</u>	<u>533,822</u>	<u>-</u>	<u>21,857,424</u>
Nonoperating Revenues (Expenses)					
Noncapital grants and gifts	72,217	-	-	-	72,217
Investment income	6,292,069	124	-	(1,309,675)	4,982,518
Interest expense	(9,626,703)	-	-	-	(9,626,703)
Total nonoperating revenues (expenses)	<u>(3,262,417)</u>	<u>124</u>	<u>-</u>	<u>(1,309,675)</u>	<u>(4,571,968)</u>
Excess of Revenues over Expenses Before Capital Gifts and Distributions	16,925,816	1,135,493	533,822	(1,309,675)	17,285,456
Gifts to Purchase Capital Assets and Other Capital Gifts	655,100	-	-	-	655,100
Distributions to Minority Owners	-	-	(626,999)	495,329	(131,670)
Increase (Decrease) in Net Position	17,580,916	1,135,493	(93,177)	(814,346)	17,808,886
Net Position, Beginning of Year	<u>224,997,441</u>	<u>17,041,573</u>	<u>786,334</u>	<u>(14,455,854)</u>	<u>228,369,494</u>
Net Position, End of Year	<u>\$ 242,578,357</u>	<u>\$ 18,177,066</u>	<u>\$ 693,157</u>	<u>\$ (15,270,200)</u>	<u>\$ 246,178,380</u>

Norman Regional Hospital Authority
Notes to Financial Statements
June 30, 2016 and 2015

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

	Year Ended June 30, 2016				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
Net Cash Provided by Operating Activities	\$ 43,063,703	\$ 443,390	\$ 950,788	\$ -	\$ 44,457,881
Net Cash Provided by Noncapital Financing Activities	1,057,745	-	-	-	1,057,745
Net Cash Provided by (Used in) Capital and Related Financing Activities	(48,329,623)	2,872,510	(1,757)	-	(45,458,870)
Net Cash Provided by (Used in) Investing Activities	<u>3,071,347</u>	<u>(4,399,426)</u>	<u>(513,000)</u>	-	<u>(1,841,079)</u>
Change in Cash and Cash Equivalents	(1,136,828)	(1,083,526)	436,031	-	(1,784,323)
Cash and Cash Equivalents, Beginning of Year	<u>106,365,952</u>	<u>2,106,780</u>	<u>218,548</u>	-	<u>108,691,280</u>
Cash and Cash Equivalents, End of Year	<u>\$ 105,229,124</u>	<u>\$ 1,023,254</u>	<u>\$ 654,579</u>	<u>\$ -</u>	<u>\$ 106,906,957</u>

	Year Ended June 30, 2015				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	Combined Balance
Net Cash Provided by Operating Activities	\$ 37,463,244	\$ 481,743	\$ 401,700	\$ -	\$ 38,346,687
Net Cash Provided by Noncapital Financing Activities	72,217	-	-	-	72,217
Net Cash Provided by (Used in) Capital and Related Financing Activities	(41,310,074)	1,188,025	(123,145)	-	(40,245,194)
Net Cash Provided by (Used in) Investing Activities	<u>33,126,806</u>	<u>124</u>	<u>(626,999)</u>	-	<u>32,499,931</u>
Change in Cash and Cash Equivalents	29,352,193	1,669,892	(348,444)	-	30,673,641
Cash and Cash Equivalents, Beginning of Year	<u>77,013,759</u>	<u>436,888</u>	<u>566,992</u>	-	<u>78,017,639</u>
Cash and Cash Equivalents, End of Year	<u>\$ 106,365,952</u>	<u>\$ 2,106,780</u>	<u>\$ 218,548</u>	<u>\$ -</u>	<u>\$ 108,691,280</u>

Required Supplementary Information

Norman Regional Hospital Authority
Schedule of Changes in Net Pension Liability and Related Ratios
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Total pension liability		
Interest	\$ 2,759,356	\$ 2,653,341
Differences between expected and actual experience	324,236	617,508
Change of assumptions	1,280,401	61,885
Benefit payments	<u>(1,959,198)</u>	<u>(1,677,270)</u>
Net change in total pension liability	2,404,795	1,655,464
Total pension liability – beginning	<u>40,398,972</u>	<u>38,743,508</u>
Total pension liability – ending (a)	<u>42,803,767</u>	<u>40,398,972</u>
Plan fiduciary net position		
Contributions – employer	4,500,000	8,000,000
Net investment income	(1,081,343)	1,439,097
Benefit payments	<u>(1,959,198)</u>	<u>(1,677,270)</u>
Net change in plan fiduciary net position	1,459,459	7,761,827
Plan fiduciary net position – beginning	<u>34,243,373</u>	<u>26,481,546</u>
Plan fiduciary net position – ending (b)	<u>35,702,832</u>	<u>34,243,373</u>
Net pension liability – ending (a) - (b)	<u>\$ 7,100,935</u>	<u>\$ 6,155,599</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>83.41%</u>	<u>84.76%</u>
Covered payroll	<u>\$ 384,738</u>	<u>\$ 573,539</u>
Net pension liability as a percentage of covered payroll	<u>1845.65%</u>	<u>1073.27%</u>

Note to Schedule

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

Norman Regional Hospital Authority
Schedule of Authority Contributions
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 546,089	\$ 574,651
Contributions in relation to the actuarially determined contributions	<u>4,500,000</u>	<u>8,000,000</u>
Contribution excess	<u>\$ (3,953,911)</u>	<u>\$ (7,425,349)</u>
Covered payroll	<u>\$ 384,738</u>	<u>\$ 573,539</u>
Contributions as a percentage of covered payroll	<u>1169.63%</u>	<u>1394.85%</u>

Methods and assumptions used to determine contribution rates:

Actuarial cost method: Entry age method

Amortization method: Annual interest rate assumption

Remaining amortization period: 22 years

Asset valuation method: Fair market value

Inflation: 2.60%

Salary increases: 4% annually

Investment rate of return: 7.00% net of investment expenses

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

Mortality: RP-2014 Blue Collar Mortality Table

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

Note to Schedule

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

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

Board of Trustees
Norman Regional Hospital Authority
Norman, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Norman Regional Hospital Authority (the Authority), which comprise the balance sheet as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control over Financial Reporting

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

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

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

Board of Trustees
Norman Regional Hospital Authority

Compliance and Other Matters

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

We noted certain matters that we reported to the Authority's management in a separate letter dated September 26, 2016.

Purpose of This Report

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

BKD, LLP

Tulsa, Oklahoma
September 26, 2016

Norman Regional Hospital Authority
Schedule of Findings and Responses
Year Ended June 30, 2016

Reference Number	Finding
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No matters are reportable.