

# **Norman Regional Hospital Authority**

Auditor's Reports and Financial Statements

June 30, 2013 and 2012





**Norman Regional Hospital Authority**  
**June 30, 2013 and 2012**

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

Board of Trustees  
Norman Regional Hospital Authority  
Norman, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of Norman Regional Hospital Authority (the Authority) which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Norman Regional Hospital Authority as of June 30, 2013 and 2012, and its changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

As discussed in *Note 13* to the financial statements, in 2013 the reporting entity changed to exclude the Norman Regional Health Foundation, Inc., as part of the combined financial statements as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. Our opinion is not modified with respect to this matter.

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

Accounting principles generally accepted in the United States of America require the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by 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 19, 2013, 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* and should be considered in assessing the results of our audit.

**BKD, LLP**

Tulsa, Oklahoma  
September 19, 2013

# Norman Regional Hospital Authority

## Management's Discussion and Analysis

### Years Ended June 30, 2013 and 2012

#### **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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

As discussed in *Note 13*, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, during the year ended June 30, 2013. As a result of implementing GASB 61, the reporting entity changed to exclude the Norman Regional Health Foundation, Inc. (the Foundation) as part of the combined financial statements. The information in the accompanying financial statements and in this management's discussion and analysis have been adjusted to exclude the Foundation in all years presented.

#### **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 building sustained serious damage and could no longer support operations. Ultimately, it was determined to be a constructive total loss and the site has now been cleared. All patients and staff present during the tornado were safely moved to other locations, and there were no significant injuries to patients or staff from the event or the evacuation. 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. See *Note 14* for additional information.
- Unrestricted cash and cash equivalents increased in 2013 by \$16,217 or 31% and increased in 2012 by \$13,165 or 34%.
- Short-term investments increased in 2013 by \$5,692 or 10% and increased in 2012 by \$3,029 or 6%.
- Days cash on hand increased in 2013 by 18 days or 14% compared to 2012. Days cash on hand at June 30, 2013, was 154 days compared to 136 days at June 30, 2012.
- Patient accounts receivable increased in 2013 by \$1,635 or 4% and increased in 2012 by \$3,966 or 9%.
- Current assets less current liabilities increased by \$54,248 or 42% in 2013 and increased by \$13,445 or 12% in 2012.
- The Authority reported operating income in 2013 of \$16,579 and in 2012 of \$20,466. The operating income in 2013 was \$3,887 or 19% lower than the operating income reported for 2012. The operating income in 2012 was \$6,236 or 44% higher than the operating income reported for 2011.
- The Authority reported net nonoperating revenues (expenses) for 2013 of \$10,123 and for 2012 of \$(12,511). The net nonoperating revenues (expenses) in 2013 increased by \$22,634 or 181% better than the 2012 amount. The net nonoperating revenues (expenses) in 2012 declined by \$(9,418) or 305% worse than the 2011 amount.

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

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

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

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

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

### ***The Statement of Cash Flows***

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

### ***The Authority's Net Position***

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased by \$27,158 or 14% in 2013 from 2012 and increased by \$8,055 or 4% in 2012 over 2011 as shown in Table 1.

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

	<b>2013</b>	<b>2012 (Restated – Note 13)</b>	<b>2011 (Restated – Note 13)</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 68,092	\$ 51,875	\$ 38,710
Short-term investments	62,271	56,579	53,550
Patient accounts receivable, net	48,519	46,884	42,918
Other current assets	50,804	22,526	22,624
Capital assets, net	221,093	253,502	271,694
Other noncurrent assets	26,535	33,522	33,592
	<u>477,314</u>	<u>464,888</u>	<u>463,088</u>
Total assets	<u>\$ 477,314</u>	<u>\$ 464,888</u>	<u>\$ 463,088</u>
<b>Liabilities</b>			
Long-term debt (including current portion)	\$ 216,241	\$ 227,687	\$ 238,784
Other current and noncurrent liabilities	43,201	46,487	41,645
	<u>259,442</u>	<u>274,174</u>	<u>280,429</u>
Total liabilities	<u>259,442</u>	<u>274,174</u>	<u>280,429</u>
<b>Net Position</b>			
Net investment in capital assets	(11,996)	12,461	20,533
Restricted – expendable	18,779	21,752	21,580
Restricted – nonexpendable	4,201	4,240	4,183
Unrestricted	206,888	152,261	136,363
	<u>217,872</u>	<u>190,714</u>	<u>182,659</u>
Total net position	<u>217,872</u>	<u>190,714</u>	<u>182,659</u>
Total liabilities and net position	<u>\$ 477,314</u>	<u>\$ 464,888</u>	<u>\$ 463,088</u>

In 2013, cash and cash equivalents increased by \$16,217 or 31% due to insurance proceeds received as well as net Supplemental Hospital Offset Payment Program (SHOPP) benefits and Electronic Health Records Incentive Program receipts. Days net revenue in net accounts receivable was 54 days at both June 30, 2013 and 2012.

In 2012, cash and cash equivalents increased by \$13,165 or 34% due to an increase in net cash provided by operating activities. Days net revenue in net accounts receivable was 54 days at June 30, 2012, as compared to 56 days at June 30, 2011.

Patient accounts receivable, net of allowances increased by \$1,635 or 4% from 2012 to 2013. This increase was primarily the result of an increase in net patient service revenue. Patient accounts receivable, net of allowances increased by \$3,966 or 9% from 2011 to 2012. This increase was the result of an increase in net patient service revenue.

Short-term investments increased by \$5,692 or 10% from 2012 to 2013 and increased by \$3,029 or 6% from 2011 to 2012. The increase in short-term investments in 2013 was primarily due to increases in market value. The increase in short-term investments in 2012 was primarily due to a transfer of \$5,000 from cash and decreases in market value.



Capital assets, net of accumulated depreciation decreased by \$32,409 or 13% from 2012 to 2013 and decreased by \$18,192 or 7% from 2011 to 2012. The decrease in capital assets in 2013 was due primarily to the impairment of capital assets related to the Moore tornado (see *Note 14*) of \$24,300, depreciation expense of \$22,760 offset by capital asset purchases of \$15,147. The decrease in capital assets in 2012 was due primarily to depreciation expense of \$23,881 offset by capital asset purchases of \$8,809 along with sales of NRH Medical Park West, L.L.C. (Medical Park West) land of \$2,778.

Long-term debt decreased \$11,446 or 5% from 2012 to 2013 and decreased \$11,097 or 5% from 2011 to 2012. The decrease in both 2013 and 2012 was due to the repayment of debt.

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

In 2013, the Authority's net position increased by \$27,158 or 14% as shown in Table 2. This increase is made up of several different components and represents an increase of \$19,103 or 237% compared with the increase in net position for 2012 of \$8,055.

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

	<b>2013</b>	<b>2012 (Restated – Note 13)</b>	<b>2011 (Restated – Note 13)</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 326,884	\$ 316,736	\$ 281,197
Other operating revenue	10,017	8,225	6,799
Total operating revenues	<u>336,901</u>	<u>324,961</u>	<u>287,996</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	167,118	160,007	147,356
Professional fees	11,002	8,577	8,538
Purchased services	15,617	13,193	10,436
Supplies expense	61,695	60,339	55,997
Other expenses	41,688	38,103	26,982
Depreciation and amortization	23,202	24,276	24,457
Total operating expenses	<u>320,322</u>	<u>304,495</u>	<u>273,766</u>
<b>Operating Income</b>	<u>16,579</u>	<u>20,466</u>	<u>14,230</u>
<b>Nonoperating Revenues (Expenses)</b>			
Noncapital grants and gifts	250	270	235
Gain from insurance proceeds net of asset impairment	13,989	-	-
Investment income (loss)	7,098	(1,186)	8,902
Interest expense	(11,214)	(11,595)	(12,230)
Total nonoperating revenues (expenses)	<u>10,123</u>	<u>(12,511)</u>	<u>(3,093)</u>
<b>Income Before Capital Grants and Gifts and Distributions</b>	26,702	7,955	11,137
<b>Capital Grants and Gifts</b>	743	323	2,037
<b>Distributions</b>	<u>(287)</u>	<u>(223)</u>	<u>(137)</u>
<b>Change in Net Position</b>	<u>\$ 27,158</u>	<u>\$ 8,055</u>	<u>\$ 13,037</u>

## **Operating Income**

The first 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 2013 decreased by \$3,887 or 19% as compared to 2012. The primary components of this decrease in operating income in 2013 were:

- An increase in total operating revenue of \$11,940 or 4%
- An increase in total operating expenses of \$15,827 or 5%

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

Other operating revenue increased \$1,792 or 22% in 2013 primarily due to estimated insurance proceeds related to the Moore tornado not related to capital assets (see *Note 14*).

Salaries, wages and employee benefits increased \$7,111 or 4% from 2012 to 2013. This increase is due to additional employed physicians and other normal increases in labor expenses.

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

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

Operating income for 2012 increased by \$6,236 or 44% as compared to 2011. The primary components of the increase in operating income in 2012 were:

- An increase in total operating revenue of \$36,965 or 13%
- An increase in total operating expenses of \$30,729 or 11%

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

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

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

Other operating expenses increased by \$11,121 or 41% due in part to payments made into the state fund for the SHOPP program of approximately \$7,771.

## ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of noncapital gifts, insurance recoveries, investment income (loss) and interest expense. Net nonoperating revenues and expenses increased by \$22,634 or 181% in 2013 compared to 2012. This increase was the result of increased investment return of \$8,284 or 699%, along with \$13,989 of gain from insurance proceeds net of asset impairment related to the Moore tornado (see *Note 14*).

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

Net cash provided by operating activities in 2013 decreased by \$5,493 or 12% from 2012. Payments to suppliers, contractors and employees increased by \$20,395, while receipts from patients only increased by \$12,187 from 2012. The increase in receipts was due to the acquisition of physician practices.

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

### **Capital Assets**

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

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

### **Debt**

At June 30, 2013, the Authority had \$216,241 in bonds and master lease obligations outstanding net of unamortized loss on bond refinancings of \$3,579,305. In 2013, the Authority issued \$25,000 in new bonds to partially refund other outstanding bonds at a lower interest rate. The Authority reduced the outstanding principal of its long-term debt by \$9,896. Medical Park West and Oklahoma Sleep Associates, LLC (Oklahoma Sleep Associates) did not have any outstanding debt at June 30, 2013. Medical Park West and Oklahoma Sleep Associates are not a part of the Obligated Group with respect to the Authority's bonds and bond covenants.

The Authority's debt rating of BB+ by Fitch and Standard and Poor's were affirmed in October 2012 and March 2013, respectively. The Authority's Baa3 rating by Moody's was affirmed in July 2013.

At June 30, 2012, the Authority had \$227,687 in bonds, capital lease obligations and master lease obligations outstanding net of unamortized loss on bond refinancings of \$2,026,051. In 2012, the Authority reduced the outstanding principal of its long-term debt by \$7,467. Medical Park West made payments of \$3,791, paying off their only outstanding loan during the year ended June 30, 2012.

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

## ***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, 2013 and 2012**

**Assets**

	<b>2013</b>	<b>2012 (Restated – Note 13)</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 68,091,764	\$ 51,875,371
Short-term investments	62,271,074	56,578,866
Restricted cash and investments – current	6,077,999	7,126,038
Patient accounts receivable, net of allowance; 2013 – \$33,701,000, 2012 – \$33,143,000	48,519,159	46,884,232
Estimated amounts due from third-party payers	-	256,899
Supplies	9,945,090	10,491,622
Receivable for insurance claims	31,104,251	-
Prepaid expenses and other	3,676,623	4,651,017
Total current assets	229,685,960	177,864,045
<b>Noncurrent Cash and Investments</b>		
Held by trustee for debt service	21,970,080	25,304,191
Held by others for capital acquisitions	80,431	78,336
	22,050,511	25,382,527
Less amount required to meet current obligations	6,077,999	7,126,038
Noncurrent cash and investments, net	15,972,512	18,256,489
<b>Capital Assets, Net</b>	221,092,771	253,501,520
<b>Other Assets</b>		
Deferred financing costs, net	3,114,969	4,814,821
Other	7,447,289	10,451,124
Total other assets	10,562,258	15,265,945
Total assets	\$ 477,313,501	\$ 464,887,999

## Liabilities and Net Position

	<u>2013</u>	<u>2012 (Restated – Note 13)</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 6,706,809	\$ 7,315,501
Accounts payable	14,638,039	13,165,019
Accrued payroll and expenses	18,097,315	21,008,213
Accrued interest payable	3,190,940	3,552,309
Estimated amounts due to third-party payers	660,466	-
Estimated self-insurance costs – current	4,032,445	4,711,066
	<hr/>	<hr/>
Total current liabilities	47,326,014	49,752,108
<b>Long-Term Debt</b>	209,534,029	220,371,559
<b>Estimated Self-Insurance Costs</b>	2,115,000	1,868,000
<b>Pension Liability</b>	<hr/> 466,344	<hr/> 2,182,476
Total liabilities	<hr/> 259,441,387	<hr/> 274,174,143
<b>Net Position</b>		
Net investment in capital assets	(11,996,331)	12,461,153
Restricted – expendable for debt service	18,779,140	21,751,882
Restricted – nonexpendable	4,200,844	4,239,766
Unrestricted	206,888,461	152,261,055
	<hr/>	<hr/>
Total net position	217,872,114	190,713,856
Total liabilities and net position	<hr/> <u>\$ 477,313,501</u>	<hr/> <u>\$ 464,887,999</u>

**Norman Regional Hospital Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b> <b>(Restated – Note 13)</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2013 – \$58,722,411, 2012 – \$61,248,453	\$ 326,883,674	\$ 316,735,810
Other operating revenue	<u>10,016,863</u>	<u>8,224,653</u>
Total operating revenues	<u>336,900,537</u>	<u>324,960,463</u>
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	167,118,475	160,006,770
Professional fees	11,001,551	8,576,988
Purchased services	15,616,611	13,193,400
Supplies expense	61,695,252	60,338,892
Other expenses	41,688,218	38,102,851
Depreciation and amortization	<u>23,201,775</u>	<u>24,275,597</u>
Total operating expenses	<u>320,321,882</u>	<u>304,494,498</u>
<b>Operating Income</b>	<u>16,578,655</u>	<u>20,465,965</u>
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital grants and gifts	250,000	270,000
Gain from insurance proceeds net of asset impairment	13,988,855	-
Investment income (loss)	7,098,382	(1,186,274)
Interest expense	<u>(11,213,996)</u>	<u>(11,594,596)</u>
Total nonoperating revenues (expenses)	<u>10,123,241</u>	<u>(12,510,870)</u>
<b>Excess of Revenues over Expenses Before Capital Grants and Gifts and Distributions</b>	26,701,896	7,955,095
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	742,836	322,779
<b>Distributions to Minority Owners</b>	<u>(286,474)</u>	<u>(223,629)</u>
<b>Increase in Net Position</b>	27,158,258	8,054,245
<b>Net Position, Beginning of Year, as Restated (Note 13)</b>	<u>190,713,856</u>	<u>182,659,611</u>
<b>Net Position, End of Year</b>	<u><u>\$ 217,872,114</u></u>	<u><u>\$ 190,713,856</u></u>

**Norman Regional Hospital Authority**  
**Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	<b>2013</b>	<b>2012 (Restated – Note 13)</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 326,166,112	\$ 313,979,056
Payments to suppliers and contractors	(123,913,906)	(116,300,996)
Payments to employees	(172,323,126)	(159,541,117)
Other receipts and payments, net	<u>10,029,670</u>	<u>7,314,433</u>
Net cash provided by operating activities	<u>39,958,750</u>	<u>45,451,376</u>
<b>Noncapital Financing Activities</b>		
Noncapital gifts	<u>250,000</u>	<u>270,000</u>
Net cash provided by noncapital financing activities	<u>250,000</u>	<u>270,000</u>
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	742,836	322,779
Proceeds from disposal of capital assets	309,280	3,998,446
Principal paid on long-term debt	(34,895,968)	(11,258,588)
Interest paid on long-term debt	(11,324,039)	(11,446,876)
Purchase of capital assets	(13,368,785)	(9,048,729)
Proceeds from issuance of long-term debt	25,000,000	-
Payment of call premium and bond issuance costs	(371,600)	-
Insurance proceeds from tornado damage (Note 14)	<u>6,965,513</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(26,942,763)</u>	<u>(27,432,968)</u>
<b>Investing Activities</b>		
Change in restricted assets – held by trustee and others	3,332,016	(109,040)
Proceeds from sale of short-term investments	27,641,093	11,656,081
Purchase of short-term investments	(28,791,090)	(18,044,097)
Distributions to minority owners	(286,474)	(223,629)
Investment income received	<u>1,054,861</u>	<u>1,597,736</u>
Net cash provided by (used in) investing activities	<u>2,950,406</u>	<u>(5,122,949)</u>
<b>Increase in Cash and Cash Equivalents</b>	<b>16,216,393</b>	<b>13,165,459</b>
<b>Cash and Cash Equivalents, Beginning of Year, as Restated (Note 13)</b>	<u>51,875,371</u>	<u>38,709,912</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 68,091,764</u></u>	<u><u>\$ 51,875,371</u></u>

See Notes to Financial Statements

	<b>2013</b>	<b>2012 (Restated – Note 13)</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 16,578,655	\$ 20,465,965
Depreciation and amortization	23,201,775	24,275,597
(Gain) loss on disposal of capital assets	12,807	(910,220)
Provision for uncollectible accounts	58,722,411	61,248,453
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	(60,357,338)	(65,214,737)
Insurance receivable	395,749	-
Supplies and prepaid expenses	1,520,926	(1,000,305)
Estimated amounts due from third-party payers	917,365	1,209,530
Other assets	4,244,848	332,381
Accounts payable and accrued expenses	(5,278,448)	5,044,712
	<u>\$ 39,958,750</u>	<u>\$ 45,451,376</u>
Net cash provided by operating activities	<u>\$ 39,958,750</u>	<u>\$ 45,451,376</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset purchases and other assets in accounts payable	\$ 2,228,533	\$ 535,716



# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

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

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

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

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

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

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

#### **Blended Component Units**

NRH Medical Park West, L.L.C. (Medical Park West) is a limited liability company organized in 2005 to develop and sell land and to lease land to the Authority. The Authority owns a 78.2% ownership interest in Medical Park West and appoints a voting majority of its board of managers. Medical Park West does not issue separate financial statements.

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. Oklahoma Sleep Associates does not issue separate financial statements.

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

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

### **June 30, 2013 and 2012**

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

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

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

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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, 2013 and 2012, cash equivalents consisted primarily of money market accounts with brokers.

#### ***Risk Management***

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

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

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

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

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

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

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

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

### ***Supplies***

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

### ***Capital Assets***

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

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

### ***Deferred Financing Costs***

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

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

### **June 30, 2013 and 2012**

#### ***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, 2013, the Authority guaranteed \$6,507,000 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, 2013, the Authority guaranteed approximately \$313,000 of the outstanding balance of the loans.

#### ***Compensated Absences***

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

#### ***Net Position***

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

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

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

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

### **June 30, 2013 and 2012**

#### ***Charity Care***

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

#### ***Income Taxes***

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

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

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

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. The Authority completed its second-year requirements under the Medicare program during the year ended June 30, 2013. 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. Payment 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.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
Medicare Hospital Program Revenue	\$ 1,894,392	\$ 2,663,655
Medicare Physician Program Revenue	276,000	216,000
Medicaid Hospital Program Revenue	<u>683,473</u>	<u>-</u>
Total	<u>\$ 2,853,865</u>	<u>\$ 2,879,655</u>

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

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

The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position. The amounts noted in the table below for the years ended June 30, 2013 and 2012, represent the approximate annual amounts to be received and paid by the Authority over the term of the SHOPP program.

	<u>2013</u>	<u>2012</u>
SHOPP funds received	\$ 13,863,000	\$ 13,080,000
SHOPP assessment fees paid	<u>7,931,000</u>	<u>7,771,000</u>
Net SHOPP benefit	<u>\$ 5,932,000</u>	<u>\$ 5,309,000</u>

### ***Reclassifications***

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the changes in financial position.

# Norman Regional Hospital Authority

## Notes to Financial Statements

### June 30, 2013 and 2012

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

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

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

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

Approximately 45% and 43% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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

##### ***Deposits***

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

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

At June 30, 2013, approximately \$9,104,000 of the Authority's bank balances of approximately \$9,354,000 were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$	7,803,000
Uninsured and collateral held by pledging financial institution		1,301,000
	\$	9,104,000

At June 30, 2012, none of the Authority's bank balances of approximately \$2,991,000 were exposed to custodial credit risk.

The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$617,000 and \$309,000 and carrying values of approximately \$615,000 and \$296,000 at June 30, 2013 and 2012, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2013, the blended component units' cash accounts did not exceed federally insured limits.

**Investments**

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

At June 30, 2013 and 2012, the Authority had the following investments and maturities:

Type	Fair Value	June 30, 2013	
		Maturities in Years	
		Less than 1	1-5
Money market mutual funds	\$ 66,043,821	\$ 66,043,821	\$ -
Mutual funds	45,908,062	45,908,062	-
U.S. Treasury obligations	19,628,598	18,393,042	1,235,556
Equities	16,333,145	16,333,145	-
	\$ 147,913,626	\$ 146,678,070	\$ 1,235,556



**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

Type	Fair Value	June 30, 2012	
		Maturities in Years	
		Less than 1	1-5
Money market mutual funds	\$ 76,028,397	\$ 76,028,397	\$ -
Mutual funds	42,580,178	42,580,178	-
Equities	13,998,688	13,998,688	-
	<u>\$ 132,607,263</u>	<u>\$ 132,607,263</u>	<u>\$ -</u>

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

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority’s investment policy provides guidelines to maintain an aggregate credit rating of A or better but does not place limits on individual investments. At June 30, 2013 and 2012, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

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

  

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

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

**Concentration of Credit Risk** – The Authority places no limit on the amount that may be invested in any one issuer. At June 30, 2013 and 2012, no investments exceeded 5% of the total fair value of all investments.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

### Summary of Carrying Values

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

	<u>2013</u>	<u>2012</u>
Carrying value		
Deposits	\$ 4,488,331	\$ 1,218,109
Investments	147,913,626	132,607,263
Cash on hand	<u>11,392</u>	<u>11,392</u>
	<u>\$ 152,413,349</u>	<u>\$ 133,836,764</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 68,091,764	\$ 51,875,371
Short-term investments	62,271,074	56,578,866
Restricted cash and investments – current	6,077,999	7,126,038
Noncurrent cash and investments	<u>15,972,512</u>	<u>18,256,489</u>
	<u>\$ 152,413,349</u>	<u>\$ 133,836,764</u>

### Investment Income (Loss)

Investment income (loss) for the years ended June 30, 2013 and 2012, consisted of:

	<u>2013</u>	<u>2012</u>
Interest, dividends and realized gain (loss) on sales of investments, net	\$ 3,049,579	\$ (765,942)
Income from joint ventures	1,497,010	574,681
Net increase (decrease) in fair value of investments	<u>2,551,793</u>	<u>(995,013)</u>
	<u>\$ 7,098,382</u>	<u>\$ (1,186,274)</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**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, 2013 and 2012, consisted of:

	<b>2013</b>	<b>2012</b>
Medicare	\$ 14,486,531	\$ 13,210,340
Medicaid	2,292,144	2,299,326
Other third-party payers	38,199,736	39,265,402
Patients	<u>27,241,748</u>	<u>25,252,164</u>
	82,220,159	80,027,232
Less allowance for uncollectible accounts	<u>33,701,000</u>	<u>33,143,000</u>
	<u><u>\$ 48,519,159</u></u>	<u><u>\$ 46,884,232</u></u>

**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2013 and 2012, was:

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 16,851,447	\$ -	\$ -	\$ -	\$ 16,851,447
Land improvements	10,677,808	-	-	(2,600)	10,675,208
Buildings and leasehold improvements	275,827,571	289,267	(27,075,819)	3,751,978	252,792,997
Equipment	169,384,224	10,809,106	(14,135,124)	220,037	166,278,243
Construction in progress	<u>340,532</u>	<u>4,049,007</u>	<u>-</u>	<u>(3,969,415)</u>	<u>420,124</u>
	<u>473,081,582</u>	<u>15,147,380</u>	<u>(41,210,943)</u>	<u>-</u>	<u>447,018,019</u>
Less accumulated depreciation					
Land improvements	3,871,201	70,319	-	-	3,941,520
Buildings and leasehold improvements	92,481,422	9,464,524	(4,552,606)	-	97,393,340
Equipment	<u>123,227,439</u>	<u>13,225,761</u>	<u>(11,862,812)</u>	<u>-</u>	<u>124,590,388</u>
	<u>219,580,062</u>	<u>22,760,604</u>	<u>(16,415,418)</u>	<u>-</u>	<u>225,925,248</u>
	<u><u>\$ 253,501,520</u></u>	<u><u>\$ (7,613,224)</u></u>	<u><u>\$ (24,795,525)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 221,092,771</u></u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

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

### Note 6: Self-Insured Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's workers' compensation, short-term disability and employee health insurance plans. The Authority self-insures all risks related to employee short-term disability. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$500,000 and for workers' compensation claims up to \$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 that the Authority's estimates will change by a material amount in the near term.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

Activity in the Authority's accrued claims liabilities during 2013 and 2012 is summarized as follows:

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

  

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

**Note 7: Medical Malpractice Claims**

The Authority purchases medical malpractice insurance coverage under a claims-made policy on a fixed premium basis with a significant self-insured retention limit. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on actuarially determined amounts. At June 30, 2013 and 2012, the Authority recorded an accrual of \$2,887,000 and \$2,741,000, respectively, for pending malpractice claims, which is included in estimated self-insurance costs on the accompanying balance sheets. It is reasonably possible that the Authority's estimate of losses will change by a material amount in the near term.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

**Note 8: Long-Term Obligations**

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30, 2013 and 2012:

	<b>2013</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
<b>Long-Term Debt</b>					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 16,550,000	\$ -	\$ (1,050,000)	\$ 15,500,000	\$ 1,200,000
Series 2002 Hospital Revenue Bonds (B)	45,965,000	-	(28,625,000)	17,340,000	505,000
Series 2005 Hospital Revenue Bonds (C)	67,000,000	-	-	67,000,000	-
Series 2007 Hospital Revenue Refunding Bonds (D)	88,540,000	-	(2,005,000)	86,535,000	1,990,000
Series 2013 Hospital Revenue Refunding Bonds (E)	-	25,000,000	-	25,000,000	375,000
Capital lease obligations	132,295	-	(132,295)	-	-
Master lease obligation	11,323,652	-	(2,881,509)	8,442,143	3,019,340
Notes payable	202,164	-	(202,164)	-	-
<b>Total cost</b>	<b>229,713,111</b>	<b>25,000,000</b>	<b>(34,895,968)</b>	<b>219,817,143</b>	<b>7,089,340</b>
<b>Unamortized loss on bond refinancings</b>	<b>(2,026,051)</b>	<b>(1,755,307)</b>	<b>205,053</b>	<b>(3,576,305)</b>	<b>(382,531)</b>
<b>Total long-term debt</b>	<b>227,687,060</b>	<b>23,244,693</b>	<b>(34,690,915)</b>	<b>216,240,838</b>	<b>6,706,809</b>
<b>Other Long-Term Liabilities</b>					
Estimated self-insurance costs	6,579,066	8,086,425	(8,518,046)	6,147,445	4,032,445
Pension liability	2,182,476	1,283,868	(3,000,000)	466,344	-
<b>Total long-term obligations</b>	<b>\$ 236,448,602</b>	<b>\$ 32,614,986</b>	<b>\$ (46,208,961)</b>	<b>\$ 222,854,627</b>	<b>\$ 10,739,254</b>

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

**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, 2013 and 2012, were 0.180% and 0.400%, respectively; secured by pledge of Authority's gross revenues and trustee-held assets.

**Norman Regional Hospital Authority**  
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- (B) Due September 1, 2032; principal payable annually beginning September 1, 2003, plus semiannual interest payments at interest rates from 4.40% to 5.50%; secured by pledge of Authority's gross revenues and trustee-held assets. Approximately 61% of the outstanding bonds were advance refunded at a 1% premium during 2013 with the issuance of the 2013 bonds (see (E) below).
- (C) Due September 1, 2036; principal payable annually beginning September 1, 2022, plus semiannual interest payments at interest rates from 5.375% to 5.50%; secured by pledge of Authority's gross revenues and trustee-held assets.
- (D) Due September 1, 2037; principal payable annually beginning September 1, 2008, plus semiannual interest payments at interest rates from 4.5% to 5.25%; secured by pledge of Authority's gross revenues and trustee-held assets.
- (E) Due September 1, 2023; principal payable annually beginning September 1, 2013, plus semiannual interest payments at 3.77%; callable after September 1, 2014; secured by pledge of Authority's gross revenues.

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

In April 2013, the Authority issued the Series 2013 bonds in the amount of \$25,000,000 which, along with other available funds, were used to refund \$27,385,000 of the outstanding Series 2002 Bonds and pay the call premium associated with the refunding. Aggregate cash flows on the refunded 2002 Bonds from the refunding date through maturity of the 2013 Bonds total approximately \$37,750,000 while aggregate cash flows for the 2013 Bonds total approximately \$33,300,000 resulting in a positive net cash flow differential for the refunding transaction of approximately \$4,450,000. The economic gain (generally defined as the present value of the net cash flow discounted at the effective interest rate of the new debt) equals approximately \$3,700,000. The 2013 advance refunding transaction resulted in an accounting loss of approximately \$1,760,000.

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

The advance refundings mentioned above, including the 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 reduction of the outstanding long-term debt on the accompanying balance sheets and is being amortized using the straight-line method over the life of the respective new bond issues.



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The debt service requirements of the revenue bonds payable as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	\$ 13,956,650	\$ 4,070,000	\$ 9,886,650
2015	14,560,262	4,830,000	9,730,262
2016	14,594,014	5,040,000	9,554,014
2017	14,632,469	5,265,000	9,367,469
2018	14,672,002	5,500,000	9,172,002
2019–2023	73,854,052	31,185,000	42,669,052
2024–2028	80,287,922	47,030,000	33,257,922
2029–2033	65,005,406	41,730,000	23,275,406
2034–2038	<u>75,804,853</u>	<u>66,725,000</u>	<u>9,079,853</u>
	<u>\$ 367,367,630</u>	<u>\$ 211,375,000</u>	<u>\$ 155,992,630</u>

**Capital Lease Obligations**

The Authority was obligated under leases for equipment that were accounted for as capital leases. Assets under capital leases at June 30, 2012, had total costs of \$1,482,335 and accumulated depreciation of \$1,284,690. All capital leases were paid in full during 2013 with no outstanding balance at June 30, 2013.

**Master Lease Obligation**

The Authority borrowed \$20,000,000 under a master lease agreement to purchase equipment that is accounted for as a capital lease. Assets under the master lease obligation at June 30, 2013 and 2012, had total costs of approximately \$19,505,000 and \$19,994,000, respectively, and accumulated depreciation of approximately \$10,981,000 and \$8,062,000, respectively. The following is a schedule by year of future minimum lease payments under the master lease, including interest at a rate of 4.35%, together with the present value of the future minimum lease payments, as of June 30, 2013:

Year Ending June 30,	
2014	\$ 3,319,321
2015	3,319,321
2016	<u>2,315,804</u>
Total minimum lease payments	8,954,446
Less amount representing interest	<u>512,303</u>
Present value of future minimum lease payments	<u>\$ 8,442,143</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

### **Notes Payable**

The notes payable were due December 1, 2012, with principal and interest at the prime rate as of the note date (3.25%) payable monthly. These notes were unsecured. Amounts were paid in full on their due date during fiscal year 2013.

### **Line of Credit – Medical Park West**

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

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

At June 30, 2013 and 2012, restricted net position of \$18,779,140 and \$21,751,882, respectively, was available for debt service.

At June 30, 2013 and 2012, restricted nonexpendable net position of \$4,200,844 and \$4,239,766, respectively, was related to the other members' interest in Medical Park West and Oklahoma Sleep Associates.

### **Note 10: Charity Care and Uncompensated Care**

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

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

	<u>2013</u>	<u>2012</u>
Gross patient service revenue	\$ 1,331,259,677	\$ 1,266,048,159
Contractual adjustments	(907,277,912)	(851,867,535)
Provision for uncollectible accounts	(58,722,411)	(61,248,453)
Charity care allowances	<u>(38,375,680)</u>	<u>(36,196,361)</u>
Net patient service revenue	<u>\$ 326,883,674</u>	<u>\$ 316,735,810</u>

# Norman Regional Hospital Authority

## Notes to Financial Statements

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In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, community educational services and various support groups.

### Note 11: Pension Plans

#### *Defined Contribution Plans*

The Authority contributes to a defined contribution pension plan, the Norman Regional Hospital Match Plan, covering substantially all employees who have completed a one-year period of continuous employment and elect to contribute to the plan. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for the Authority expressed as a percentage of covered payroll were 1.3% and 1.6% for 2013 and 2012, respectively. Contributions actually made by the Authority were approximately \$1,398,000 and \$1,400,000 during the years ended June 30, 2013 and 2012, 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. Contribution rates for the Authority expressed as a percentage of covered payroll were 4.0% and 4.7% for 2013 and 2012, respectively. Contributions actually made by the Authority were approximately \$3,895,000 and \$3,893,000 during the years ended June 30, 2013 and 2012, respectively.

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

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

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

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

The Authority maintains a nonqualified deferred compensation plan for certain physicians effective July 1, 2007. Contributions to the plan are made by the Authority based on call hours worked. The plan vests after a five- or ten-year period. The contributions are held in a trust that carries life insurance policies for each physician. The life insurance policies are invested in mutual funds, and the cash surrender value of the policies at June 30, 2013 and 2012, are approximately \$2,221,000 and \$6,160,000, respectively, and are included in other assets in the accompanying balance sheets. The related liability as of June 30, 2013 and 2012, of approximately \$2,963,000 and \$6,926,000, respectively, for this plan is included in accrued payroll and expenses in the accompanying balance sheets. Deferred compensation expense related to the plan totaled approximately \$1,288,000 and \$1,237,000 in 2013 and 2012, respectively.

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

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

### ***Funding Policy***

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

**Norman Regional Hospital Authority**  
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**Annual Pension Cost and Net Pension Obligation**

The Authority's annual pension cost and net pension obligation to the plan for 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 1,303,574	\$ 1,391,501
Interest on net pension obligation	152,773	267,500
Adjustment to annual required contribution	<u>(172,479)</u>	<u>(297,948)</u>
Annual pension cost	1,283,868	1,361,053
Contributions made	<u>(3,000,000)</u>	<u>(3,000,000)</u>
Decrease in net pension obligation	(1,716,132)	(1,638,947)
Net pension obligation, beginning of year	<u>2,182,476</u>	<u>3,821,423</u>
Net pension obligation, end of year	<u>\$ 466,344</u>	<u>\$ 2,182,476</u>

The annual required contribution for 2013 and 2012 was determined as part of actuarial valuations on July 1, 2012 and 2011, using the projected unit credit actuarial cost method. The actuarial assumptions included 7% investment rate of return (net of administrative expenses), no inflation (as the plan is frozen) and projected salary increases of 4% per year. The actuarial value of the plan assets is based on market value. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at July 1, 2012, was 26 years.

**Trend Information**

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2013	\$ 1,283,868	234%	\$ 466,344
2012	\$ 1,361,053	220%	\$ 2,182,476
2011	\$ 1,325,227	0%	\$ 3,821,423

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

### Funding Status and Funding Progress

The following is funded status information as of July 1, 2012, the most recent actuarial valuation date:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
\$ 21,036,907	\$ 36,452,675	\$ 15,415,768	57.7%	\$ 732,763	2103.8%

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

### Note 12: Contingencies and Other Matters

#### *Litigation*

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

#### *Investments*

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

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

### Note 13: Change in Accounting Principle

In 2013, the Authority changed its reporting entity to exclude the Norman Regional Health Foundation, Inc. (the Foundation) as the Foundation did not meet the criteria for inclusion as a component unit under the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*, which became effective for reporting periods beginning after June 15, 2012. The impact of the change in accounting principle was to remove the Foundation as a blended component unit of the Authority and to reclassify previously reported minority interest to restricted net position. These changes increased net position of the Authority as of July 1, 2011, by \$1,218,500 and increased the previously reported change in net position for the year ended June 30, 2012, by \$328,382.

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

The Authority's hospital and medical office buildings in Moore, Oklahoma, took a direct hit from an EF-5 tornado on May 20, 2013. The building sustained serious damage and could no longer support operations. Ultimately, it was determined to be a constructive total loss and the site has now been cleared. All patients and staff present during the tornado were safely moved to other locations, and there were no significant injuries to patients or staff from the event or the evacuation. 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.

The operations in Moore have historically represented approximately 10% of the Authority's revenue. The Authority is currently in the process of placing temporary buildings on the cleared site in order to quickly provide emergency department services and certain other outpatient services until a permanent structure can be rebuilt. All physicians who lost office space in the tornado were relocated to alternate space within a few days of the tornado in order to quickly reconnect them with their patients.

For the year ended June 30, 2013, the Authority recorded an impairment of assets related to the Moore tornado of approximately \$24,500,000, and recorded estimated insurance proceeds of approximately \$38,500,000 related to those assets. The resulting \$14,000,000 gain on insurance proceeds net of asset impairment is reflected as a component of nonoperating income in the attached 2013 statement of revenues, expenses and changes in net position. The actual amount of interim insurance proceeds received from the insurer prior to June 30, 2013, was \$9,500,000. Subsequent to June 30, 2013, an additional \$31,500,000 was received for a total of \$41,000,000 received to date. The Authority continues to work collaboratively with the insurer to establish and recover the Authority's losses related to the tornado.

**Norman Regional Hospital Authority**  
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**Note 15: Transactions with Norman Regional Health Foundation, Inc.**

The Foundation is a nonprofit corporation organized to serve as the legal conduit for receiving and distributing gifts for the support of the Authority. During the years ended June 30, 2013 and 2012, the Foundation contributed \$250,000 and \$270,000, respectively, in cash contributions and \$490,000 and \$0, respectively, in capital contributions to the Authority.

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

GASB recently issued its Statement No. 65 (GASB No. 65), *Items Previously Reported as Assets and Liabilities*. GASB No. 65 requires recognition of certain items previously reported as assets and liabilities as deferred inflows or deferred outflows of resources. The Authority expects to first apply GASB No. 65 during the year ending June 30, 2014, using a retrospective recognition method. The primary impact of applying GASB No. 65 for the Authority will be to remove deferred financing costs from the balance sheets and to reclassify the unamortized losses of bond refinancings from a reduction of long-term debt to a deferred outflow of resources. The estimated impact on net position of the Authority is a reduction of approximately \$4,814,000 as of July 1, 2012.

Additionally, GASB also recently issued its Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. GASB No. 68 requires recognition of the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Authority expects to first apply GASB No. 68 during the year ending June 30, 2015, using a retrospective recognition method. The impact of applying GASB No. 68 has not been determined but is likely to reduce the Authority's net position by an amount estimated to be between \$10,000,000 and \$15,000,000.



**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
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**Note 17: Combining Component Unit Information**

The following tables include combining balance sheet information for the Authority and its component units as of June 30, 2013 and 2012.

	June 30, 2013				Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 67,476,252	\$ 509,448	\$ 106,064	\$ -	\$ 68,091,764
Short-term investments	62,271,074	-	-	-	62,271,074
Restricted cash and investments – current	6,077,999	-	-	-	6,077,999
Patient accounts receivable, net of allowance; \$33,701,000	48,519,159	-	-	-	48,519,159
Supplies	9,945,090	-	-	-	9,945,090
Receivable for insurance claims	31,104,251	-	-	-	31,104,251
Prepaid expenses and other	3,604,969	63,509	208,448	(200,303)	3,676,623
Total current assets	<u>228,998,794</u>	<u>572,957</u>	<u>314,512</u>	<u>(200,303)</u>	<u>229,685,960</u>
<b>Noncurrent Cash and Investments</b>					
Held by trustee for debt service	21,970,080	-	-	-	21,970,080
Held by others for capital acquisitions	80,431	-	-	-	80,431
	<u>22,050,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,050,511</u>
Less amount required to meet current obligations	6,077,999	-	-	-	6,077,999
Noncurrent cash and investments, net	<u>15,972,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,972,512</u>
<b>Capital Assets, Net</b>	<u>203,095,571</u>	<u>18,357,714</u>	<u>147,627</u>	<u>(508,141)</u>	<u>221,092,771</u>
<b>Other Assets</b>					
Deferred financing costs, net	3,114,969	-	-	-	3,114,969
Other	22,531,189	-	1,126	(15,085,026)	7,447,289
Total other assets	<u>25,646,158</u>	<u>-</u>	<u>1,126</u>	<u>(15,085,026)</u>	<u>10,562,258</u>
Total assets	<u>\$ 473,713,035</u>	<u>\$ 18,930,671</u>	<u>\$ 463,265</u>	<u>\$ (15,793,470)</u>	<u>\$ 477,313,501</u>

**Norman Regional Hospital Authority**  
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	June 30, 2013				Combined Balance
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations	
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 6,706,809	\$ -	\$ -	\$ -	\$ 6,706,809
Accounts payable	14,734,778	79,217	24,347	(200,303)	14,638,039
Accrued payroll and expenses	18,092,813	-	4,502	-	18,097,315
Accrued interest payable	3,190,940	-	-	-	3,190,940
Estimated amounts due to third-party payers	660,466	-	-	-	660,466
Estimated self-insurance costs – current	4,032,445	-	-	-	4,032,445
Total current liabilities	47,418,251	79,217	28,849	(200,303)	47,326,014
<b>Long-Term Debt</b>	209,534,029	-	-	-	209,534,029
<b>Estimated Self-Insurance Costs</b>	2,115,000	-	-	-	2,115,000
<b>Pension Liability</b>	466,344	-	-	-	466,344
Total liabilities	259,533,624	79,217	28,849	(200,303)	259,441,387
<b>Net Position</b>					
Net investment in capital assets	(11,996,331)	18,357,714	147,627	(18,505,341)	(11,996,331)
Restricted – expendable for debt service	18,779,140	-	-	-	18,779,140
Restricted – nonexpendable	-	-	-	4,200,844	4,200,844
Unrestricted	207,396,602	493,740	286,789	(1,288,670)	206,888,461
Total net position	214,179,411	18,851,454	434,416	(15,593,167)	217,872,114
Total liabilities and net position	\$ 473,713,035	\$ 18,930,671	\$ 463,265	\$ (15,793,470)	\$ 477,313,501

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

	June 30, 2012				Combined Balance (Restated – Note 13)
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations (Restated – Note 13)	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 51,072,794	\$ 556,726	\$ 245,851	\$ -	\$ 51,875,371
Short-term investments	56,578,866	-	-	-	56,578,866
Restricted cash and investments – current	7,126,038	-	-	-	7,126,038
Patient accounts receivable, net of allowance; \$33,143,000	46,884,232	-	-	-	46,884,232
Estimated amounts due from third-party payers	256,899	-	-	-	256,899
Supplies	10,491,622	-	-	-	10,491,622
Prepaid expenses and other	4,567,252	78,770	206,299	(201,304)	4,651,017
Total current assets	<u>176,977,703</u>	<u>635,496</u>	<u>452,150</u>	<u>(201,304)</u>	<u>177,864,045</u>
<b>Noncurrent Cash and Investments</b>					
Held by trustee for debt service	25,304,191	-	-	-	25,304,191
Held by others for capital acquisitions	78,336	-	-	-	78,336
	<u>25,382,527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,382,527</u>
Less amount required to meet current obligations	7,126,038	-	-	-	7,126,038
Noncurrent cash and investments, net	<u>18,256,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,256,489</u>
<b>Capital Assets, Net</b>	<u>235,520,830</u>	<u>18,357,714</u>	<u>131,117</u>	<u>(508,141)</u>	<u>253,501,520</u>
<b>Other Assets</b>					
Deferred financing costs, net	4,814,821	-	-	-	4,814,821
Other	25,680,433	-	-	(15,229,309)	10,451,124
Total other assets	<u>30,495,254</u>	<u>-</u>	<u>-</u>	<u>(15,229,309)</u>	<u>15,265,945</u>
Total assets	<u>\$ 461,250,276</u>	<u>\$ 18,993,210</u>	<u>\$ 583,267</u>	<u>\$ (15,938,754)</u>	<u>\$ 464,887,999</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

	June 30, 2012				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations (Restated – Note 13)	Combined Balance (Restated – Note 13)
<b>Liabilities and Net Position</b>					
<b>Current Liabilities</b>					
Current maturities of long-term debt	\$ 7,315,501	\$ -	\$ -	\$ -	\$ 7,315,501
Accounts payable	13,262,816	85,561	17,946	(201,304)	13,165,019
Accrued payroll and expenses	21,004,318	-	3,895	-	21,008,213
Accrued interest payable	3,552,309	-	-	-	3,552,309
Estimated self-insurance costs – current	4,711,066	-	-	-	4,711,066
Total current liabilities	49,846,010	85,561	21,841	(201,304)	49,752,108
<b>Long-Term Debt</b>	220,371,559	-	-	-	220,371,559
<b>Estimated Self-Insurance Costs</b>	1,868,000	-	-	-	1,868,000
<b>Pension Liability</b>	2,182,476	-	-	-	2,182,476
Total liabilities	274,268,045	85,561	21,841	(201,304)	274,174,143
<b>Net Position</b>					
Net investment in capital assets	12,461,153	18,357,714	131,117	(18,488,831)	12,461,153
Restricted – expendable for debt service	21,751,882	-	-	-	21,751,882
Restricted – nonexpendable	-	-	-	4,239,766	4,239,766
Unrestricted	152,769,196	549,935	430,309	(1,488,385)	152,261,055
Total net position	186,982,231	18,907,649	561,426	(15,737,450)	190,713,856
Total liabilities and net position	\$ 461,250,276	\$ 18,993,210	\$ 583,267	\$ (15,938,754)	\$ 464,887,999

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

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, 2013 and 2012.

	<b>Year Ended June 30, 2013</b>				<b>Combined Balance</b>
	<b>Norman Regional Health System</b>	<b>NRH Medical Park West, L.L.C.</b>	<b>Oklahoma Sleep Associates, LLC</b>	<b>Eliminations</b>	
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts – \$58,722,411	\$ 326,883,674	\$ -	\$ -	\$ -	\$ 326,883,674
Other operating revenue	9,873,571	686,456	1,993,819	(2,536,983)	10,016,863
Total operating revenues	<u>336,757,245</u>	<u>686,456</u>	<u>1,993,819</u>	<u>(2,536,983)</u>	<u>336,900,537</u>
<b>Operating Expenses</b>					
Salaries, wages and employee benefits	166,517,701	-	600,774	-	167,118,475
Professional fees	10,698,098	14,788	288,665	-	11,001,551
Purchased services	17,366,591	-	100,547	(1,850,527)	15,616,611
Supplies expense	61,682,154	-	13,098	-	61,695,252
Other expenses	41,925,588	227,883	221,203	(686,456)	41,688,218
Depreciation and amortization	23,150,349	-	51,426	-	23,201,775
Total operating expenses	<u>321,340,481</u>	<u>242,671</u>	<u>1,275,713</u>	<u>(2,536,983)</u>	<u>320,321,882</u>
<b>Operating Income</b>	<u>15,416,764</u>	<u>443,785</u>	<u>718,106</u>	<u>-</u>	<u>16,578,655</u>
<b>Nonoperating Revenues (Expenses)</b>					
Noncapital grants and gifts	250,000	-	-	-	250,000
Gain from insurance proceeds net of asset impairment	13,988,855	-	-	-	13,988,855
Investment income (loss)	8,012,721	20	-	(914,359)	7,098,382
Interest expense	(11,213,996)	-	-	-	(11,213,996)
Total nonoperating revenue (expenses)	<u>11,037,580</u>	<u>20</u>	<u>-</u>	<u>(914,359)</u>	<u>10,123,241</u>
<b>Excess of Revenues over Expenses Before Capital Grants and Gifts and Distributions</b>	26,454,344	443,805	718,106	(914,359)	26,701,896
<b>Capital Grants and Gifts</b>	742,836	-	-	-	742,836
<b>Distributions</b>	-	(500,000)	(845,116)	1,058,642	(286,474)
<b>Increase (Decrease) in Net Position</b>	27,197,180	(56,195)	(127,010)	144,283	27,158,258
<b>Net Position, Beginning of Year</b>	<u>186,982,231</u>	<u>18,907,649</u>	<u>561,426</u>	<u>(15,737,450)</u>	<u>190,713,856</u>
<b>Net Position, End of Year</b>	<u>\$ 214,179,411</u>	<u>\$ 18,851,454</u>	<u>\$ 434,416</u>	<u>\$ (15,593,167)</u>	<u>\$ 217,872,114</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

	Year Ended June 30, 2012				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations (Restated – Note 13)	Combined Balance (Restated – Note 13)
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts – \$61,248,453	\$ 316,735,810	\$ -	\$ -	\$ -	\$ 316,735,810
Other operating revenue	7,799,038	929,061	2,019,035	(2,522,481)	8,224,653
Total operating revenues	<u>324,534,848</u>	<u>929,061</u>	<u>2,019,035</u>	<u>(2,522,481)</u>	<u>324,960,463</u>
<b>Operating Expenses</b>					
Salaries, wages and employee benefits	159,441,977	-	564,793	-	160,006,770
Professional fees	8,220,108	58,925	297,955	-	8,576,988
Purchased services	14,971,970	-	99,878	(1,878,448)	13,193,400
Supplies expense	60,330,039	-	8,853	-	60,338,892
Other expenses	38,293,804	272,366	180,714	(644,033)	38,102,851
Depreciation and amortization	24,226,375	-	49,222	-	24,275,597
Total operating expenses	<u>305,484,273</u>	<u>331,291</u>	<u>1,201,415</u>	<u>(2,522,481)</u>	<u>304,494,498</u>
<b>Operating Income</b>	<u>19,050,575</u>	<u>597,770</u>	<u>817,620</u>	<u>-</u>	<u>20,465,965</u>
<b>Nonoperating Revenues (Expenses)</b>					
Noncapital grants and gifts	270,000	-	-	-	270,000
Investment income	(150,703)	45	-	(1,035,616)	(1,186,274)
Interest expense	(11,495,114)	(99,482)	-	-	(11,594,596)
Total nonoperating revenues (expenses)	<u>(11,375,817)</u>	<u>(99,437)</u>	<u>-</u>	<u>(1,035,616)</u>	<u>(12,510,870)</u>
<b>Excess of Revenues over Expenses Before Capital Grants and Gifts and Distributions</b>	7,674,758	498,333	817,620	(1,035,616)	7,955,095
<b>Capital Grants and Gifts</b>	322,779	-	-	-	322,779
<b>Distributions</b>	-	-	(1,064,895)	841,266	(223,629)
<b>Increase (Decrease) in Net Position</b>	7,997,537	498,333	(247,275)	(194,350)	8,054,245
<b>Net Position, Beginning of Year, as Restated</b>	178,984,694	18,409,316	808,701	(15,543,100)	182,659,611
<b>Net Position, End of Year</b>	<u>\$ 186,982,231</u>	<u>\$ 18,907,649</u>	<u>\$ 561,426</u>	<u>\$ (15,737,450)</u>	<u>\$ 190,713,856</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2013 and 2012**

The following tables include condensed combining statements of cash flow information for the Authority and its component units for the years ended June 30, 2013 and 2012.

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

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2013 and 2012

	Year Ended June 30, 2012				
	Norman Regional Health System	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Eliminations (Restated – Note 13)	Total (Restated – Note 13)
Net Cash Provided by Operating Activities	\$ 44,276,342	\$ 300,247	\$ 874,787	\$ -	\$ 45,451,376
Net Cash Provided by Noncapital Financing Activities	270,000	-	-	-	270,000
Net Cash Used in Capital and Related Financing Activities	(26,590,025)	(827,651)	(15,292)	-	(27,432,968)
Net Cash Provided by (Used in) Investing Activities	<u>(4,058,099)</u>	<u>45</u>	<u>(1,064,895)</u>	<u>-</u>	<u>(5,122,949)</u>
Change in Cash and Cash Equivalents	13,898,218	(527,359)	(205,400)	-	13,165,459
Cash and Cash Equivalents, Beginning of Year, as Restated	<u>37,174,576</u>	<u>1,084,085</u>	<u>451,251</u>	<u>-</u>	<u>38,709,912</u>
Cash and Cash Equivalents, End of Year	<u>\$ 51,072,794</u>	<u>\$ 556,726</u>	<u>\$ 245,851</u>	<u>\$ -</u>	<u>\$ 51,875,371</u>



**Norman Regional Hospital Authority**  
**Required Supplementary Information – Schedule of Funding Progress**  
**Year Ended June 30, 2013**

***Defined Benefit Pension Plan***

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
July 1, 2012	\$ 21,036,907	\$ 36,452,675	\$ 15,415,768	57.7%	\$ 732,763	2103.8%
July 1, 2011	\$ 23,140,419	\$ 39,670,376	\$ 16,529,957	58.3%	\$ 743,392	2223.6%
January 1, 2011	\$ 22,775,335	\$ 38,907,657	\$ 16,132,322	58.5%	\$ 725,774	2222.8%

The actuarial accrued liability is based on the projected unit credit method. The plan benefits were frozen on December 31, 2003. No new participants were admitted after December 31, 2003. Participants who were over age 60 or had 25 or more years of service as of December 31, 2003, continue to accrue benefits under the plan.

**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 sheets as of June 30, 2013, and the related statements of revenues, expenses and net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2013, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

***Internal Control over Financial Reporting***

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

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

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

Board of Trustees  
Norman Regional Hospital Authority

### ***Compliance***

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

The purpose of this communication 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 compliance. This communication 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 19, 2013

**Norman Regional Hospital Authority**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2013**

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

**Norman Regional Hospital Authority**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2013**

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