

# Norman Regional Hospital Authority

Accountants' Reports and Financial Statements

June 30, 2011 and 2010

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**BKD**<sup>LLP</sup>  
CPAs & Advisors

**Norman Regional Hospital Authority**  
**June 30, 2011 and 2010**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Norman Regional Hospital Authority  
Norman, Oklahoma

We have audited the accompanying balance sheets of Norman Regional Hospital Authority (the Authority) as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Norman Regional Health Foundation, Inc., which are included in the Authority's financial statements, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norman Regional Hospital Authority as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2011, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and pension information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and combining information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining information is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and changes in financial position of the individual entities. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*BKD, LLP*

September 19, 2011

# **Norman Regional Hospital Authority**

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

### **Years Ended June 30, 2011 and 2010**

#### ***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, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Authority. Unless otherwise indicated, amounts are in thousands.

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

- Unrestricted cash and cash equivalents increased in 2011 by \$2,156 or 6% and increased in 2010 by \$1,761 or 5%.
- Short-term investments increased in 2011 by \$24,408 or 77% and increased in 2010 by \$8,107 or 35%.
- Days cash on hand increased in 2011 by 34 days or 35% compared to 2010. Days cash on hand at June 30, 2011, was 132 days compared to 98 days at June 30, 2010.
- Patient accounts receivable decreased in 2011 by \$747 or 2% and decreased in 2010 by \$6,477 or 13%.
- Current assets net of current liabilities increased by \$23,264 or 25% in 2011 and increased by \$249 or 0% in 2010.
- The Authority reported operating income in 2011 of \$13,806 and in 2010 of \$9,406. The operating income in 2011 was \$4,400 or 47% higher than the operating income reported for 2010. The operating income in 2010 was \$2,117 or 29% higher than the operating income reported for 2009.
- The Authority reported net nonoperating revenues (expenses) for 2011 of \$(2,579) and for 2010 of \$(8,207). The net nonoperating revenues (expenses) in 2011 improved by \$5,628 or 69% better than the 2010 amount. The net nonoperating revenues (expenses) in 2010 improved by \$11,329 or 58% better than the 2009 amount.

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

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

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

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

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

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

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

### **The Authority's Net Assets**

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheet. The Authority's net assets increased by \$12,885 or 8% in 2011 from 2010 and increased by \$1,617 or 1% in 2010 over 2009, as shown in Table 1.

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

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 38,946	\$ 36,790	\$ 35,029
Short-term investments	56,026	31,618	23,511
Patient accounts receivable, net	42,918	43,665	50,142
Other current assets	22,998	25,282	41,845
Capital assets, net	271,694	288,159	291,881
Other noncurrent assets	33,597	34,064	32,779
	<u>466,179</u>	<u>459,578</u>	<u>475,187</u>
Total assets	<u>\$ 466,179</u>	<u>\$ 459,578</u>	<u>\$ 475,187</u>
<b>Liabilities</b>			
Long-term debt (including current portion)	\$ 238,784	\$ 246,733	\$ 252,514
Other current and noncurrent liabilities	41,771	40,349	52,339
	<u>280,555</u>	<u>287,082</u>	<u>304,853</u>
Total liabilities	<u>280,555</u>	<u>287,082</u>	<u>304,853</u>
<b>Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC</b>			
	<u>4,183</u>	<u>3,940</u>	<u>3,395</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	20,533	29,873	31,852
Restricted expendable	21,975	21,879	22,961
Unrestricted	138,933	116,804	112,126
	<u>181,441</u>	<u>168,556</u>	<u>166,939</u>
Total net assets	<u>181,441</u>	<u>168,556</u>	<u>166,939</u>
Total liabilities and net assets	<u>\$ 466,179</u>	<u>\$ 459,578</u>	<u>\$ 475,187</u>

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

In 2010, cash and cash equivalents, including restricted cash for capital acquisitions, decreased by \$16,034 or 30% as funds received in 2009 from the master lease agreement (listed as restricted cash for capital acquisitions in 2009), as discussed in *Note 8* of the financial statements, were used to fund equipment for the new HealthPlex Hospital. Unrestricted cash and cash equivalents increased in 2010 by \$1,761 or 5% due in part to continued improved collections from patient receivables. Days net revenue in net accounts receivable were 59 days at June 30, 2010, as compared to 71 days at June 30, 2009.

Patient accounts receivable, net of allowances decreased by \$747 or 2% from 2010 to 2011. This decrease was the result of collections exceeding net revenues. Patient accounts receivable, net of allowances decreased by \$6,477 or 13% from 2009 to 2010. This decrease was the result of continued improved collections.

Short-term investments increased by \$24,408 or 77% from 2010 to 2011 and increased by \$8,107 or 34% from 2009 to 2010. The increase in short-term investments in 2011 was primarily due to the increases in market value and a transfer of approximately \$5,000 from cash. The increase in short-term investments in 2010 was primarily the result of increases in market values due to improvement in the stock market.

Capital assets, net of accumulated depreciation, decreased by \$16,465 or 6% from 2010 to 2011 and decreased by \$3,722 or 1% from 2009 to 2010. The decrease in capital assets in 2011 was due primarily to depreciation expense of \$24,064 offset by capital asset purchases of \$8,312. The decrease in capital assets in 2010 was driven by the increase in depreciation expense as the HealthPlex Hospital was placed in service in early fiscal 2010 offsetting the costs incurred related to the completion of the HealthPlex Hospital.

Long-term debt decreased \$7,949 or 3% from 2011 to 2010 and decreased \$5,781 or 2% from 2009 to 2010. The decrease in both 2011 and 2010 was due to the repayment of debt.

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

In 2011, the Authority's net assets increased by \$12,885, as shown in Table 2. This increase is made up of several different components and represents an increase of \$11,268 or 697% compared with the increase in net assets for 2010 of \$1,617.

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

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 281,197	\$ 268,110	\$ 259,436
Other operating revenue	6,895	9,192	7,533
Total operating revenues	<u>288,092</u>	<u>277,302</u>	<u>266,969</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	147,356	146,647	145,587
Professional fees	8,550	7,969	8,790
Purchased services	10,436	10,677	10,540
Supplies expense	56,008	53,316	50,744
Other expenses	27,479	26,268	25,314
Depreciation and amortization	24,457	23,019	18,705
Total operating expenses	<u>274,286</u>	<u>267,896</u>	<u>259,680</u>
<b>Operating Income</b>	<u>13,806</u>	<u>9,406</u>	<u>7,289</u>
<b>Nonoperating Revenues (Expenses)</b>			
Noncapital grants and gifts	247	937	798
Investment income (loss)	9,404	1,493	(13,337)
Interest expense	(12,230)	(10,637)	(6,997)
Total nonoperating revenues (expenses)	<u>(2,579)</u>	<u>(8,207)</u>	<u>(19,536)</u>
<b>Income (Loss) Before Minority Interest and Capital Grants and Gifts</b>	11,227	1,199	(12,247)
<b>Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC Income</b>	(379)	(559)	(28)
<b>Capital Grants and Gifts</b>	<u>2,037</u>	<u>977</u>	<u>-</u>
<b>Change in Net Assets</b>	<u>\$ 12,885</u>	<u>\$ 1,617</u>	<u>\$ (12,275)</u>

**Operating Income**

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

Operating income for 2011 increased by \$4,400 or 47% as compared to 2010. The primary components of the increase in operating income in 2011 were:

- An increase in total operating revenue of \$10,790 or 4%
- An increase in total operating expenses of \$6,390 or 2%

Net patient service revenue was greater in 2011 than in 2010 because of increased hospital outpatient business and the addition of several local cardiologists to the Authority's cardiovascular clinic. Adjusted discharges were 32,815 in 2011 and 31,931 in 2010, representing a 3% increase.

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

Supplies expense was \$56,008 in 2011 and \$53,316 in 2010, an increase of \$2,692 or 5%. This increase was consistent with volume and normal inflation.

Operating income for 2010 increased by \$2,117 or 29% as compared to 2009. The primary components of the increase in operating income in 2010 were:

- An increase in net patient service revenue of \$8,674 or 3%
- An increase in total operating expenses of \$8,216 or 3%

Net patient service revenue was greater in 2010 than in 2009 because of slight increases in reimbursement, modest increases in volumes and because the 2009 net patient service revenue included an adjustment reducing net revenue due to changes in the estimation of contractual allowances. Adjusted discharges were 31,931 in 2010 and 31,634 in 2009, representing an increase of 1%.

Supplies expense were \$2,572 or 5% greater in 2010 than 2009 due to increased costs of providing health care services.

Depreciation and amortization were \$4,314 or 23% greater in 2010 than 2009 due to depreciation related to the new HealthPlex Hospital which opened in fiscal year 2010.

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

Nonoperating revenues and expenses consist primarily of noncapital gifts, investment income (loss) and interest expense. Net nonoperating revenues and expenses improved by \$5,628 or 69% in 2011 compared to 2010. This improvement was the result of improved investment return of \$7,911 or 530%, which was partially offset by increased interest expense of \$1,593 or 15%. Investment return improvement is consistent with the improvement in the overall financial markets. Interest expense increased in 2011 compared to 2010 due to the capitalization of a portion of the interest incurred in 2010 during the construction period of the HealthPlex Hospital.

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

Net cash provided by operating activities in 2011 increased by \$2,501 or 6% from 2010. Although payments to suppliers, contractors and employees increased by \$5,416, receipts from patients increased by \$10,769 from 2010. The increase in receipts reflects the improvement in collections of patient accounts and the corresponding decrease in net accounts receivable.

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

#### **Capital Assets**

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

At June 30, 2010, the Authority had \$288,159 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2010, the Authority completed the construction of the HealthPlex Hospital, purchased new equipment and made improvements to land, building and leaseholds totaling \$31,060.

## **Debt**

At June 30, 2011, the Authority had \$238,784 in bonds, capital lease obligations and master lease obligations outstanding. In 2011, Norman Regional Health System reduced the principal of its long-term debt by \$7,343. NRH Medical Park West, L.L.C., made payments of \$766 during the year ended June 30, 2011. Norman Regional Health Foundation, Inc. (the Foundation) did not have any long-term debt at June 30, 2011. NRH Medical Park West, L.L.C., Oklahoma Sleep Associates, LLC nor the Foundation are a part of the Obligated Group with respect to the Authority's bonds and bond covenants.

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

At June 30, 2010, the Authority had \$246,733 in bonds, capital lease obligations and master lease obligations outstanding. In 2010, the Norman Regional Health System increased long-term debt by funding the buyout of a cath lab with five notes payable totaling \$1,379. In 2010, Norman Regional Health System reduced the principal of its long-term debt by \$7,550, including an early payoff of the Series 2008 Revenue Note of \$257. Also, in 2010, NRH Medical Park West, L.L.C., drew \$3,881 on its line of credit and made payments to reduce the principal on the line of credit during 2010 in the amount of \$3,653. These activities caused a net increase of \$228 in outstanding debt for NRH Medical Park West, L.L.C., during the year ended June 30, 2010. The Foundation did not have any long-term debt at June 30, 2010.

The Authority's debt rating was lowered to Ba1 from Baa3 by Moody's in February 2010. The Authority's debt rating was lowered to BB+ by Standard and Poor's in November 2009.

### ***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, 2011 and 2010

### Assets

	<u>2011</u>	<u>2010</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 38,945,647	\$ 36,789,973
Short-term investments	56,025,840	31,617,762
Restricted cash and investments – current	7,016,844	6,916,286
Patient accounts receivable, net of allowance; 2011 – \$30,661,000, 2010 – \$28,897,000	42,917,948	43,665,074
Estimated amounts due from third-party payers	1,546,036	4,419,771
Supplies	10,015,095	9,806,369
Prepaid expenses and other	4,421,220	4,139,059
Total current assets	<u>160,888,630</u>	<u>137,354,294</u>
<b>Noncurrent Cash and Investments</b>		
Held by trustee for debt service	25,195,151	25,094,439
Held by others for capital acquisitions	78,336	78,336
	<u>25,273,487</u>	<u>25,172,775</u>
Less amount required to meet current obligations	7,016,844	6,916,286
Noncurrent cash and investments, net	<u>18,256,643</u>	<u>18,256,489</u>
<b>Capital Assets, Net</b>	<u>271,693,764</u>	<u>288,159,174</u>
<b>Other Assets</b>		
Deferred financing costs, net	5,052,295	5,289,768
Other	10,287,951	10,518,538
Total other assets	<u>15,340,246</u>	<u>15,808,306</u>
Total assets	<u>\$ 466,179,283</u>	<u>\$ 459,578,263</u>

See Notes to Financial Statements

## Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 7,459,766	\$ 7,135,351
Accounts payable	10,799,116	12,782,942
Accrued payroll and expenses	18,325,992	15,998,211
Accrued interest payable	3,615,601	3,656,719
Estimated self-insurance cost – current	<u>3,061,499</u>	<u>3,418,156</u>
Total current liabilities	43,261,974	42,991,379
<b>Long-term Debt</b>	231,324,717	239,597,469
<b>Estimated Self-insurance Costs</b>	2,147,000	1,997,000
<b>Pension Liability</b>	<u>3,821,423</u>	<u>2,496,196</u>
Total liabilities	<u>280,555,114</u>	<u>287,082,044</u>
<b>Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC</b>	<u>4,183,058</u>	<u>3,940,159</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	20,533,419	29,873,199
Restricted – expendable for		
Debt service	21,579,550	21,437,720
Specific operating activities	375,204	420,981
Restricted – nonexpendable for permanent endowments	19,765	19,665
Unrestricted	<u>138,933,173</u>	<u>116,804,495</u>
Total net assets	<u>181,441,111</u>	<u>168,556,060</u>
Total liabilities and net assets	<u>\$ 466,179,283</u>	<u>\$ 459,578,263</u>

**Norman Regional Hospital Authority**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – \$64,315,001, 2010 – \$58,698,894	\$ 281,197,190	\$ 268,110,037
Other operating revenue	6,895,485	9,192,097
Total operating revenues	288,092,675	277,302,134
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	147,355,534	146,646,974
Professional fees	8,550,813	7,968,851
Purchased services	10,436,192	10,676,430
Supplies expense	56,007,661	53,316,166
Other expenses	27,478,887	26,268,084
Depreciation and amortization	24,457,187	23,019,064
Total operating expenses	274,286,274	267,895,569
<b>Operating Income</b>	13,806,401	9,406,565
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital grants and gifts	246,913	936,593
Investment income	9,403,763	1,493,281
Interest expense	(12,229,925)	(10,636,853)
Total nonoperating revenues (expenses)	(2,579,249)	(8,206,979)
<b>Income Before Minority Interest</b>	11,227,152	1,199,586
<b>Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC Income</b>	(379,399)	(558,998)
<b>Excess of Revenues over Expenses Before Capital Gifts</b>	10,847,753	640,588
<b>Gifts to Purchase Capital Assets and Other Capital Gifts</b>	2,037,298	976,706
<b>Change in Net Assets</b>	12,885,051	1,617,294
<b>Net Assets, Beginning of Year</b>	168,556,060	166,938,766
<b>Net Assets, End of Year</b>	\$ 181,441,111	\$ 168,556,060

**Norman Regional Hospital Authority**  
**Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 284,818,051	\$ 274,048,726
Payments to suppliers and contractors	(103,052,045)	(97,635,344)
Payments to employees	(146,030,307)	(145,463,655)
Other receipts and payments, net	<u>5,935,042</u>	<u>8,220,065</u>
Net cash provided by operating activities	<u>41,670,741</u>	<u>39,169,792</u>
<b>Noncapital Financing Activities</b>		
Noncapital gifts	<u>246,913</u>	<u>936,593</u>
Net cash provided by noncapital financing activities	<u>246,913</u>	<u>936,593</u>
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	2,037,298	976,706
Proceeds from disposal of capital assets	1,659,087	12,848,834
Principal paid on long-term debt	(8,109,503)	(11,202,838)
Interest paid on long-term debt	(12,060,031)	(12,432,208)
Purchase of capital assets	(8,080,844)	(45,459,937)
Proceeds from issuance of long-term debt	<u>-</u>	<u>3,880,958</u>
Net cash used in capital and related financing activities	<u>(24,553,993)</u>	<u>(51,388,485)</u>
<b>Investing Activities</b>		
Change in restricted assets – whose use is limited under bond agreements, net	(100,712)	(118,966)
Proceeds from sale of short-term investments	47,842,957	17,439,806
Purchase of short-term investments	(64,148,659)	(23,015,441)
Distributions to minority owners	(136,500)	(25,377)
Investment income received	<u>1,334,927</u>	<u>967,575</u>
Net cash used in investing activities	<u>(15,207,987)</u>	<u>(4,752,403)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	2,155,674	(16,034,503)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>36,789,973</u>	<u>52,824,476</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 38,945,647</u>	<u>\$ 36,789,973</u>

See Notes to Financial Statements

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 13,806,401	\$ 9,406,565
Depreciation and amortization	24,457,187	23,019,064
Gain on disposal of capital assets	(960,443)	(805,548)
Changes in operating assets and liabilities		
Patient and other accounts receivable, net	747,126	6,546,982
Supplies and prepaid expenses	(490,887)	(338,691)
Estimated amounts due from third-party payers	2,873,735	(774,776)
Other assets	6,606	(2,376,963)
Accounts payable and accrued expenses	<u>1,231,016</u>	<u>4,493,159</u>
Net cash provided by operating activities	<u>\$ 41,670,741</u>	<u>\$ 39,169,792</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset purchases in accounts payable	\$ 426,734	\$ 195,225
Debt issued for purchase of other assets	\$ -	\$ 1,379,167

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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

***Nature of Operations and Reporting Entity***

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

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

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

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

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

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

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

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

# **Norman Regional Hospital Authority**

## **Notes to Financial Statements**

### **June 30, 2011 and 2010**

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

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

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

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

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

#### ***Cash Equivalents***

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of money market accounts with brokers.

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

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

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

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2011 and 2010

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

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

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

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

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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

	<b>2011</b>	<b>2010</b>
Interest capitalized, net	\$ -	\$ 1,992,126
Interest charged to expense	12,229,925	10,636,853
Total interest incurred	\$ 12,229,925	\$ 12,628,979

***Deferred Financing Costs***

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

***Guarantees***

The Authority is a joint guarantor on a loan for an entity that is a joint venture between the Authority and seven other members. At June 30, 2011, the Authority guaranteed approximately \$675,000 of the outstanding balance of the loan.

The Authority is also a joint guarantor on loans of an entity that is a joint venture between the Authority and two other hospitals. At June 30, 2011, the Authority guaranteed \$7,284,000 of the outstanding balance of the loans.

***Compensated Absences***

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

***Net Assets***

Net assets of the Authority are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Authority, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Authority, such as permanent endowments. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the above definitions.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

***Net Patient Service Revenue***

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

***Charity Care***

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

***Income Taxes***

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

The Foundation has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

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

***Reclassifications***

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the changes in financial position.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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 per discharge. 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. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. 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, 2009.

**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 38% and 41% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

At June 30, 2011 and 2010, none of the Authority's bank balances of approximately \$2,771,000 and \$2,705,000, respectively, were uninsured and uncollateralized.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

The above amounts exclude deposits held by the Authority's blended component units with bank balances of approximately \$756,000 and \$855,000 and carrying values of approximately \$731,000 and \$492,000 at June 30, 2011 and 2010, respectively. As nongovernmental entities, the blended component units are not subject to collateralization requirements. At June 30, 2011, the blended component units' cash accounts do not exceed federally insured limits.

**Investments**

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

At June 30, 2011 and 2010, the Authority had the following investments and maturities:

Type	Fair Value	June 30, 2011	
		Maturities in Years	
		Less than 1	1-5
Money market mutual funds	\$ 68,471,962	\$ 68,471,962	\$ -
Equities	50,901,661	50,901,661	-
	<u>\$ 119,373,623</u>	<u>\$ 119,373,623</u>	<u>\$ -</u>
Type	Fair Value	June 30, 2010	
		Maturities in Years	
		Less than 1	1-5
Money market mutual funds	\$ 59,598,129	\$ 59,598,129	\$ -
Equities	31,617,762	31,617,762	-
	<u>\$ 91,215,891</u>	<u>\$ 91,215,891</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 are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2011 and 2010

**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, 2011 and 2010, the Authority’s investments not directly guaranteed by the U.S. government were rated as follows:

Investments	2011	
	Moody’s	S & P
Money market mutual funds	Aaa	AAA

Investments	2010	
	Moody’s	S & P
Money market mutual funds	Aaa	AAA

**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, 2011 and 2010, the following investments exceeded 5% of the total fair value of all investments:

Investments	2011		2010	
	Fair Value	Percentage of Total	Fair Value	Percentage of Total
Caval Hill U.S. Treasury Fund Federated Money Market Obligations Trust – Government Obligations Tax-Managed Fund	\$ 25,195,150	21.1%	\$ 25,094,438	27.5%
Bernstein International Portfolio	\$ 4,770,290	4.0%	\$ 6,182,896	6.8%
Alliance Bernstein Bond Fund Income Advisor	\$ 11,955,801	10.0%	\$ -	0.0%
Bernstein Overlay A Portfolio Class 2	\$ 9,841,225	8.2%	\$ -	0.0%

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2011 and 2010

### Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 860,059	\$ 2,353,527
Investments	119,373,623	91,215,891
Cash on hand	<u>11,292</u>	<u>11,092</u>
	<u>\$ 120,244,974</u>	<u>\$ 93,580,510</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 38,945,647	\$ 36,789,973
Short-term investments	56,025,840	31,617,762
Restricted cash and investments – current	7,016,844	6,916,286
Noncurrent cash and investments	<u>18,256,643</u>	<u>18,256,489</u>
	<u>\$ 120,244,974</u>	<u>\$ 93,580,510</u>

### Investment Income

Investment income for the years ended June 30, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Interest, dividends and realized gain on sales of investments, net	\$ 1,860,531	\$ 382,570
Loss from joint ventures	(33,540)	(1,993,042)
Net increase in fair value of investments	<u>7,576,772</u>	<u>3,103,753</u>
	<u>\$ 9,403,763</u>	<u>\$ 1,493,281</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**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, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 11,310,802	\$ 11,005,062
Medicaid	1,728,126	1,585,596
Other third-party payers	33,539,840	33,502,526
Patients	<u>27,000,180</u>	<u>26,468,890</u>
	73,578,948	72,562,074
Less allowance for uncollectible accounts	<u>30,661,000</u>	<u>28,897,000</u>
	<u>\$ 42,917,948</u>	<u>\$ 43,665,074</u>

**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2011 and 2010, was:

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

# Norman Regional Hospital Authority

## Notes to Financial Statements

June 30, 2011 and 2010

	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 19,453,192	\$ -	\$ (1,704,744)	\$ -	\$ 17,748,448
Land improvements	8,444,151	4,200,057	(905,453)	35,139	11,773,894
Buildings and leasehold improvements	164,588,930	273,043	(10,874,745)	118,305,599	272,292,827
Equipment	140,972,096	3,836,578	(2,724,911)	24,502,855	166,586,618
Construction in progress	120,109,693	22,750,800	-	(142,843,593)	16,900
	453,568,062	31,060,478	(16,209,853)	-	468,418,687
Less accumulated depreciation					
Land improvements	3,590,463	114,161	-	-	3,704,624
Buildings and leasehold improvements	66,631,097	8,641,731	(1,551,522)	-	73,721,306
Equipment	91,465,591	13,961,280	(2,593,288)	-	102,833,583
	161,687,151	22,717,172	(4,144,810)	-	180,259,513
	\$ 291,880,911	\$ 8,343,306	\$ (12,065,043)	\$ -	\$ 288,159,174

### Note 6: Self-Insured Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's workers' compensation, short-term disability and employee health insurance plans. The Authority self-insures all risks related to employee short-term disability. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$500,000 and for workers' compensation claims up to \$500,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amounts. A provision is accrued for self-insured employee health and workers' compensation claims, including both claims reported and claims incurred but not yet reported. 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, 2011 and 2010**

Activity in the Authority's accrued claims liabilities during 2011 and 2010 is summarized as follows:

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

	<b>June 30, 2010</b>		
	<b>Workers' Compensation</b>	<b>Short-Term Disability</b>	<b>Employee Health</b>
Balance, beginning of year	\$ 1,261,949	\$ -	\$ 942,522
Current year claims incurred and changes in estimates for claims incurred in prior years	1,666,224	287,069	6,724,878
Claims and expenses paid	<u>(1,400,332)</u>	<u>(287,069)</u>	<u>(6,530,085)</u>
Balance, end of year	<u>\$ 1,527,841</u>	<u>\$ -</u>	<u>\$ 1,137,315</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, 2011 and 2010, the Authority has recorded an accrual of \$3,049,000 and \$2,750,000, 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, 2011 and 2010**

**Note 8: Long-Term Obligations**

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30, 2011 and 2010:

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

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Long-term Debt</b>					
Series 1996B Hospital Revenue Bonds Select Auction Variable Rate Securities (A)	\$ 19,500,000	\$ -	\$ (950,000)	\$ 18,550,000	\$ 900,000
Series 2002 Hospital Revenue Bonds (B)	49,360,000	-	(1,080,000)	48,280,000	1,130,000
Series 2005 Hospital Revenue Bonds (C)	67,000,000	-	-	67,000,000	-
Series 2007 Hospital Revenue Refunding Bonds (D)	93,980,000	-	(1,725,000)	92,255,000	1,895,000
Revenue Note, Series 2008	696,168	-	(696,168)	-	-
Capital lease obligations	1,073,270	-	(302,040)	771,230	312,540
Master lease obligation	19,085,583	-	(2,539,329)	16,546,254	2,650,648
Notes payable	-	1,379,167	(257,760)	1,121,407	452,163
<b>Total cost</b>	<b>250,695,021</b>	<b>1,379,167</b>	<b>(7,550,297)</b>	<b>244,523,891</b>	<b>7,340,351</b>
Unamortized loss on refinancing 1991 and 1996A Bonds	(2,509,547)	-	161,165	(2,348,382)	(205,000)
<b>Total long-term debt of Obligated Group</b>	<b>248,185,474</b>	<b>1,379,167</b>	<b>(7,389,132)</b>	<b>242,175,509</b>	<b>7,135,351</b>
Line of credit – Medical Park West	4,328,892	3,880,958	(3,652,539)	4,557,311	-
<b>Total long-term debt</b>	<b>252,514,366</b>	<b>5,260,125</b>	<b>(11,041,671)</b>	<b>246,732,820</b>	<b>7,135,351</b>
<b>Other Long-term Liabilities</b>					
Estimated self-insurance costs	4,328,372	9,700,839	(8,614,055)	5,415,156	3,418,156
Pension liability	1,312,877	1,183,319	-	2,496,196	-
<b>Total long-term obligations</b>	<b>\$ 258,155,615</b>	<b>\$ 16,144,283</b>	<b>\$ (19,655,726)</b>	<b>\$ 254,644,172</b>	<b>\$ 10,553,507</b>

**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, 2011 and 2010, were 1.340% and 0.595%, respectively; secured by pledge of Authority's gross revenues and trustee-held assets.
- (B) Due September 1, 2032; principal payable annually beginning September 1, 2003, plus semiannual interest payments at interest rates from 4.40% to 5.50%; secured by pledge of Authority's gross revenues and trustee-held assets.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

- (C) Due September 1, 2036; principal payable annually beginning September 1, 2022, plus semiannual interest payments at interest rates from 5.375% to 5.50%; secured by pledge of Authority's gross revenues and trustee-held assets.
- (D) Due September 1, 2037; principal payable annually beginning September 1, 2008, plus semiannual interest payments at interest rates from 4.5% to 5.25%; secured by pledge of Authority's gross revenues and trustee-held assets.

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

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

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

The debt service requirements as of June 30, 2011, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2012	\$ 15,043,773	\$ 4,105,000	\$ 10,938,773
2013	15,065,301	4,295,000	10,770,301
2014	15,081,956	4,490,000	10,591,956
2015	15,101,251	4,695,000	10,406,251
2016	15,123,437	4,915,000	10,208,437
2017-2021	75,978,406	28,330,000	47,648,406
2022-2026	76,531,768	35,945,000	40,586,768
2027-2031	76,326,521	46,440,000	29,886,521
2032-2036	75,961,506	60,175,000	15,786,506
2037-2038	30,275,083	28,770,000	1,505,083
	<u>\$ 410,489,002</u>	<u>\$ 222,160,000</u>	<u>\$ 188,329,002</u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Revenue Note, Series 2008**

The revenue note is due February 15, 2011, with principal and interest at 4.25% payable monthly. The note is secured by a pledge of the Authority's gross revenues. The revenue note was paid in full during 2010.

**Capital Lease Obligations**

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2011 and 2010, had total costs of \$1,482,335 and accumulated depreciation of \$988,223 and \$691,756, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 3.73%, together with the present value of the future minimum lease payments, as of June 30, 2011:

Year Ending June 30,	
2012	\$ 337,319
2013	135,046
Total minimum lease payments	472,365
Less amount representing interest	14,648
Present value of future minimum lease payments	\$ 457,717

**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, 2011 and 2010, had total costs of approximately \$20,000,000 and accumulated depreciation of approximately \$5,213,000 and \$2,147,000, 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, 2011:

2012	\$ 3,319,321
2013	3,319,321
2014	3,319,321
2015	3,319,321
2016	2,102,641
Total minimum lease payments	15,379,925
Less amount representing interest	1,486,352
Present value of future minimum lease payments	\$ 13,893,573

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

**Notes Payable**

The notes payable are due December 1, 2012, with principal and interest at the prime rate as of the note date (3.25%) payable monthly. These notes are unsecured. The debt service requirements for these notes as of June 30, 2011, are:

Year Ending June 30,	Total to be Paid	Principal	Interest
2012	\$ 483,119	\$ 467,079	\$ 16,040
2013	204,437	202,164	2,273
	<u>\$ 687,556</u>	<u>\$ 669,243</u>	<u>\$ 18,313</u>

**Line of Credit – Medical Park West**

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

**Note 9: Restricted Net Assets**

At June 30, 2011 and 2010, restricted net assets were available for the following purposes:

	2011	2010
Debt service	\$ 21,579,550	\$ 21,437,720
Specific operating activities	375,204	420,981
Nonexpendable for permanent endowments	19,765	19,665
Total restricted net assets	<u>\$ 21,974,519</u>	<u>\$ 21,878,366</u>

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

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

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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

	<b>2011</b>	<b>2010</b>
Gross patient service revenue	\$1,171,985,144	\$1,099,901,239
Contractual adjustments	(796,798,732)	(741,929,418)
Provision for uncollectible accounts	(64,315,001)	(58,698,894)
Charity care allowances	(29,674,221)	(31,162,890)
Net patient service revenue	\$ 281,197,190	\$ 268,110,037

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. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contributions actually made by the Authority were approximately \$1,287,000 and \$1,214,000 during the years ended June 30, 2011 and 2010, respectively.

The Authority also contributes to another defined contribution pension plan, the Norman Regional Hospital Defined Contribution Plan, covering substantially all employees who have completed a one-year period of continuous employment. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit and contribution provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contributions actually made by the Authority were approximately \$3,576,000 and \$3,417,000 during the years ended June 30, 2011 and 2010, 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, 2011 and 2010

### **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, 2011 and 2010, are approximately \$5,663,000 and \$4,600,000, respectively, and are included in other assets in the accompanying balance sheets. The related liability as of June 30, 2011 and 2010, of approximately \$6,269,000 and \$4,876,000, 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 \$1,429,000 and \$1,409,000 in 2011 and 2010, 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.

### **Annual Pension Cost and Net Pension Obligation**

The Authority's annual pension cost and net pension obligation to the plan for 2011 and 2010 were as follows:

	<b>2011</b>	<b>2010</b>
Annual required contribution	\$ 1,341,192	\$ 1,219,635
Interest on net pension obligation	176,364	61,455
Adjustment to annual required contribution	(192,329)	(97,771)
Annual pension cost	<u>1,325,227</u>	<u>1,183,319</u>
Contributions made	<u>-</u>	<u>-</u>
Increase in net pension obligation	<u>1,325,227</u>	<u>1,183,319</u>
Net pension obligation at beginning of year	<u>2,496,196</u>	<u>1,312,877</u>
Net pension obligation at end of year	<u><u>\$ 3,821,423</u></u>	<u><u>\$ 2,496,196</u></u>

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

The annual required contribution for 2011 and 2010 was determined as part of actuarial valuations on January 1, 2011 and 2010, using the projected unit credit actuarial cost method. The actuarial assumptions included 7% investment rate of return (net of administrative expenses) and projected salary increases of 4% per year. The unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis. The remaining amortization period at January 1, 2011, was 28 years.

**Trend Information**

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 1,325,227	0%	\$ 3,821,423
2010	\$ 1,183,319	0%	\$ 2,496,196
2009	\$ 1,312,877	0%	\$ 1,312,877

**Funding Status and Funding Progress**

The following is funded status information as of January 1, 2011, the most recent actuarial valuation date:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
\$ 22,775,335	\$ 38,907,657	\$ 16,132,322	58.5%	\$ 725,774	2222.8%

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.

**Norman Regional Hospital Authority**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

***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.

***Current Economic Conditions***

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The accompanying financial statements have been prepared using values and information currently available to the Authority.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Authority's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Authority's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the accompanying financial statements could change rapidly, resulting in material future adjustments in investment values (including defined benefit pension plan investments) and allowances for accounts and contributions receivable that could negatively impact the Authority's ability to meet debt covenants or maintain sufficient liquidity.

**Norman Regional Hospital Authority**  
**Required Supplementary Information – Schedule of Funding Progress**  
**Year Ended June 30, 2011**

***Defined Benefit Pension Plan***

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b-a)/c</b>
January 1, 2011	\$ 22,775,335	\$ 38,907,657	\$ 16,132,322	58.5%	\$ 725,774	2222.8%
January 1, 2010	\$ 22,501,637	\$ 37,119,664	\$ 14,618,027	60.6%	\$ 955,573	1529.8%
January 1, 2009	\$ 25,721,440	\$ 41,553,671	\$ 15,832,231	61.9%	\$ 1,287,758	1229.4%

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

**Norman Regional Hospital Authority**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Health Care and Other Facilities	U.S. Department of Health and Human Services	93.887	C76HF19998	\$ 1,895,850
Specially Selected Health Projects	U.S. Department of Health and Human Services	93.888	D1BIT16747	40,201
National Bioterrorism Hospital Preparedness Program	U.S. Department of Health and Human Services/Oklahoma State Department of Health	93.889		<u>122,105</u>
				<u><u>\$ 2,058,156</u></u>

**Notes to Schedule**

1. This schedule includes the federal awards activity of Norman Regional Hospital Authority (the Authority) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Authority provided no federal awards to subrecipients.

# Norman Regional Hospital Authority

## Combining Schedule – Balance Sheet Information

### June 30, 2011

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 37,174,576	\$ 235,735	\$ 1,084,085	\$ 451,251	\$ 38,945,647	\$ -	\$ 38,945,647
Short-term investments	53,549,541	2,476,299	-	-	56,025,840	-	56,025,840
Restricted cash and investments – current	7,016,844	-	-	-	7,016,844	-	7,016,844
Patient accounts receivable, net of allowance \$30,661,000	42,917,948	-	-	-	42,917,948	-	42,917,948
Estimated amounts due from third-party payers	1,546,036	-	-	-	1,546,036	-	1,546,036
Supplies	10,015,095	-	-	-	10,015,095	-	10,015,095
Prepaid expenses and other	4,071,617	293,981	76,727	219,383	4,661,708	(240,488)	4,421,220
Total current assets	156,291,657	3,006,015	1,160,812	670,634	161,129,118	(240,488)	160,888,630
<b>Noncurrent Cash and Investments</b>							
Held by trustee for debt service	25,195,151	-	-	-	25,195,151	-	25,195,151
Held by others for capital acquisitions	78,336	-	-	-	78,336	-	78,336
Less amount required to meet current obligations	25,273,487	-	-	-	25,273,487	-	25,273,487
	7,016,844	-	-	-	7,016,844	-	7,016,844
Noncurrent cash and investments, net	18,256,643	-	-	-	18,256,643	-	18,256,643
<b>Capital Assets, Net</b>	250,901,175	-	21,135,683	165,047	272,201,905	(508,141)	271,693,764
<b>Other Assets</b>							
Deferred financing costs, net	5,052,295	-	-	-	5,052,295	-	5,052,295
Other	25,318,258	4,652	-	-	25,322,910	(15,034,959)	10,287,951
Total other assets	30,370,553	4,652	-	-	30,375,205	(15,034,959)	15,340,246
Total assets	\$ 455,820,028	\$ 3,010,667	\$ 22,296,495	\$ 835,681	\$ 481,962,871	\$ (15,783,588)	\$ 466,179,283

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
<b>Current Liabilities</b>							
Current maturities of long-term debt	\$ 7,459,766	\$ -	\$ -	\$ -	\$ 7,459,766	\$ -	\$ 7,459,766
Accounts payable	10,883,393	46,109	96,013	14,089	11,039,604	(240,488)	10,799,116
Accrued payroll and expenses	18,313,101	-	-	12,891	18,325,992	-	18,325,992
Accrued interest payable	3,615,601	-	-	-	3,615,601	-	3,615,601
Estimated self-insurance cost – current	3,061,499	-	-	-	3,061,499	-	3,061,499
Total current liabilities	43,333,360	46,109	96,013	26,980	43,502,462	(240,488)	43,261,974
<b>Long-term Debt</b>	227,533,551	-	3,791,166	-	231,324,717	-	231,324,717
<b>Estimated Self-insurance Costs</b>	2,147,000	-	-	-	2,147,000	-	2,147,000
<b>Pension Liability</b>	3,821,423	-	-	-	3,821,423	-	3,821,423
Total liabilities	276,835,334	46,109	3,887,179	26,980	280,795,602	(240,488)	280,555,114
<b>Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC</b>	-	-	-	-	-	4,183,058	4,183,058
<b>Net Assets</b>							
Invested in capital assets, net of related debt	20,533,419	-	17,344,517	165,047	38,042,983	(17,509,564)	20,533,419
Restricted – expendable for Debt service	21,579,550	-	-	-	21,579,550	-	21,579,550
Specific operating activities	-	375,204	-	-	375,204	-	375,204
Restricted – nonexpendable for permanent endowments	136,871,725	19,765	1,064,799	643,654	141,149,767	(2,216,594)	138,933,173
Unrestricted	178,984,694	2,569,589	18,409,316	808,701	201,167,269	(19,726,158)	181,441,111
Total net assets	\$ 455,820,028	\$ 3,010,667	\$ 22,296,495	\$ 835,681	\$ 481,962,871	\$ (15,783,588)	\$ 466,179,283

## Liabilities and Net Assets

<b>Current Liabilities</b>
Current maturities of long-term debt
Accounts payable
Accrued payroll and expenses
Accrued interest payable
Estimated self-insurance cost – current
Total current liabilities
<b>Long-term Debt</b>
<b>Estimated Self-insurance Costs</b>
<b>Pension Liability</b>
Total liabilities
<b>Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC</b>
<b>Net Assets</b>
Invested in capital assets, net of related debt
Restricted – expendable for Debt service
Specific operating activities
Restricted – nonexpendable for permanent endowments
Unrestricted
Total net assets
Total liabilities and net assets

# Norman Regional Hospital Authority

## Combining Schedule – Balance Sheet Information

### June 30, 2010

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 35,715,328	\$ 265,353	\$ 601,549	\$ 207,743	\$ 36,789,973	\$ -	\$ 36,789,973
Short-term investments	29,652,239	1,965,523	-	-	31,617,762	-	31,617,762
Restricted cash and investments – current	6,916,286	-	-	-	6,916,286	-	6,916,286
Patient accounts receivable, net of allowance \$28,897,000	43,665,074	-	-	-	43,665,074	-	43,665,074
Estimated amounts due from third-party payers	4,419,771	-	-	-	4,419,771	-	4,419,771
Supplies	9,806,369	-	-	-	9,806,369	-	9,806,369
Prepaid expenses and other	3,419,107	673,299	40,204	169,087	4,301,697	(162,638)	4,139,059
Total current assets	133,594,174	2,904,175	641,753	376,830	137,516,932	(162,638)	137,354,294
<b>Noncurrent Cash and Investments</b>							
Held by trustee for debt service	25,094,439	-	-	-	25,094,439	-	25,094,439
Held by others for capital acquisitions	78,336	-	-	-	78,336	-	78,336
Less amount required to meet current obligations	25,172,775	-	-	-	25,172,775	-	25,172,775
	6,916,286	-	-	-	6,916,286	-	6,916,286
Noncurrent cash and investments, net	18,256,489	-	-	-	18,256,489	-	18,256,489
<b>Capital Assets, Net</b>	266,954,164	-	21,524,954	188,197	288,667,315	(508,141)	288,159,174
<b>Other Assets</b>							
Deferred financing costs, net	5,289,768	-	-	-	5,289,768	-	5,289,768
Other	24,658,136	8,140	6,033	-	24,672,309	(14,153,771)	10,518,538
Total other assets	29,947,904	8,140	6,033	-	29,962,077	(14,153,771)	15,808,306
Total assets	\$ 448,752,731	\$ 2,912,315	\$ 22,172,740	\$ 565,027	\$ 474,402,813	\$ (14,824,550)	\$ 459,578,263

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
	\$ 7,135,351	\$ -	\$ -	\$ -	\$ 7,135,351	\$ -	\$ 7,135,351
	12,823,666	36,850	61,222	23,842	12,945,580	(162,638)	12,782,942
	15,996,750	-	-	1,461	15,998,211	-	15,998,211
	3,656,719	-	-	-	3,656,719	-	3,656,719
	3,418,156	-	-	-	3,418,156	-	3,418,156
	43,030,642	36,850	61,222	25,303	43,154,017	(162,638)	42,991,379
	235,040,157	-	4,557,312	-	239,597,469	-	239,597,469
	1,997,000	-	-	-	1,997,000	-	1,997,000
	2,496,196	-	-	-	2,496,196	-	2,496,196
	282,563,995	36,850	4,618,534	25,303	287,244,682	(162,638)	287,082,044
	-	-	-	-	-	3,940,159	3,940,159
	29,873,199	-	16,967,642	188,197	47,029,038	(17,155,839)	29,873,199
	21,437,720	-	-	-	21,437,720	-	21,437,720
	-	420,981	-	-	420,981	-	420,981
	-	19,665	-	-	19,665	-	19,665
	114,877,817	2,434,819	586,564	351,527	118,250,727	(1,446,232)	116,804,495
	166,188,736	2,875,465	17,554,206	539,724	187,158,131	(18,602,071)	168,556,060
	\$ 448,752,731	\$ 2,912,315	\$ 22,172,740	\$ 565,027	\$ 474,402,813	\$ (14,824,550)	\$ 459,578,263

## Liabilities and Net Assets

### Current Liabilities

Current maturities of long-term debt	
Accounts payable	
Accrued payroll and expenses	
Accrued interest payable	
Estimated self-insurance cost – current	

Total current liabilities

### Long-term Debt

### Estimated Self-insurance Costs

### Pension Liability

Total liabilities

### Minority Interest in Medical Park West

### Net Assets

Invested in capital assets, net of related debt	
Restricted – expendable for	
Debt service	
Specific operating activities	
Restricted – nonexpendable for permanent endowments	
Unrestricted	

Total net assets

Total liabilities and net assets

# Norman Regional Hospital Authority

## Combining Schedule – Statement of Revenues, Expenses and Changes in Net Assets Information

### Year Ended June 30, 2011

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
<b>Operating Revenues</b>							
Net patient service revenue, net of provision for uncollectible accounts	\$ 281,197,190	\$ -	\$ -	\$ -	\$ 281,197,190	\$ -	\$ 281,197,190
Other operating revenue	5,877,726	-	1,426,089	1,979,419	9,283,234	(2,387,749)	6,895,485
Total operating revenues	287,074,916	-	1,426,089	1,979,419	290,480,424	(2,387,749)	288,092,675
<b>Operating Expenses</b>							
Salaries, wages and employee benefits	146,896,266	-	-	459,268	147,355,534	-	147,355,534
Professional fees	8,212,421	12,951	100,928	224,513	8,550,813	-	8,550,813
Purchased services	12,124,123	-	-	-	12,124,123	(1,687,931)	10,436,192
Supplies expense	55,979,056	-	-	28,605	56,007,661	-	56,007,661
Other expenses	27,245,955	646,477	223,550	297,723	28,413,705	(934,818)	27,478,887
Depreciation and amortization	24,400,821	-	6,033	50,333	24,457,187	-	24,457,187
Total operating expenses	274,858,642	659,428	330,511	1,060,442	276,909,023	(2,622,749)	274,286,274
<b>Operating Income (Loss)</b>	12,216,274	(659,428)	1,095,578	918,977	13,571,401	235,000	13,806,401
<b>Nonoperating Revenues (Expenses)</b>							
Noncapital grants and gifts	235,000	246,913	-	-	481,913	(235,000)	246,913
Investment income	10,296,794	501,608	49	-	10,798,451	(1,394,688)	9,403,763
Interest expense	(11,989,408)	-	(240,517)	-	(12,229,925)	-	(12,229,925)
Total nonoperating revenue (expenses)	(1,457,614)	748,521	(240,468)	-	(949,561)	(1,629,688)	(2,579,249)
<b>Income Before Minority Interest</b>	10,758,660	89,093	855,110	918,977	12,621,840	(1,394,688)	11,227,152
<b>Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC Income</b>	-	-	-	-	-	(379,399)	(379,399)
<b>Excess of Revenues over Expenses Before Capital Grants and Gifts</b>	10,758,660	89,093	855,110	918,977	12,621,840	(1,774,087)	10,847,753
<b>Capital Grants and Gifts</b>	2,037,298	-	-	-	2,037,298	-	2,037,298
<b>Additional Paid in Capital (Distributions)</b>	-	-	-	(650,000)	(650,000)	650,000	-
<b>Change in Net Assets</b>	12,795,958	89,093	855,110	268,977	14,009,138	(1,124,087)	12,885,051
<b>Net Assets, Beginning of Year</b>	166,188,736	2,875,465	17,554,206	539,724	187,158,131	(18,602,071)	168,556,060
<b>Net Assets, End of Year</b>	\$ 178,984,694	\$ 2,964,558	\$ 18,409,316	\$ 808,701	\$ 201,167,269	\$ (19,726,158)	\$ 181,441,111

# Norman Regional Hospital Authority

## Combining Schedule – Statement of Revenues, Expenses and Changes in Net Assets Information

### Year Ended June 30, 2010

	Norman Regional Health System	Norman Regional Health Foundation, Inc.	NRH Medical Park West, L.L.C.	Oklahoma Sleep Associates, LLC	Total	Eliminations	Combined Balance
<b>Operating Revenues</b>							
Net patient service revenue, net of provision for uncollectible accounts	\$ 268,110,037	-	-	-	\$ 268,110,037	\$ -	\$ 268,110,037
Other operating revenue	7,012,073	-	2,541,903	1,628,922	11,182,898	(1,990,801)	9,192,097
Total operating revenues	275,122,110	-	2,541,903	1,628,922	279,292,935	(1,990,801)	277,302,134
<b>Operating Expenses</b>							
Salaries, wages and employee benefits	146,194,390	-	-	452,584	146,646,974	-	146,646,974
Professional fees	7,739,025	26,050	84,248	119,528	7,968,851	-	7,968,851
Purchased services	12,038,008	-	-	100,860	12,138,868	(1,462,438)	10,676,430
Supplies expense	53,301,691	-	-	14,475	53,316,166	-	53,316,166
Other expenses	26,655,003	1,632,283	182,276	238,952	28,708,514	(2,440,430)	26,268,084
Depreciation and amortization	22,967,807	-	9,300	41,957	23,019,064	-	23,019,064
Total operating expenses	268,895,924	1,658,333	275,824	968,356	271,798,437	(3,902,868)	267,895,569
<b>Operating Income (Loss)</b>	6,226,186	(1,658,333)	2,266,079	660,566	7,494,498	1,912,067	9,406,565
<b>Nonoperating Revenues (Expenses)</b>							
Noncapital grants and gifts	1,112,000	936,593	-	-	2,048,593	(1,112,000)	936,593
Investment income (loss)	3,340,304	236,979	13	-	3,577,296	(2,084,015)	1,493,281
Interest expense	(10,353,208)	-	(283,645)	-	(10,636,853)	-	(10,636,853)
Total nonoperating revenues (expenses)	(5,900,904)	1,173,572	(283,632)	-	(5,010,964)	(3,196,015)	(8,206,979)
<b>Income (Loss) Before Minority Interest</b>	325,282	(484,761)	1,982,447	660,566	2,483,534	(1,283,948)	1,199,586
<b>Minority Interest in Medical Park West and Oklahoma Sleep Associates, LLC Income</b>	-	-	-	-	-	(558,998)	(558,998)
<b>Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Gifts</b>	325,282	(484,761)	1,982,447	660,566	2,483,534	(1,842,946)	640,588
<b>Capital Grants and Gifts</b>	976,706	-	-	-	976,706	-	976,706
<b>Additional Paid in Capital (Distributions)</b>	-	-	-	(120,842)	(120,842)	120,842	-
<b>Change in Net Assets</b>	1,301,988	(484,761)	1,982,447	539,724	3,339,398	(1,722,104)	1,617,294
<b>Net Assets, Beginning of Year</b>	164,886,748	3,360,226	15,571,759	-	183,818,733	(16,879,967)	166,938,766
<b>Net Assets, End of Year</b>	\$ 166,188,736	\$ 2,875,465	\$ 17,554,206	\$ 539,724	\$ 187,158,131	\$ (18,602,071)	\$ 168,556,060

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

Board of Trustees  
Norman Regional Hospital Authority  
Norman, Oklahoma

We have audited the financial statements of Norman Regional Hospital Authority (the Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of Norman Regional Health Foundation, Inc., which are included in the Authority's financial statements, were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

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

Board of Trustees  
Norman Regional Hospital Authority

**Compliance and Other Matters**

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

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

**BKD, LLP**

September 19, 2011

## **Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

Board of Trustees  
Norman Regional Hospital Authority  
Norman, Oklahoma

### **Compliance**

We have audited the compliance of Norman Regional Hospital Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that could have a direct and material effect on its major federal program for the year ended June 30, 2011. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the compliance of the Authority based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, Norman Regional Hospital Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2011-01.

### **Internal Control over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Board of Trustees  
Norman Regional Hospital Authority

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on the response.

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

*BKD, LLP*

September 19, 2011

**Norman Regional Hospital Authority**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

**Summary of Auditor's Results**

1. The opinion expressed in the independent accountants' report was:  
 Unqualified     Qualified     Adverse     Disclaimed
  
2. The independent accountants' report on internal control over financial reporting disclosed:  

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
  
3. Noncompliance considered material to the financial statements was disclosed by the audit?     Yes     No
  
4. The independent accountants' report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:  

Significant deficiency(ies)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Material weakness(es)?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
  
5. The opinions expressed in the independent accountants' report on compliance with requirements that could have a direct and material effect on major federal awards programs was (were):  
 Unqualified     Qualified     Adverse     Disclaimed
  
6. The audit disclosed findings required to be reported by OMB Circular A-133?     Yes     No
  
7. The Authority's major program was:

Cluster/Program	CFDA Number
Health Care and Other Facilities	93.887

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.
  
9. The Authority qualified as a low-risk auditee as that term is defined in OMB Circular A-133?     Yes     No

**Norman Regional Hospital Authority**  
**Schedule of Findings and Questioned Costs, continued**  
**Year Ended June 30, 2011**

**Findings Required to be Reported by *Government Auditing Standards***

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

**Norman Regional Hospital Authority**  
**Schedule of Findings and Questioned Costs, continued**  
**Year Ended June 30, 2011**

**Findings Required to be Reported by OMB Circular A-133**

Reference Number	Finding	Questioned Costs
2011-01	<p>CFDA No. 93.887 Health Care and Other Facilities  Award 6C76HF19998-01-03 Year 2011  U.S. Department of Health and Human Services</p> <p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over grant expenditures to ensure only costs resulting from obligations incurred during the funding period are submitted under the grant program.</p> <p>Condition – Management’s procedures for evaluating the period of availability of federal funds did not identify funds that were obligated outside of the funding period. Of the 30 expenditures totaling \$796,997 tested, one expenditure for \$33,363 was identified as being improperly submitted for reimbursement during the grant period.</p> <p>Context – Management is responsible for developing internal controls to ensure all transactions charged to the federal award occurred within the period of availability.</p> <p>Effect – An expenditure that was incurred prior to the commencement of the funding period of the grant was claimed as an allowable cost.</p> <p>Cause – Management’s procedures for evaluating the period of availability of federal funds did not identify funds that were obligated outside of the funding period.</p> <p>Recommendation – Management should ensure procedures are in place to appropriately determine if expenditures were obligated during the funding period.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to ensure the procedures in place will properly identify allowable expenditures.</p>	\$ 79,436

**Norman Regional Hospital Authority**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2011**

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