

Independent Auditor's Report

Carnegie Tri-County Municipal Hospital Authority

Carnegie, Oklahoma

Year Ending June 30, 2015

**CARNEGIE TRI-COUNTY MUNICIPAL
HOSPITAL AUTHORITY
CARNEGIE, OKLAHOMA
June 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Carnegie Tri-County Municipal Hospital Authority
Carnegie, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Carnegie Tri-County Municipal Hospital Authority, Carnegie, Oklahoma, a component unit of the Town of Carnegie, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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.

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

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

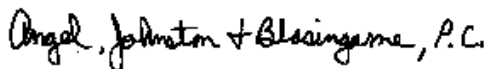
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Carnegie Tri-County Municipal Hospital Authority as of June 30, 2015, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, March 14, 2016, on our consideration of the Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
March 14, 2016

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
June 30, 2015

ASSETS

Current Assets		
Cash and cash equivalents	\$	2.27
Restricted cash and cash equivalents		23,017.59
<i>Total Current Assets</i>		<u>23,019.86</u>
Non Current Assets		
Capital assets		<u>0.00</u>
<i>Total Non Current Assets</i>		<u>0.00</u>
<i>Total Assets</i>		<u>23,019.86</u>

LIABILITIES

Current Liabilities		
Bonds, notes and loans payable		81,628.56
Payable to Town of Carnegie		108.16
<i>Total Current Liabilities</i>		<u>81,736.72</u>
Non Current Liabilities		
Bonds, notes and loans payable		<u>807,919.71</u>
<i>Total Non-current Liabilities</i>		<u>807,919.71</u>
<i>Total Liabilities</i>		<u>889,656.43</u>

NET POSITION

Net Investment in Capital Assets		0.00
Restricted:		
Debt Service		23,017.59
Unrestricted		
Bonds and Notes		(889,656.43)
Debt Reserve		2.27
<i>Total Net Position</i>	\$	<u><u>(866,636.57)</u></u>

The accompanying notes are an integral part of the financial statements.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2015

Operating Revenue:	
Charges for Services	\$ 0.00
Miscellaneous	0.00
<i>Total Operating Revenues</i>	<u>0.00</u>
Operating Expenses:	
Payments to Hospital Management	38,926.00
Office Supplies	92.76
Professional Fees	3,200.00
<i>Total Operating Expenses</i>	<u>42,218.76</u>
<i>Operating Income (Loss)</i>	<u>(42,218.76)</u>
Non-Operating Revenues (Expenses)	
Sales/Use Tax Collections	157,032.78
Bond Interest	(58,665.30)
Interest Income	42.27
<i>Total Non-Operating Revenues (Expenses)</i>	<u>98,409.75</u>
Change in Net Position	<u>56,190.99</u>
<i>Net Position-Beginning of Year</i>	<u>(922,827.56)</u>
<i>Net Position-End of Year</i>	<u>\$ (866,636.57)</u>

The accompanying notes are an integral part of the financial statements.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
For the Year Ended June 30, 2015

Cash flows from operating activities:	
Cash received from customers	\$ 0.00
Other cash receipts	0.00
Cash payments to hospital management	(38,926.00)
Cash payments for professional fees	(3,200.00)
Cash payments for supplies	<u>(92.76)</u>
<i>Net Cash provided (used) by operating activities</i>	<u>(42,218.76)</u>
 Cash flows from non-capital and related financing activities:	
Sales/use tax collections	157,032.78
Cash payment of bond principle	(76,070.82)
Cash payment of bond interest	<u>(58,665.30)</u>
<i>Net Cash provided (used) by non-capital and related financing activities</i>	<u>22,296.66</u>
 Cash flows from capital and related financing activities:	
Cash payment of liabilities	0.00
Purchase of Capital Assets	<u>0.00</u>
<i>Net Cash provided (used) by capital and related financing activities</i>	<u>0.00</u>
 Cash flows from investing activities:	
Interest earned	42.27
Investments purchased/redeemed	<u>0.00</u>
<i>Net Cash provided (used) by investing activities</i>	<u>42.27</u>
 <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	 (19,879.83)
 <i>Beginning Cash and Cash Equivalents</i>	 <u>42,899.69</u>
 <i>Ending Cash and Cash Equivalents</i>	 <u>\$ 23,019.86</u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	\$ (42,218.76)
Adjustments to reconcile operating income to net cash:	
Change in other liabilities	<u>0.00</u>
 Net Cash provided (used) by operating activities	 <u>\$ (42,218.76)</u>

*The accompanying notes are an integral part of the financial statements.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – Summary of Significant Accounting Policies

1.A. Reporting Entity

The Carnegie Tri-County Municipal Hospital Authority was created August 12, 2004 under the provision of Title 60 O.S. 2001, Section 176 et seq. The Town of Carnegie is the trust beneficiary and will receive all resident trust assets upon termination of the trust. The Board of Trustees of the Town of Carnegie are the Authority's Trustees. Therefore the Authority is considered to be a component unit of Town of Carnegie. The Trust was created to promote, finance and develop the hospital and health care services in the Town of Carnegie area.

The accompanying financial statements include all functions and activities over which the Authority exercises financial accountability. Carnegie Tri-County Municipal Hospital Authority is a component unit of the governmental entity of the Town of Carnegie, Oklahoma. The Town of Carnegie's financial information is not presented in these financial statements. The Town's financial agreed upon procedures are readily obtainable at, www.sai.ok.gov, the State Auditor's website.

1.B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

1.C. Measurement Focus and Basis of Accounting

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The Authority's financial statements use the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid with the following modifications:

- Amounts due for bond repayment are classified as liabilities.

This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. In other words, revenue would be recognized when earned and expenses would be recorded when the liability is incurred or economic asset used.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

1.D. Assets, Liabilities and Net Position

Cash and Cash Equivalents – For the purposes of the statement of cash flows, the Authority considers all demand deposit accounts, interest bearing checking accounts and time deposits accounts including certificates of deposit and U.S. Treasury bills with maturities of three months or less to be cash and cash equivalents.

Restricted Assets – Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to the bond indenture. See Note 2.B.

Capital Assets - All capital assets under the cash basis of accounting are shown as expenditures in the year paid for. Note 2.C. shows the assets (hospital facility and personal property) purchased by the Authority that are not shown in the statement of net position because the Town has an agreement with the hospital management group that is a long-term arrangement. The management group has been given the use of these assets and by agreement the assets are assigned to the management group. See Note 2.C.

Bonds, Notes and Loans Payable - Bonds Payable to be repaid from the authority resources are reported as liabilities in the balance sheet. The Authority had \$889,548 bonds payable as of the balance sheet date.

Net Position – Net Position is divided into three components:

- a. *Net Investment in Capital Assets* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Authority’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

1.E. Revenues and Expenses

Operating and Non-operating Revenues - Operating revenues are considered those whose cash flows are related to operating activities, while revenues related to financing, capital and

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

1.E. Revenues and Expenses (continued)

investing activities are reported as non-operating. The Authority has a contract with hospital management and assigned revenue from the hospital to the management group for facility operations. Therefore there is limited operating revenues for the Authority. The primary non-operating revenue is from a sales tax approved by the Town of Carnegie taxpayers for support of the hospital. Sales tax is pledged for bond obligations and any excess is transferred to the hospital management for hospital operations.

Expenses - The Authority reports expenses relating to the use of economic resources.

1.F. Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates

1.G. Differences from GAAP

Modified Cash Basis- As described in Note 1.C., the Authority reports its financial information on the modified cash basis of accounting rather than the GAAP prescribed accrual basis.

Note 2 – Detailed Notes on Transaction Classes/Accounts

2.A. Cash and Investments

Deposits and Investments - The Authority does not have a written investment policy that limits its investment choices. The Authority's investments are limited by state statute and declaration of trust.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written policy for custodial risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of June 30, 2015, the Authority's bank balances did not exceed FDIC insurance of \$250,000.

2.B. Restricted Assets

The amounts reported as restricted assets on the Statement of Net Position are comprised of cash restricted by revenue bond indenture. The restricted assets as of June 30, 2015 were \$23,017.59.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

2.C. Assigned Capital Assets

The hospital purchase described in Note (1.D.) is not shown in the Authority's financial statement as an asset and is by agreement assigned to the hospital management group. The hospital assets were assigned to the hospital management group on May 1, 1997 at a net value of \$620,000.

2.D. Long Term Debt

Sales/Use Tax Revenue Bonds Series 2013: On December 6, 2013 the Authority issued \$1,000,000 Taxable Revenue Refunding Note Series 2013 to refinance the 2005 Revenue Note, and to service certain debts of the Carnegie Tri-County Municipal Hospital Management Inc. The 1% sales and use tax is pledged to secure the new financing. The note has a variable interest rate. The rate is adjusted each quarter and is 3% over U.S. Prime Rate. The rate during the year was 6.25%. The note matures December 20, 2023.

	June 30, <u>2014</u>	Current <u>Deletions</u>	<u>Current</u> <u>Acquisitions</u>	June 30, <u>2015</u>
2013 Revenue Note	\$ <u>965,619</u>	\$ <u>76,071</u>	\$ <u>0</u>	\$ <u>889,548</u>
Total L-T Debt	\$ <u>965,619</u>	\$ <u>76,071</u>	\$ <u>0</u>	\$ <u>889,548</u>

Total interest paid for the current year was \$58,665. The following is a summary of future debt service requirements of the Authority's long-term debt:

Debt Service Schedule:

	<u>Fiscal</u> <u>Year</u>	<u>Principal</u> <u>Payments</u>	<u>Estimated</u> <u>Interest</u>
Current Portion	2016	81,629	53,108
Non-Current Portion	2017	86,879	47,857
	2018	92,467	42,269
	2019	98,415	36,321
	2020	104,745	29,991
	2021-2024	425,413	48,998
	Total	<u>889,548</u>	<u>258,544</u>

Note 3 – Other Notes

3.A. – Commitments and Contingencies.

The Authority is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. While legal proceedings cannot be foreseen, the Authority feels that any settlement or judgment would not have a material effect on the financial condition of the Authority.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015

3.A. – Commitments and Contingencies. (continued)

Sales Tax - The Authority is dependent upon sales tax to function for its intended purpose of health service social promotion and liquidation of the related debt. The Authority cannot control the amount of sales tax collected and so could experience difficulty in a serious economic down turn. The 2013 Taxable Revenue Refunding Note has a variable interest rate, adjusted quarterly. If interest rates increase significantly, debt service could become difficult.

Management Agreement- On May 1, 1997, the Town entered into a five-year management agreement with the Carnegie Tri-County Hospital Management, Inc. (manager) for operation of the hospital. The town grants to the Manager an option to extend this agreement for four (4) additional consecutive five (5) years each commencing as follows:

- A. First extended term: May 1, 2002
- B. Second extended term: May 1, 2007
- C. Third extended term: May 1, 2012
- D. Fourth extended term: May 1, 2017

The Town may terminate the agreement for several reasons including a failure of the business to operate successfully. Upon termination of the agreement, the Town will assume responsibility for any net deficit of the hospital that might exist.

3.B. – Risk Management

The Authority is exposed to various risks of loss related to torts; theft and damage; business interruption; errors and omissions; employee injuries and illnesses; and natural disasters. Commercial insurance is purchased by the Hospital for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Authority does not have insurance.

3.C. Subsequent Events

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

Report on Internal Control and Compliance

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Carnegie Tri-County Municipal Hospital Authority
Carnegie, Oklahoma

We have audited, in accordance with the 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 accompanying modified cash basis financial statements of the Carnegie Tri-County Municipal Hospital Authority, a component unit of the Town of Carnegie, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, March 14, 2016. Our report on the financial statements disclosed, that, as described in Note 1 to the financial statements, the Authority prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Carnegie Tri-County Municipal Hospital Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

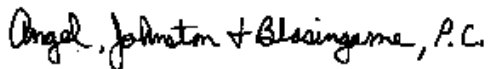
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify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

Compliance and Other Matters

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

Purpose of this Report

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



Angel, Johnston & Blasingame, P.C.
Chickasha, Oklahoma
March 14, 2016