

*Independent Auditor's Report*

***Carnegie Tri-County Municipal Hospital Authority***

*Year Ended June 30, 2016*

**CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY  
CARNEGIE, OKLAHOMA  
June 30, 2016**

**TABLE OF CONTENTS**

Independent Auditor's Report A – 1

**Basic Financial Statements**

Statement of Net Position – Modified Cash Basis B – 1

Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis B – 2

Statement of Cash Flows – Modified Cash Basis B – 3

Notes to the Basic Financial Statements C – 1

**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* D – 1

## 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 business-type activities of Carnegie Tri-County Municipal Hospital Authority, Carnegie, Oklahoma, as of and for the year ended June 30, 2016, 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**

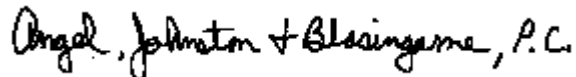
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the Carnegie Tri-County Municipal Hospital Authority, Carnegie, Oklahoma as of June 30, 2016, and the respective changes in modified cash basis financial position and cash flows 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 that 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, June 1, 2018, 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  
June 1, 2018

## *Basic Financial Statements*

**CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY**  
**Statement of Net Position**  
**Modified Cash Basis**  
**June 30, 2016**

**ASSETS**

**Current Assets**

|                                      |    |            |
|--------------------------------------|----|------------|
| Cash and cash equivalents            | \$ | 2          |
| Restricted cash and cash equivalents |    | 21,593     |
| <i>Total Current Assets</i>          |    | 21,595     |
| <br><i>Total Assets</i>              |    | <br>21,595 |

**LIABILITIES**

**Current Liabilities**

|                                  |  |        |
|----------------------------------|--|--------|
| Current portion long term debt   |  | 87,735 |
| Payable to Town of Carnegie      |  | 108    |
| <i>Total Current Liabilities</i> |  | 87,843 |

**Long-term Liabilities**

|                                    |  |             |
|------------------------------------|--|-------------|
| Bonds, notes and loans payable     |  | 721,287     |
| <i>Total Long-term Liabilities</i> |  | 721,287     |
| <br><i>Total Liabilities</i>       |  | <br>809,130 |

**NET POSITION**

|                           |    |           |
|---------------------------|----|-----------|
| Restricted:               |    |           |
| Debt Service              |    | 21,593    |
| Unrestricted              |    | (809,128) |
| <i>Total Net Position</i> | \$ | (787,535) |

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, 2016**

|  |              |
|--|--------------|
| <b>Operating Revenues</b>                      |              |
| <i>Total Operating Revenues</i>                | -            |
| <b>Operating Expenses</b>                      |              |
| Payments to hospital management                | 12,918       |
| Professional fees                              | 3,400        |
| <i>Total Operating Expenses</i>                | 16,318       |
| <i>Operating Income (Loss)</i>                 | (16,318)     |
| <b>Non-Operating Revenues (Expenses)</b>       |              |
| Sales/Use tax collections                      | 149,609      |
| Bond interest                                  | (54,210)     |
| Interest income                                | 21           |
| <i>Total Non-Operating Revenues (Expenses)</i> | 95,420       |
| <i>Change in Net Position</i>                  | 79,102       |
| <i>Net Position - Beginning of Year</i>        | (866,637)    |
| <i>Net Position - End of Year</i>              | \$ (787,535) |

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, 2016**

**Cash flows from operating activities**

|  |                 |
|--|-----------------|
| Payments to hospital management                          | \$ (12,918)     |
| Payments to vendors                                      | (3,400)         |
| <i>Net cash provided (used ) by operating activities</i> | <u>(16,318)</u> |

**Cash flows from noncapital financing activities**

|  |               |
|--|---------------|
| Sales/use tax collections  | 149,609       |
| Cash payment of bond principle   | (80,526)      |
| Cash payment of bond interest  | (54,210)      |
| <i>Net cash provided by (used for) noncapital financing activities</i> | <u>14,872</u> |

**Cash flows from investing activities**

|   |           |
|---|-----------|
| Interest received   | 21        |
| <i>Net cash provided by (used for) investing activities</i> | <u>21</u> |

|   |                  |
|---|------------------|
| <i>Net increase (decrease) in cash and cash equivalents</i> | (1,425)          |
| <i>Cash and cash equivalents at beginning of year</i>       | 23,020           |
| <i>Cash and cash equivalents at end of year</i>             | <u>\$ 21,595</u> |

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities**

|   |                    |
|---|--------------------|
| Operating income (loss)                                     | \$ <u>(16,318)</u> |
| <i>Net cash provided by (used for) operating activities</i> | <u>\$ (16,318)</u> |

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



**CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**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 Trust was created to promote, finance and develop the hospital and health care services in the Town of Carnegie area.

**Related Organizations**

**Town of Carnegie-** The Town of Carnegie is the beneficiary of this public trust. The elected board members of the Town of Carnegie are the Authority's trustees. The Authority's financials are material to the Town of Carnegie. Therefore the Authority is considered to be a component unit of the Town of Carnegie.

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 of Carnegie's financial agreed upon procedures are readily obtainable at, [www.sai.ok.gov](http://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. All the activities of the Authority are business type activities. 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 recognized and recorded in the financial statements regardless of the measurement focus applied.

The Authority's financial statements use the economic resources measurement focus and are presented on 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.

**CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY**

**Notes to the Basic Financial Statements**

**For the Year Ended June 30, 2016**

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1.C. Measurement Focus and Basis of Accounting, (continued)**

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. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

**1.D. Assets, Liabilities and Net Position**

Cash and Cash Equivalents – For the purposes of the statement of cash flows, the Authority considers all cash on hand, 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 3.

Capital Assets - All capital assets under the cash basis of accounting are shown as expenditures in the year paid for. The assets (hospital facility and personal property) purchased by the Authority 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 4.

Bonds Payable - Bonds Payable to be repaid from the Authority's resources are reported as liabilities in the Statement of Net Position. See Note 5.

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.”

**CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY**

**Notes to the Basic Financial Statements**

**For the Year Ended June 30, 2016**

**Note 1 – Summary of Significant Accounting Policies, (continued)**

**1.D. Assets, Liabilities and Net Position, (continued)**

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 investing activities are reported as non-operating. The Authority has a contract with hospital management and has 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 citizens of the Town of Carnegie 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.

**Note 2 – Deposits, Investments and Collateral**

Deposits and Investments - The Authority does not have a written investment policy that limits its investment choices. 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* require collateral for all uninsured deposits of public trust funds in financial institutions. At June 30, 2016, the Authority was not exposed to custodial credit risk.

**Note 3 – 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, 2016 were as follows:

| <u>Type of Restricted Asset</u> | <u>Restricted Cash and Cash Equivalents</u> |
|---------------------------------|---|
| Restricted by Bond Indenture    | <u>\$21,593</u>                             |

**CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY**

**Notes to the Basic Financial Statements**

**For the Year Ended June 30, 2016**

**Note 4 – 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.

**Note 5 – Long-term Debt**

The Authority had the following long-term debt outstanding:

|               | <b><u>Balance</u></b><br><b><u>6/30/2015</u></b> | <b><u>Additions</u></b> | <b><u>Retirements</u></b> | <b><u>Balance</u></b><br><b><u>6/30/2016</u></b> | <b><u>Balance Due</u></b><br><b><u>in 1 Year</u></b> |
|---------------|--|-------------------------|---------------------------|--|--|
| Revenue Bonds | <u>\$889,548</u>                                 |                         | <u>\$80,526</u>           | <u>\$809,022</u>                                 | <u>\$87,735</u>                                      |

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.

Annual Debt Service Requirement

Debt Service Schedule:

| <u>Year Ending</u><br><u>June 30</u> | <u>Principal</u><br><u>Payments</u> | <u>Estimated</u><br><u>Interest</u> |
|--------------------------------------|-------------------------------------|-------------------------------------|
| 2017                                 | 87,735                              | 47,001                              |
| 2018                                 | 93,248                              | 41,488                              |
| 2019                                 | 99,108                              | 35,628                              |
| 2020                                 | 105,336                             | 29,400                              |
| 2021                                 | 111,955                             | 22,781                              |
| 2022-2024                            | <u>311,640</u>                      | <u>25,199</u>                       |
| Total                                | <u>809,022</u>                      | <u>201,497</u>                      |

**Note 6 – Restricted Net Position**

Net position restricted at June 30, 2016 relates to a bond indenture debt service account and is as follows:

|                               |                 |
|-------------------------------|-----------------|
| Debt Service                  | <u>\$21,593</u> |
| Total Restricted Net Position | <u>\$21,593</u> |

**CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY**

**Notes to the Basic Financial Statements**

**For the Year Ended June 30, 2016**

**Note 7 – 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.

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.

**Note 8 – 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. The Authority does not have insurance.

**Note 9 – 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 modified cash basis financial statements of the business-type activities of the Carnegie Tri-County Municipal Hospital Authority, Carnegie, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, June 1, 2018. 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 an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

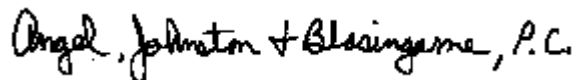
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Carnegie Tri-County Municipal Hospital Authority's financial statements are free from 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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.  
Chickasha, Oklahoma  
June 1, 2018