

**LEFLORE COUNTY SALES TAX
SUPPORTED HOSPITAL AUTHORITY**

FINANCIAL STATEMENTS
June 30, 2016 and 2015

With Independent Auditors' Report Thereon

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY

TABLE OF CONTENTS

<u>EXHIBIT</u>		<u>PAGE</u>
	Independent Auditors' Report	1-2
A	Balance Sheet	3
B	Statement of Revenues and Expenses	4
C	Statement of Cash Flows	5-6
	Notes to Financial Statements	7-12
	SUPPLEMENTAL INFORMATION	
<u>REPORTS</u>		
	Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements In Accordance With Government Auditing Standards	13-14

JOHNSTON & BRYANT

Certified Public Accountants

Pete Johnston, C.P.A.
Allen Bryant, Jr., C.P.A.

P.O. Box 1564
Ada, Oklahoma 74821-1564
(580) 332-5549

MEMBER
American Institute of Certified Public Accountants
Oklahoma Society of Certified Public Accountants

Independent Auditors' Report

Board of Trustees
LeFlore County Sales Tax Supported Hospital Authority
Poteau, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Leflore County Sales Tax Supported Hospital Authority, which comprise the balance sheet as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year end June 30, 2016 and the initial period ended June 30, 2015, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Leflore County Sales Tax Supported Hospital Authority as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the year ended June 30, 2016 and the initial period ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Other Information

The Authority has chosen not to prepare management Discussion and Analysis which is required under accounting principles generally accepted in the United States of America. The effect of this omission is not reasonably determinable.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 on our consideration of Leflore County Sales Tax Supported Hospital 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 Leflore County Sales Tax Supported Hospital Authority's internal control over financial reporting and compliance.



Ada, Oklahoma
November 30, 2016

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY

Balance Sheet
June 30, 2016 and 2015

	2016	2015
<u>Assets</u>		
Current Assets		
Cash	\$ 5,814,620	\$ 1,618,859
Total Current Assets	5,814,620	1,618,859
Other Assets		
Deferred Finance Costs - Net	304,984	71,271
Total Other Assets	304,984	71,271
Total Assets	\$ 6,119,604	\$ 1,690,130
<u>Liabilities and Net Position</u>		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 205,600	\$ 980,860
Accounts Payable	-	-
Accrued Expenses	-	-
Total Current Liabilities	205,600	980,860
Long-Term Liabilities		
Note Payable	10,766,700	1,687,099
Total Long-Term Liabilities	10,766,700	1,687,099
Total Liabilities	10,972,300	2,667,959
Net Position		
Restricted	(4,852,696)	(977,829)
Total Net Position	(4,852,696)	(977,829)
Total Liabilities and Net Position	\$ 6,119,604	\$ 1,690,130

See accompanying notes to the financial statements

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016 and Initial Period Ended June 30, 2015

	2016	2015
Revenues		
Sales Tax Proceeds	\$ 1,702,522	\$ 539,677
Interest Income	300	180
Total Revenue	1,702,822	539,857
Expenses		
Interest Expense	250,638	31,359
Amortization of Loan Costs	12,978	6,479
Transfer to LCHA for Operations	964,226	850,311
Loan Proceeds Transfer to LCHA	4,550,399	-
Transfer to LCHA for Capital Improvements	-	892,937
Total Expenses	5,778,241	1,781,086
Net Loss from Operations	(4,075,419)	(1,241,229)
Transfer from LCHC	200,552	263,400
Change in Net Position	(3,874,867)	(977,829)
Net Position - Beginning	(977,829)	-
Net Position - Ending	\$ (4,852,696)	\$ (977,829)

See accompanying notes to the financial statements

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY
Statement of Cash Flows
Year Ended June 30, 2016 and Initial Period Ended June 30, 2015

	2016	2015
Cash Flows from Operating Activity		
Sales Tax Proceeds	\$ 1,702,522	\$ 539,677
Transfers to LeFlore County Hospital Authority	(5,514,625)	(1,743,248)
Payments to Vendors and Suppliers	-	-
Net Cash Provided by Operating Activity	(3,812,103)	(1,203,571)
Non-Capital Related Financing Activity		
Transfers from LeFlore County Hospital Authority	200,552	263,400
Net Non-Capital Related Financing Activities	200,552	263,400
Cash Flows from Capital and Related Financing Activities		
Loan costs	(246,690)	(77,750)
Proceeds from Borrowings	20,737,300	2,900,000
Principal Payments	(12,432,960)	(232,041)
Interest Payments	(250,638)	(31,359)
Net Cash Flows from Capital and Related Financing Activities	7,807,012	2,558,850
Investing Activities		
Income from Investments	300	180
Net Investing Activities	300	180
Increase (Decrease) in Cash	4,195,761	1,618,859
Cash - Beginning	1,618,859	-
Cash - Ending	\$ 5,814,620	\$ 1,618,859

See accompanying notes to the financial statements.

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY
Statement of Cash Flows
Year Ended June 30, 2016 and Initial Period Ended June 30, 2015

	2016	2015
Cash Flows from Operating Activities		
Net (Loss) Income from Operations	\$ (4,075,419)	\$ (1,241,229)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Amortization	12,978	6,479
Interest Income	(300)	(180)
Interest Expense	250,638	31,359
Changes in Operating Assets and Liabilities		
Accounts Receivable	-	-
Other Assets	-	-
Accounts Payable	-	-
Net Cash Provided by Operations	\$ (3,812,103)	\$ (1,203,571)

See accompanying notes to the financial statements.

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2016 and 2015

Note 1. Organization

The Leflore County Sales Tax Supported Hospital Authority (the Authority) is a public trust created October 6, 2015 pursuant to Title 60 Oklahoma Statutes, Sections 176 to 180 as amended. The purpose of the trust is to manage and account for the ½ cent sales tax passed by the citizens of LeFlore County, Oklahoma on August 26, 2015. The stated purpose of that tax was for the operations and debt service needs of the Eastern Oklahoma Medical Center and related clinics operated by the LeFlore County Hospital Authority.

Note 2. Significant Accounting Policies

Accounting Standards – Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Report for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Authority's financial statements are presented in accordance with the requirements of GASB Statement No. 34 and 37, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments and GASB Statement No. 38 Certain Financial Statement Note Disclosures. Under GASB Statement No. 34, the Authority is required to present a balance sheet classified between current and Noncurrent assets and liabilities, a statement of revenues, expenses and changes in net assets, with separate presentation for operating and nonoperating revenues and expenses and a statement of cash flows using the direct methods.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents – Investments that have an original maturity of three months or less are considered to be cash equivalents

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2016 and 2015

Note 2. Significant Accounting Policies (continued)

Inventories

Inventories are valued at a lower cost (first-in, first-out method) or market.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or retirements are included in income in the period of disposition.

Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets. The ranges of such useful lives are as follows:

Land improvements	10 years
Building	20-40 years
Equipment	3-20 years

Net Position

Net position in the Authority are classified in two components.

Net Assets Invested in Capital Assets Net of Related Debt – Invested in capital assets net of related debt consist of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Unrestricted Net Position – Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

Operating Revenues and Expenses

On August 26, 2014 the citizens of LeFlore County, Oklahoma passes a ½ cent sales tax designed for operations and debt service of the LeFlore County Sales Tax Supported Hospital Authority. The proceeds of the sales tax are estimated to generate \$1,700,000 in sales tax revenue annually and the tax is permanent. The sales tax began January 1, 2015 and the authority began receiving the proceeds in March 2015.

In order to meet the requirements of the State of Oklahoma Department of Health's Protective Health and Medical Facilities Services Division the authority has issued \$2,900,000 in Sales Tax Revenue Notes which allowed the LCHA to enter into various contracts for construction and equipment for the complete remodel, redesigning and re-equipping of the hospital's surgical department. This was completed late in FYE 6-30-2015 but had not yet returned to pre-closure patient levels.

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2016 and 2015

Note 2. Significant Accounting Policies (continued)

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. Settled claims have not exceeded this commercial coverage in any of the two preceding years. The provision, if any, for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Grants and Contributions

From time to time, the Authority receives grants from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met, grants and contributions may be restricted for either specific operation purposes or for capital purposes. Amounts that are restricted or that are restricted to a specific operation purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Income Taxes

The Authority is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is not required to file federal income tax returns.

Note 3. Cash and Deposits

Custodial Credit Risk

Exposure to custodial risk related to deposits exist when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

The Authority's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct obligations of the state municipalities, counties, and school in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 2 U.S.C.A., Section 1823 (e), all financial institutions pledging collateral to the Authority must have a written collateral agreement approved by the board of directors or loan committee.

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2016 and 2015

Note 3. Cash and Deposits (continued)

Custodial Credit Risk (continued)

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exist when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exist when the Authority holds investments that are uninsured or unregistered, with securities held by the counterparty or by its trust department or agent not in the Authority's name.

The Authority secures cash deposits in excess of \$250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized; however the Authority does not have a formal policy for collateralizing cash deposits. At June 30, 2016 the carrying amount of the Authority's deposits was \$5,814,620 and the bank balance was \$5,814,620. As of June 30, 2016 none of the Authority's bank balance was exposed to custodial credit risk.

At June 30, 2016, the Authority held deposits of approximately \$5,814,620 at financial institutions. The Authority's cash deposits, including interest-bearing accounts, and investments are entirely covered by Federal Depository Insurance (FDIC) or direct obligations of the U.S. Government insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Therefore, the Authority was not exposed to custodial credit risk as defined above.

Investment Credit Risk – The Authority has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investment in:

1. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
2. Certificates of deposit of banks when such certificates of deposits are secured by acceptable collateral for the deposit of public monies.
3. Savings accounts or saving certificates to the extent that such accounts or certificates are fully insured by the United States Government.
4. Repurchased agreements that have underlying collateral including obligations of the United States Government, its agencies and instrumentalities, or the State of Oklahoma.
5. County, municipal or school Town debt obligations for which an ad valorem tax may be levied.
6. Money market funds regulated by the SEC and in which investments consist of the investments of obligations of the United States, its agencies and instrumentalities.

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY

Notes to Financial Statements

June 30, 2016 and 2015

Note 3. Cash and Deposits (continued)

Investment Credit Risk (continued)

7. Warrants, bonds or judgments of the school Town.
8. Qualified pooled investment programs through an interlocal cooperative agreement formed pursuant to applicable law and to which the board of education has voted to be a member, the investments of which consist of those items specified in paragraphs 1 through 7 above, as well as obligations of the United States agencies and instrumentalities.
9. Any other investment that is authorized by law.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority has no formal policy limiting investments based on credit rating. Unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The Authority had no investment credit risk as of June 30, 2016, as defined above.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority had no investment interest rate risk as defined above.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the Authority. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The Authority places no limit on the amount it may invest in any one issuer.

At June 30, 2016, the Authority had 100% concentration of credit risk as defined above.

Note 4. Capital Assets

The authority does not currently own capital assets.

LEFLORE COUNTY SALES TAX SUPPORTED HOSPITAL AUTHORITY
Notes to Financial Statements
June 30, 2016 and 2015

Note 5. Long-Term Debt

A Summary of long-term debt, including capital lease obligations as of June 30, 2016 is as follows:

	Interest Rate	Maturity Date	2016				
			Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
LCSSHA Sale Tax Revenue Note	4.50%	3/1/2018	2,667,959	-	2,667,959	-	-
LCSSHA Sale Tax Revenue Note, Series 2015	5.75%	12/1/2019	-	4,065,000	4,065,000	-	-
LCSSHA Sale Tax Revenue Note, Series 2016	5.75%	8/1/2022	-	5,700,000	5,700,000	-	-
LCSSHA Sale Tax Revenue Note, Series 2016A	5.75%	5/1/2041	-	10,972,300	-	10,972,300	205,600
			<u>\$ 2,667,959</u>	<u>\$ 20,737,300</u>	<u>\$ 12,432,959</u>	<u>\$ 10,972,300</u>	<u>\$ 205,600</u>

	Interest Rate	Maturity Date	2015				
			Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Notes Payable							
LCSSHA Sale Tax Revenue Note	4.50%	3/1/2018	-	2,900,000	232,041	2,667,959	980,860
			<u>\$ -</u>	<u>\$ 2,900,000</u>	<u>\$ 232,041</u>	<u>\$ 2,667,959</u>	<u>\$ 980,860</u>

Scheduled principal and interest payment on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30:	Bonds and Notes Payable	
	Principal	Interest
2017	\$ 205,600	\$ 625,634
2018	217,600	613,501
2019	230,500	600,665
2020	242,700	588,671
2021	258,700	573,009
2022 and there after	<u>9,817,200</u>	<u>6,666,790</u>
Total	<u>\$ 10,972,300</u>	<u>\$ 9,668,270</u>

Note 6. Subsequent Events

Management has evaluated subsequent events through November 30, 2016 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.

**INDEPENDENT AUDITORS' 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**

Board of Trustees
LeFlore County Sales Tax Supported Hospital Authority
Poteau, 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 financial statements of Leflore County Sales Tax Supported Hospital Authority, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the initial period then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Leflore County Sales Tax Supported 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leflore County Sales Tax Supported Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Leflore County Sales Tax Supported Hospital 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 entity'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.

The Board of Trustees
LeFlore County Sales Tax Supported Hospital Authority
Poteau, Oklahoma
Page two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LeFlore County Sales Tax Supported 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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Ada, Oklahoma
November 30, 2016