

Independent Auditor's Report

Carnegie Tri-County Municipal Hospital Authority

Carnegie, Oklahoma

Year Ending June 30, 2013

**CARNEGIE TRI-COUNTY MUNICIPAL
HOSPITAL AUTHORITY
CARNEGIE, OKLAHOMA
June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of
Carnegie Tri-County Municipal
Hospital Authority
Carnegie, Oklahoma 73015

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, as of and for the year ended June 30, 2013, 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 opinions.

Opinions

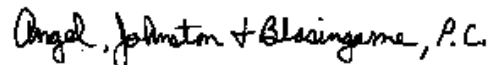
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Carnegie Tri-County Municipal Hospital Authority as of June 30, 2013, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in conformity with the 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 October 11, 2013, 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
October 11, 2013

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
For the Year Ended June 30, 2013

ASSETS

Current Assets	
Cash and cash equivalents, unrestricted	\$ 0.00
Cash and cash equivalents, restricted	31,462.77
Investments	0.00
<i>Total Current Assets</i>	<u>\$ 31,462.77</u>
Non Current Assets	
Note Receivable	0.00
Capital assets	0.00
<i>Total Non Current Assets</i>	<u>\$ 0.00</u>
 <i>Total Assets</i>	 <u>\$ 31,462.77</u>

LIABILITIES

Current Liabilities	
Bonds, notes and loans payable	80,898.37
<i>Total Current Liabilities</i>	<u>\$ 80,898.37</u>
Non Current Liabilities	
Bonds, notes and loans payable	63,410.99
<i>Total Non Current Liabilities</i>	<u>\$ 63,410.99</u>
 <i>Total Liabilities</i>	 <u>\$ 144,309.36</u>

NET POSITION

Invested in Capital Assets net of Related Debt	0.00
Restricted:	
Debt Service	15,228.78
Debt Reserve	16,233.99
Unrestricted	<u>(144,309.36)</u>
 <i>Total Net Position</i>	 <u>\$ (112,846.59)</u>

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

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
Year Ended June 30, 2013

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	89,746.58
Payments to Reserve	34,722.53
Professional Fees	3,070.00
<i>Total Operating Expenses</i>	<u>\$ 127,539.11</u>
 <i>Income (Loss) from operations</i>	 <u>\$ (127,539.11)</u>
Non-Operating Revenue(Expense)	
Sales/Use Tax Collections	151,641.70
Bond Interest	(7,396.54)
Interest Income	76.66
<i>Total Non-Operating Revenues (Expense)</i>	<u>\$ 144,321.82</u>
 Change in Net Position	 <u>16,782.71</u>
 <i>Net Position-Beginning of Year</i>	 <u>(129,629.30)</u>
 <i>Net Position-End of Year</i>	 <u><u>\$ (112,846.59)</u></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, 2013

Cash flows from operating activities:	
Cash received from customers	\$ 0.00
Other cash receipts	0.00
Cash payments to hospital management	(72,860.88)
Cash payments to vendors	0.00
Cash payments for professional fees	(3,070.00)
<i>Net Cash provided (used) by operating activities</i>	<u>(75,930.88)</u>
 Cash flows from non-capital and related financing activities:	
Sales/use tax collections	151,641.70
Bond principal paid	(78,660.62)
Bond interest paid	(7,396.54)
Loan to hospital	0.00
Principal paid on loan to hospital	0.00
<i>Net Cash provided (used) by non-capital financing activities</i>	<u>65,584.54</u>
 Cash flows from investing activities:	
Investments purchased	0.00
Interest earned	76.66
Investments redeemed	0.00
<i>Net Cash provided (used) by investing activities</i>	<u>76.66</u>
 <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	 (10,269.68)
 <i>Beginning Cash and Cash Equivalents</i>	 <u>41,732.45</u>
 <i>Ending Cash and Cash Equivalents</i>	 <u>\$ 31,462.77</u>
 Reconciliation of Operating Income to Net Income	
Provided by Operating Activities:	
Operating Income	\$ (127,539.11)
Adjustments to reconcile operating income to net cash:	
Change in other liabilities	<u>51,608.23</u>
 Net Cash provided (used) by operating activities	 <u>\$ (75,930.88)</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, 2013

Note 1 – Summary of Significant Accounting Policies

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

1.A. Financial 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 paid out for loans to the hospital are recorded as assets.
- Amounts due for bond repayment are classified as liabilities.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

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.

1.D. Assets, Liabilities and Net Position

Cash & 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 deposit accounts including certificates of deposit with maturities of three months or less to be cash and cash equivalents.

Capital Assets - All capital assets under the cash basis of accounting are shown as expenditures in the year paid for. Note 3 shows the assets purchased by the Authority that are not shown in the statement of net position. Also 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.

Notes Payable

Notes Payable to be repaid from the authority resources are reported as liabilities in the balance sheet. The Notes Payable is comprised of one note. See Note 3.

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.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

1.E. Revenues and Expenses

Operating and Nonoperating 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 assigned revenue from the hospital to the management group for facility operations. Therefore there is no 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.

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 investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificate of deposits of savings and loan associations, banks and credit unions; and savings accounts or savings certificates of savings and loan associations, banks and credit unions.

Custodial Credit Risk - Deposits

Collateral is required for demand deposits, certificates of deposit, and savings accounts for all amounts not covered by federal deposit insurance. At the end of the year the bank balance of the Authority’s deposits was \$31,462.77, the Authority’s balances do not exceed the \$250,000 FDIC insurance level.

2.B. Restricted Assets

The Authority’s cash is restricted by the revenue note bond indenture.

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 hospital management group.

The following is a summary by category of changes in capital assets assigned to the management group:

	June 30, 2012	Current <u>Deletions</u>	<u>Current</u> <u>Acquisitions</u>	June 30, 2013
Real Property	\$ 620,000	-0-	-0-	\$ 620,000
Total	620,000	-0-	-0-	620,000
Less: Depreciation	-0-	-0-	-0-	-0-
Net Capital Assets	<u>\$ 620,000</u>	<u>-0-</u>	<u>-0-</u>	<u>\$ 620,000</u>

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 3 – Long Term Debt

On March 1, 2005 the Authority issued \$700,000 in Revenue Notes to finance the purchase of certain hospital facilities and equipment so as to provide better health care to the residents of the three county service area. The Notes are secured by (a) a pledge of the one percent (1.0%) sales tax levied for the support of the municipal hospital.

	June 30, <u>2012</u>	Current <u>Deletions</u>	<u>Current</u> <u>Acquisitions</u>	June 30, <u>2013</u>
2005 Revenue Note	\$ 222,969.98	\$78,660.62	-0-	\$ 144,309.36
Total L-T Debt	<u>\$ 222,969.98</u>	<u>\$78,660.62</u>	<u>\$-0-</u>	<u>\$ 144,309.36</u>

Total interest paid for the current year was \$7,396.54. The following is a summary of future debt service requirements of the Authority's long-term debt:

	<u>Principal</u>	<u>Interest</u>
2013-14	80,898	4,585
2014-15	63,411	1,132

Note 4 – Commitments and Contingencies.

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.

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.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 4 – Commitments and Contingencies. (continued)

Series 2005 Revenue Notes- The Authority issued \$700,000 of Revenue Notes that is considered by the bond attorney to be tax-exempt. There is a prohibition that tax-exempt notes cannot be used to liquidate taxable debt. The proceeds of the note were used to purchase the hospital building from the Town. Then the Town transferred back to the Authority the proceeds they received from the sale of the hospital. The Authority then paid off the taxable indebtedness of the hospital with the funds they received as a transfer from the Town. The net result of Revenue Note issuance appears to be that taxable debt was liquidated and tax-exempt debt was left. The revenue notes were issued as a tax-free series. There could be an IRS Determination of Taxability that changes the issue to taxable. If this event were to occur then the current interest rate of 4.25% would be converted to a variable rate of 1% above New York Prime.

Debt Reserve Fund- Individual bondholders approved liquidating \$60,000 from the Debt Reserve Fund in fiscal year 2012. This temporarily changed compliance requirements for the bond indenture through agreement. The surplus of sales tax revenue that was being transferred to the Hospital Management Group was used to bring the Debt Reserve Fund up to the required \$70,000 as stated in the bond indenture. During fiscal year 2013 bondholders agreed to limit the Debt Reserve requirement to 10% of the outstanding bond balance. At year end, the Debt Reserve Fund balance requirement was \$14,431. There was \$16,234 in the Debt Reserve, which is in compliance with the new agreement.

Note 5 – 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 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.

Internal Control and Compliance Report

**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 Trustees
Carnegie Tri-County Municipal Hospital Authority
Carnegie, Oklahoma 73015

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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, October 11, 2013.

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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency. 13-01.

Compliance and Other Matters

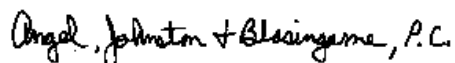
As part of obtaining reasonable assurance about whether Carnegie Tri-County Municipal Hospital Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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*.

Carnegie Tri-County Municipal Hospital Authority's Response to Findings

Carnegie Tri-County Municipal Hospital Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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

October 11, 2013

Carnegie Tri-County Municipal Hospital Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2013

Criteria – Board minutes are public records of Board actions and activity conducted during meetings. Best practice is to sign board minutes verifying their content is correct and complete to what occurred during the meeting.

Condition – Minutes are not being signed when finalized to validate correctness and completeness of the information contained in them. They are being approved by vote at a subsequent meeting.

Cause and Effect or Potential Effect – By not systematically reviewing and signing final board minutes, there is the possibility of minutes being altered after verbally approved, and their content not being correct and complete as to what activity occurred.

Recommendation – We recommend the Authority develop a system for recording the minutes, making a permanent record of the proceedings, then review the record and sign the minutes signifying they are correct and complete.

Management response – Management agrees, and has implemented procedures to properly acknowledge finalized minutes are correct and complete by having them signed.