

Independent Auditor's Report

Carnegie Tri-County Municipal Hospital Authority

Carnegie, Oklahoma

Year Ending June 30, 2011

**CARNEGIE TRI-COUNTY MUNICIPAL
HOSPITAL AUTHORITY
CARNEGIE, OKLAHOMA
June 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business-type activities 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, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

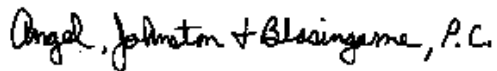
As described in Note 1, the Authority prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the business-type activities of the Carnegie Tri-County Municipal Hospital Authority, as of June 30, 2011 and the respective changes in financial position – modified cash basis, and cash flows – modified cash basis, thereof for the year ended in conformity with the basis of accounting described in Note 1.

Carnegie Tri-County Municipal
Hospital Authority
January 12, 2012

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2012, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Carnegie Tri-County Municipal Hospital Authority has not presented the Management's Discussion and Analysis and budgetary information for the year ended June 30, 2011. Those are not a required part of the basic financial statements but are supplementary information required to accompany those financial statements.



Angel, Johnston & Blasingame, P.C.
Certified Public Accountants
Chickasha, Oklahoma
January 12, 2012

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
June 30, 2011

<u>ASSETS</u>	<u>Enterprise Fund</u>
Current Assets	
Cash and cash equivalents, unrestricted	\$ 0.00
Cash and cash equivalents, restricted	25,851.91
Investments	0.00
<i>Total Current Assets</i>	<u>25,851.91</u>
Non Current Assets	
Note Receivable	118,641.22
Capital assets	0.00
<i>Total Non Current Assets</i>	<u>118,641.22</u>
 <i>Total Assets</i>	 <u>144,493.13</u>
 <u>LIABILITIES</u>	
Current Liabilities	
Due to Town of Carnegie	58,641.22
Bonds, notes and loans payable	74,815.88
<i>Total Current Liabilities</i>	<u>133,457.10</u>
Non Current Liabilities	
Due to other funds	0.00
Bonds, notes and loans payable	222,969.98
<i>Total Non Current Liabilities</i>	<u>222,969.98</u>
 <i>Total Liabilities</i>	 <u>356,427.08</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets net of Related Debt	0.00
Restricted:	
Debt Service	25,851.91
Debt Reserve	0.00
Unrestricted	<u>(237,785.86)</u>
 <i>Total Net Assets</i>	 \$ <u><u>(211,933.95)</u></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 ASSETS
MODIFIED CASH BASIS - PROPRIETARY FUND
Year Ended June 30, 2011

		Enterprise Fund
Operating Revenue:		
Charges for Services	\$	0.00
Miscellaneous		0.00
<i>Total Operating Revenues</i>		0.00
 Operating Expenses:		
Transfer to Hospital Management		31,054.89
Professional Fees		4,533.33
<i>Total Operating Expenses</i>		35,588.22
 <i>Income (Loss) from operations</i>		 (35,588.22)
 Non-Operating Revenue(Expense)		
Sales/Use Tax Collections		140,784.56
Bond Interest		(14,320.95)
Interest Income		352.77
<i>Total Non-Operating Revenues (Expense)</i>		126,816.38
 Change in Net Assets		 91,228.16
 <i>Net Assets-Beginning of Year</i>		 (303,162.11)
 <i>Net Assets-End of Year</i>	\$	 (211,933.95)

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

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND TYPES
For the Year Ended June 30, 2011

Cash flows from operating activities:	
Cash received from customers	\$ 0.00
Other cash receipts	0.00
Cash payments to hospital management	(31,054.89)
Cash payments to vendors	0.00
Cash payments for professional fees	(4,533.33)
<i>Net Cash provided (used) by operating activities</i>	<u>(35,588.22)</u>
 Cash flows from non-capital and related financing activities:	
Sales/use tax collections	140,784.56
Bond principal paid	(71,736.21)
Bond interest paid	(14,320.95)
Loan Proceeds	70,000.00
Principal paid on loan	(11,358.78)
Loan to hospital	(130,000.00)
Principal paid on loan to hospital	11,358.78
<i>Net Cash provided (used) by non-capital financing activities</i>	<u>(5,272.60)</u>
 Cash flows from investing activities:	
Investments purchased	0.00
Interest earned	352.77
Investments redeemed	0.00
<i>Net Cash provided (used) by investing activities</i>	<u>352.77</u>
 <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	 (40,508.05)
 <i>Beginning Cash and Cash Equivalents</i>	 <u>66,359.96</u>
 <i>Ending Cash and Cash Equivalents</i>	 <u>\$ 25,851.91</u>
 Reconciliation of Operating Income to Net Income	
Provided by Operating Activities:	
Operating Income	\$ (35,588.22)
Adjustments to reconcile operating income to net cash:	
Change in other liabilities	<u>0.00</u>
 Net Cash provided by operating activities	 <u>\$ (35,588.22)</u>

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

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
CARNEGIE, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.B., these financial statements are presented on a cash basis of accounting. This 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. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent with they are applicable to the cash basis or accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

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.

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 Town of Carnegie area.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Measurement Focus

Measurement focus is a term used to describe “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 only type of financial activity in the Authority is enterprise or business-type activity. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
CARNEGIE, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

The Authority's financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenditures/expenses when they result from cash transactions with the provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this cash basis of accounting, assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for good or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

Financial Statement Presentation

Government – Wide Financial Statements- The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except the fiduciary funds. These statements generally distinguish between government and business-type activities. However, all the activities of the Authority are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements- Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. However, for this entity the government-wide information and fund financial statements are the same. They consist of three funds and are presented on the cash basis. Therefore, one set of financial statements serves as governmental-wide statements and fund statements. Each fund is accounted for by providing a set of self-balancing accounts. The funds of the Authority are as described below:

1. Debt Service Fund- It accounts for the Sales Tax collections that are used to pay the bond debt service requirements. Excess collections are transferred to the hospital management company for operating expense assistance.
2. Debt Service Reserve Fund- It accounts for the bond proceeds that are set aside to assure uninterrupted ability to make bond servicing payments.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
CARNEGIE, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. 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 assets. 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.

D. Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by legislation or restrictions by creditors, grantors, laws or regulations of other governments. Restricted resources are applied to allowable expenditure prior to the use of unrestricted resources.

E. Estimates

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

F. Operating and Non-operating Revenues

Operating revenues would be revenues derived from the operation of the Authority's purpose of enhancing hospital operations. However, they have contract with the management and assigned the revenue from the hospital to the management group for the operation of the facility. Therefore, there is no operating revenue reported by the Authority. The primary non-operating revenue is sales tax approved by the Town of Carnegie taxpayers for support of the hospital. The sales tax is used to meet the bond obligations and loan payments to the Town and any excess is transferred to the management group for hospital operations.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
 CARNEGIE, OKLAHOMA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 2 – CASH AND INVESTMENTS

The Authority’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash is restricted by the revenue note bond indenture.

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. 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 carrying amount and the bank balance of the Authority’s deposits was \$25,851.91, all of which were covered by federal depository insurance.

NOTE 3 – ASSIGNED CAPITAL ASSETS

The hospital purchase described in Note (1)(C) 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, <u>2010</u>	Current <u>Deletions</u>	Current <u>Acquisitions</u>	June 30, <u>2011</u>
Real Property	\$ 620,000	-0-	-0-	\$ 620,000
Equipment & Furniture	-0-	-0-	-0-	-0-
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>

NOTE 4- 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.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
 CARNEGIE, OKLAHOMA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 4- LONG-TERM DEBT (continued)

	June 30, <u>2010</u>	Current <u>Deletions</u>	Current <u>Acquisitions</u>	June 30, <u>2011</u>
2005 Revenue Note	\$ 369,522.07	71,736.21	-0-	\$ 297,785.86
Total L-T Debt	<u>\$ 369,522.07</u>	<u>\$71,736.21</u>	<u>\$-0-</u>	<u>\$ 297,785.86</u>

Total interest paid for the current year was \$14,320.95. The following is a summary of future debt service requirements of the Authority's long-term debt:

	<u>Principal</u>	<u>Interest</u>
2011-12	74,816	11,241
2012-13	78,087	7,970
2013-14	81,472	4,585
2014-15	63,411	1,132

NOTE 5- SHORT-TERM DEBT

On March 10, 2011, the Authority entered into a loan agreement with the Town of Carnegie for \$130,000. The loan is to be repaid through the liquidation of \$60,000 of the Debt Reserve Fund, with the remaining \$70,000 to be repaid from the surplus of sales tax after monthly Revenue Bond Series 2005 principal and interest payments have been made. The surplus was being transferred to the Hospital Management Group to assist with hospital operations. This is an interest free transfer of funds.

	June 30, <u>2010</u>	Current <u>Deletions</u>	Current <u>Acquisitions</u>	June 30, <u>2011</u>
Town Note Payable	\$ 0	\$71,358.78	\$130,000.00	\$ 58,641.22
Total S-T Debt	<u>\$ 0</u>	<u>\$71,358.78</u>	<u>\$130,000.00</u>	<u>\$ 58,641.22</u>

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
CARNEGIE, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 6- CONCENTRATIONS 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.

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 the Debt Reserve Fund. 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 will be used to bring the Debt Reserve Fund up to the required \$70,000 as stated in the bond indenture, after the loan from the Town is repaid.

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
CARNEGIE, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 6 – 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.

SUPPLEMENTAL INFORMATION

**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 the accompanying modified cash basis financial statements of the business-type activities of the Carnegie Tri-County Municipal Hospital Authority, a component unit of Carnegie, Oklahoma, as of and for the year ended June 30, 2011, which comprise the Authority's basic financial statements and have issued our report thereon dated January 12, 2012. The Authority did not prepare a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements. 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weakness. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's

Carnegie Tri-County Municipal Hospital Authority
January 12, 2012

ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as item 11-01 to be significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

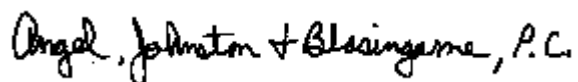
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above, 11-01, we consider to be a material weakness.

Compliance and Other Matters

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

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

This report is intended solely for the information of the governing board, management, all applicable state agencies, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Angel, Johnston and Blasingame, P.C.
Chickasha, Oklahoma
January 12, 2012

CARNEGIE TRI-COUNTY MUNICIPAL HOSPITAL AUTHORITY
Schedule of Findings
For the Year Ended June 30, 2011

11-01 Lack of Segregation of Duties:

Criteria- Proper internal control is a basic element needed to accurately report financial information. Processes that provide safeguards in the recording and reporting process are the key components of internal control.

Condition- The Authority has a small number of employees that perform the duties, which would normally be divided among a large number of employees. This precludes the adequate segregation of duties and could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Effect- There is a more than low risk that errors or irregularities could occur in the recording or reporting of financial information and not be detected in a timely period

Recommendation: If the Authority's assets or complexity increases, it may be advisable to implement more controls. Trustees should assess the advantages of segregating the accounting functions in order to determine whether hiring personnel would be cost effective.

Management's Response- Management agrees it is not cost effective but will continue to monitor and decide when additional procedures need to be implemented or additional personnel hired.