



Management's Discussion and Analysis and  
Financial Statements  
June 30, 2012 and 2011

**McCurtain County Hospital Authority**

# McCurtain County Hospital Authority

## Table of Contents

June 30, 2012 and 2011

---

Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	3
Financial Statements	
Balance Sheets .....	7
Revenues, Expenses and Changes in Net Assets.....	8
Cash Flows.....	9
Notes to Financial Statements .....	11
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing</i> <i>Standards</i> .....	18
Schedule of Findings .....	20



## Independent Auditor's Report

Board of Trustees  
McCurtain County Hospital Authority  
Idabel, Oklahoma

We have audited the accompanying balance sheets of McCurtain County Hospital Authority (Authority) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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 audits.

We conducted our audits 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 audits 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 the significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McCurtain County Hospital Authority as of June 30, 2012 and 2011, and the results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2012, on our consideration of McCurtain County Hospital 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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Eide Bailly LLP*

Oklahoma City, Oklahoma  
October 10, 2012

## **Introduction**

Our discussion and analysis of McCurtain County Hospital Authority (Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Authority.

## **Financial Highlights**

- Total assets decreased in 2012 by \$891,568 or 13% and decreased by \$1,025,628 or 13% in 2011
- Total liabilities decreased in 2012 by \$328,823 or 40% and decreased by \$625,991 or 43% in 2011
- Operating revenues decreased in 2012 by \$23,391 or 42% and decreased by \$42,510 or 43% in 2011
- Operating income (loss) decreased in 2012 by \$2,244 or 25% and decreased by \$39,449 or 129% in 2011
- The Authority's net assets decreased in 2012 by \$562,745 or 9% compared with a decrease of \$399,637 or 6% in 2011

## **Using This Annual Report**

The Authority's financial statements consist of three statements - a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

## **The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as local economic factors to assess the overall health of the Authority.

### The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

### The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net assets decreased by \$562,745 or 9% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
<b>Assets</b>			
Current assets	\$ 367,464	\$ 402,273	\$ 726,629
Noncurrent cash and investments	447,879	551,333	1,247,958
Capital assets	5,163,297	5,609,578	5,320,565
Other assets	132,138	439,162	732,822
<b>Total assets</b>	<b>\$ 6,110,778</b>	<b>\$ 7,002,346</b>	<b>\$ 8,027,974</b>
<b>Liabilities</b>			
Current maturities	\$ 307,024	\$ 293,660	\$ 280,879
Other current liabilities	57,040	92,203	437,315
Long term debt	132,138	439,162	732,822
<b>Total liabilities</b>	<b>496,202</b>	<b>825,025</b>	<b>1,451,016</b>
<b>Net Assets</b>			
Invested in capital assets net of related debt	4,724,135	4,876,756	4,306,864
Restricted:			
For debt service	325,474	324,739	347,958
Expendable for capital acquisitions	122,405	259,657	1,150,817
Unrestricted	442,562	716,169	771,319
<b>Total net assets</b>	<b>5,614,576</b>	<b>6,177,321</b>	<b>6,576,958</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,110,778</b>	<b>\$ 7,002,346</b>	<b>\$ 8,027,974</b>

Asset accounts in 2012 decreased by \$891,568 or 13% as compared to 2011. The primary components of the decrease in assets are:

- A decrease in capital assets of \$446,281 or 8% due primarily to changes in accumulated depreciation of \$449,187
- A decrease in other assets of \$307,024 or 70% due primarily to the decrease in Note Receivable (Hospital) of \$293,660

## Operating Results and Changes in Net Assets

In 2012, the Authority's net assets decreased by \$562,745 or 9% as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenues			
Interest income	\$ 4,571	\$ 15,089	\$ 34,506
Lease income	27,640	40,513	63,606
Total operating revenues	32,211	55,602	98,112
Operating Expenses			
Interest expense	27,640	40,513	52,826
Other	-	8,010	142
Professional fees	15,797	16,061	14,677
Total operating expenses	43,437	64,584	67,645
Operating (Loss) Income	(11,226)	(8,982)	30,467
Non-operating Revenue (Expenses)			
(Loss)/Gain on disposal of asset	(2,332)	-	-
Expenses in excess of Revenue before Capital Transfers	(13,558)	(8,982)	30,467
Capital Transfers			
Transfer of depreciation on equipment utilized by hospital	(449,187)	(390,655)	(347,777)
Intergovernmental transfers (sales tax revenue from county)	-	-	8,530
Transfer of capital to hospital for capital acquisitions	(100,000)	-	-
(Decrease) Increase in net assets	<u>\$ (562,745)</u>	<u>\$ (399,637)</u>	<u>\$ (308,780)</u>

## Operating Income

The first component of the overall change in the Authority's net assets is its operating income - the difference between operating revenues and expenses. In the current year, the Authority had an operating loss.

Operating loss for 2012 increased by \$2,244 or 25% as compared to 2011. The primary components of the increasing operating loss are:

- A decrease in interest income of \$10,518 or 70% compared with a decrease of \$19,417 or 56% in 2011
- A decrease in lease income of \$12,873 or 32% compared with a decrease of \$23,093 or 36% in 2011

### **The Authority's Cash Flows**

Changes in the Authority's cash flows are consistent with changes in operating income and expenses.

### **Debt Administration**

At June 30, 2012, the Authority had \$439,162 in notes outstanding.

### **Contacting the Authority's Financial Management**

This financial report is designed to provide our suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's administration by calling (580) 208-3104.



(This page left blank intentionally.)

	2012	2011
Assets		
Current Assets		
Cash	\$ 57,212	\$ 69,075
Assets limited as to use	-	33,063
Notes receivable	307,024	293,660
Interest receivable	3,228	6,475
Total current assets	367,464	402,273
Assets Limited as to Use		
Due from County	22,405	59,657
Restricted investments	100,000	200,000
Reserve fund required by loan resolution	325,474	324,739
	447,879	584,396
Less amount required to meet current obligations	-	(33,063)
Assets limited as to use, net	447,879	551,333
Capital Assets, Net	5,163,297	5,609,578
Other Assets		
Notes receivable, net	132,138	439,162
Total assets	\$ 6,110,778	\$ 7,002,346

See Notes to Financial Statements

McCurtain County Hospital Authority  
Balance Sheets  
June 30, 2012 and 2011

---

	<u>2012</u>	<u>2011</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 307,024	\$ 293,660
Accounts payable	-	33,063
Accrued interest payable	3,140	5,240
Advances from related party	<u>53,900</u>	<u>53,900</u>
Total current liabilities	364,064	385,863
Long-Term Debt, Net of current maturities	<u>132,138</u>	<u>439,162</u>
Total liabilities	<u>496,202</u>	<u>825,025</u>
Net Assets		
Invested in capital assets net of related debt	4,724,135	4,876,756
Restricted		
For debt service	325,474	324,739
Expendable for capital acquisitions	122,405	259,657
Unrestricted	<u>442,562</u>	<u>716,169</u>
Total net assets	<u>5,614,576</u>	<u>6,177,321</u>
Total liabilities and net assets	<u><u>\$ 6,110,778</u></u>	<u><u>\$ 7,002,346</u></u>

**McCurtain County Hospital Authority**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Interest income	\$ 4,571	\$ 15,089
Lease income	<u>27,640</u>	<u>40,513</u>
Total operating revenues	<u>32,211</u>	<u>55,602</u>
Operating Expenses		
Interest	27,640	40,513
Other	-	8,010
Professional fees	<u>15,797</u>	<u>16,061</u>
Total operating expenses	<u>43,437</u>	<u>64,584</u>
Operating loss	(11,226)	(8,982)
Nonoperating Revenue (Expenses)		
Loss on disposal of asset	<u>(2,332)</u>	<u>-</u>
Expenses in Excess of Revenue Before Capital Transfers	(13,558)	(8,982)
Capital Transfers		
Transfer of depreciation on equipment utilized by the Hospital	(449,187)	(390,655)
Transfer of capital to the hospital for capital acquisition	<u>(100,000)</u>	<u>-</u>
Decrease in Net Assets	(562,745)	(399,637)
Net Assets, Beginning of Year	<u>6,177,321</u>	<u>6,576,958</u>
Net Assets, End of Year	<u><u>\$ 5,614,576</u></u>	<u><u>\$ 6,177,321</u></u>

**McCurtain County Hospital Authority**  
**Statements of Cash Flows**  
**Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating Activities		
Operating receipts	\$ 34,408	\$ 49,022
Operating expenditures	<u>(15,798)</u>	<u>(24,071)</u>
Net Cash from Operating Activities	<u>18,610</u>	<u>24,951</u>
Capital and Capital Related Financing Activities		
Capital transfer	(100,000)	-
Purchase of capital assets	(5,238)	(814,716)
Principal payments on long term debt	(293,660)	(280,879)
Release of funds from county for property purchase	5,240	-
Interest paid on long-term debt	<u>(29,740)</u>	<u>(42,522)</u>
Net Cash used for Capital and Related Financing Activities	<u>(423,398)</u>	<u>(1,138,117)</u>
Investing Activities		
Proceeds from note receivable	293,660	280,879
Proceeds from redemption of certificates of deposit	<u>100,000</u>	<u>700,000</u>
Net Cash from Investing Activities	<u>393,660</u>	<u>980,879</u>
Net Change in Cash	(11,128)	(132,287)
Cash, Beginning of Year	<u>393,814</u>	<u>526,101</u>
Cash, End of Year	<u><u>\$ 382,686</u></u>	<u><u>\$ 393,814</u></u>
Reconciliation of Cash to Balance Sheets		
Cash in current assets	\$ 57,212	\$ 69,075
Cash in assets limited as to use		
Cash restricted by reserve fund required by loan resolution	<u>325,474</u>	<u>324,739</u>
	<u><u>\$ 382,686</u></u>	<u><u>\$ 393,814</u></u>

McCurtain County Hospital Authority  
 Statements of Cash Flows  
 Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Net Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ (11,226)	\$ (8,982)
Adjustments to reconcile operating income to net cash from operating activities:		
Interest income held by the County	(1,050)	(5,844)
Interest expense considered financing activity	27,640	40,513
Changes in assets and liabilities		
Accrued interest receivable	3,246	10,315
Accounts payable	-	(51)
Advances from related party	-	(11,000)
Net Cash from Operating Activities	<u>\$ 18,610</u>	<u>\$ 24,951</u>
 Supplemental Disclosure of Cash Flow Information		
Transfer of non-cash assets from McCurtain County to the McCurtain County Hospital Authority		
Interest earned	\$ 1,050	\$ 5,844
Equipment purchased	-	197,004
Decrease (increase) accounts payable for capital	-	332,052
Transfer depreciation on equipment utilized by the Hospital	<u>(449,187)</u>	<u>(390,655)</u>
Net transfer of non-cash assets	<u>\$ (448,137)</u>	<u>\$ 144,245</u>

## **Note 1 - Organization and Significant Accounting Policies**

### **Reporting Entity**

McCurtain County Hospital Authority (Authority), a trust of which McCurtain County, Oklahoma, is beneficiary, was created by a trust indenture dated as of June 23, 1971, and amended as of September 18, 1972, to, among other things, construct, maintain and operate hospitals and other medical facilities for use by the United States of America, State of Oklahoma or any municipality or political subdivision of the State of Oklahoma.

On December 1, 1972, amended November 3, 1999, the County leased to the Authority all real and personal property relating to the hospital facilities owned by the County. In consideration of the lease, the Authority agreed to operate the hospital facilities owned by the County. The lease agreement terminates on December 31, 2022, with a renewal option by the Authority for a term of fifty years, but in no event is the termination of the lease agreement to occur prior to the date any obligations of the Authority have been paid in full or sufficient funds to pay these obligations are held in trust.

On April 1, 1975, (most recently amended November 3, 1999) the Authority subleased all real and personal property, unexpired contracts and leases, and revenue of the hospital to McCurtain Memorial Medical Management, Inc., d/b/a McCurtain Memorial Hospital (Hospital). This is a non-profit corporation created under "The Non-Profit Corporation Act" of the State of Oklahoma. Under the sublease agreement, the (Hospital) is managed and operated by McCurtain Memorial Medical Management, Inc., subject to the provisions of the lease agreement between the Authority and the County.

### **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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash Equivalents**

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents.

### **Notes Receivable**

Notes receivable are stated at principal amounts and are secured by (Hospital) revenue and property. Payments of notes receivable are allocated first to accrued and unpaid interest with the remainder to the outstanding principal balances. Management reviews all notes receivable balances periodically and estimates a portion, if any, of the balances that will not be collected.

### Property and Equipment

Property and equipment acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful life of the asset as follows:

	<u>Depreciable Life</u>
Buildings and improvements	5-40 years
Fixed equipment	15-20 years
Major movable equipment	3-15 years

### Proprietary Fund Accounting

The Authority utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

### 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 2 - Notes Receivable

The following is a summary for the notes receivable as of June 30, 2012 and 2011:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Amounts Within One Year</u>
Due from Hospital	\$ 732,822	\$ -	\$ 293,660	\$ 439,162	\$ 307,024

  

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Amounts Within One Year</u>
Due from Hospital	\$ 1,013,701	\$ -	\$ 280,879	\$ 732,822	\$ 293,660



The terms and dates of the Authority's note receivable at June 30, 2012 and 2011, are as follows:

4.50 percent note due from Hospital in semi-annual payments of \$161,700 in May and November through 2014 - Secured by Hospital revenue and property

Scheduled principal and interest repayments on notes receivable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 307,024	\$ 16,376
2014	132,138	2,998
Total	<u>\$ 439,162</u>	<u>\$ 19,374</u>

**Note 3 - Assets Limited as to Use**

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use at June 30, 2012 and 2011, is set forth in the following table:

	<u>2012</u>	<u>2011</u>
Due from County	\$ 22,405	\$ 59,657
Restricted investments	100,000	200,000
Reserve fund required by loan resolution	325,474	324,739
	<u>\$ 447,879</u>	<u>\$ 584,396</u>

**Note 4 - Deposits and Investments**

State statutes require public trusts to invest monies in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. The following is a summary of deposits and investments at June 30, 2012 and 2011:

	2012	2011
Total Bank Balance		
Insured (FDIC)	\$ 407,210	\$ 500,000
Collateralized by securities held by the pledging financial institutions trust department in the Authority's name	75,476	93,814
Total	<u>\$ 482,686</u>	<u>\$ 593,814</u>
Total Carrying Value		
Cash	\$ 57,212	\$ 69,075
Assets limited as to use	425,474	524,739
Total	<u>\$ 482,686</u>	<u>\$ 593,814</u>

Custodial Credit Risk - Exposure to custodial credit 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 and unregistered, with securities held by the counterparty or by its trust department not in the Authority's name.

The Authority secures cash deposits in excess of \$250,000 with US Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2012 and 2011, the carrying amount of the Authority's deposits was \$482,684 and \$593,814 and the bank balance was \$482,684 and \$593,814 respectively.

The Authority's cash balances are maintained in various bank deposit accounts. At June 30, 2012 and 2011, none of the cash was at risk, as amounts were covered by federally insured limits or fully collateralized.

**Note 5 - Due from County**

The Authority is not receiving any sales tax due to the sales tax ordinance expiring during 2010. The County still retains a portion of the sales tax which was collected on behalf of the Authority while the ordinance was in effect.. Amounts are disbursed from the County upon receipt of approved purchase orders from the Authority. The remainder is retained by the County until the Authority forwards approved purchase orders. The following is a summary for the receivable from the County as of June 30, 2012 and 2011:

**McCurtain County Hospital Authority**  
 Notes to Financial Statements  
 June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 59,657	\$ 250,817
Interest earned	1,050	5,845
Purchases	<u>(38,302)</u>	<u>(197,005)</u>
Ending Balance	<u><u>\$ 22,405</u></u>	<u><u>\$ 59,657</u></u>

**Note 6 - Capital Assets**

Capital asset additions, retirements, and balances for the years ended June 30, 2012 and 2011 were as follows:

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>
Building and improvements	\$ 5,521,196	\$ -	\$ -	\$ (873)	\$ 5,520,323
Major moveable equipment	1,283,643	5,238	-	(15,448)	1,273,433
Fixed equipment	261,723	-	-	-	261,723
Construction in progress *	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals at historical cost	<u>7,066,562</u>	<u>5,238</u>	<u>-</u>	<u>(16,321)</u>	<u>7,055,479</u>
Less accumulated depreciation for:					
Building and improvements	587,120	311,892	-	-	899,012
Major moveable equipment	793,570	120,998	-	-	914,568
Fixed equipment	<u>76,294</u>	<u>16,297</u>	<u>-</u>	<u>(13,989)</u>	<u>78,602</u>
Total accumulated depreciation	<u>1,456,984</u>	<u>449,187</u>	<u>-</u>	<u>(13,989)</u>	<u>1,892,182</u>
Capital assets, net	<u><u>\$ 5,609,578</u></u>	<u><u>\$ (443,949)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (2,332)</u></u>	<u><u>\$ 5,163,297</u></u>

McCurtain County Hospital Authority  
Notes to Financial Statements  
June 30, 2012 and 2011

	Balance June 30, 2010	Additions	Transfers	Reductions	Balance June 30, 2011
Building and improvements	\$ 3,813,939	\$ -	\$ 1,707,257	\$ -	\$ 5,521,196
Major moveable equipment	1,067,397	-	216,246	-	1,283,643
Fixed equipment	258,384	-	3,339	-	261,723
Construction in progress *	1,247,174	679,668	(1,926,842)	-	-
Totals at historical cost	6,386,894	679,668	-	-	7,066,562
Less accumulated depreciation for:					
Building and improvements	327,010	260,110	-	-	587,120
Major moveable equipment	679,083	114,487	-	-	793,570
Fixed equipment	60,236	16,058	-	-	76,294
Total accumulated depreciation	1,066,329	390,655	-	-	1,456,984
Capital assets, net	<u>\$ 5,320,565</u>	<u>\$ 289,013</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,609,578</u>

\*Non-depreciable

## Note 7 - Long-Term Debt

Long-term debt consists of:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Within One Year
Note payable	<u>\$ 732,822</u>	<u>\$ -</u>	<u>\$ 293,660</u>	<u>\$ 439,162</u>	<u>\$ 307,024</u>

  

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Within One Year
Note payable	<u>\$ 1,013,701</u>	<u>\$ -</u>	<u>\$ 280,879</u>	<u>\$ 732,822</u>	<u>\$ 293,660</u>

The terms and dates of the Authority's notes payable at June 30, 2012 and 2011, are as follows:

4.50% note payable to Rural Housing Service in semi-annual payments of \$161,700 in May and November through 2014 - Secured by mortgage

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 307,024	\$ 16,376
2014	<u>132,138</u>	<u>2,998</u>
Total	<u>\$ 439,162</u>	<u>\$ 19,374</u>

**Note 8 - Economic Dependency**

The Authority receives all principal and interest payments for debt payments from the (Hospital).

**Note 9 - Related Party Transactions**

The Authority subleased to the Hospital, a public trust, the facilities and the property, real or personal or both, owned by or leased under the control of the Authority as set in the sublease agreement, including all buildings, structures, fixtures and other improvements now or hereafter constructed, erected or placed hereon. The original sublease was dated April 1, 1975. This sublease was executed to insure the more efficient management and operation of the Hospital for both the users of the facilities and the holders of the loans. As part of the amended and restated sublease agreement dated November 3, 1999, the Hospital agreed to pay rental to the Authority for the debt service obligation as provided for in the loan documents. The Hospital guarantees payment of rentals to the Authority out of the daily gross receipts from the existence and operation of the Hospital.

At June 30, 2012 and 2011, the Hospital had paid \$27,640 and \$40,513, respectively, to the Authority for lease payments. The Hospital advances funds to the Authority to satisfy its obligations when due. At June 30, 2012 and 2011, \$53,900 and \$53,900, respectively, were due to the Hospital for advances to the Authority for unrestricted use.

**Note 10 - Subsequent Events**

The Authority has evaluated subsequent events through October 10, 2012, the date which the financial statements were available to be issued.



**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  
McCurtain County Hospital Authority  
Idabel, Oklahoma

We have audited the financial statements of McCurtain County Hospital Authority, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 10, 2012. 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**

Management of McCurtain County Hospital Authority is responsible for establishing and maintain effective internal control over financial reporting. In planning and performing our audit, we considered McCurtain County Hospital Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinions on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting, 2012-1. 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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether McCurtain County Hospital Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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*.

McCurtain County Hospital Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit McCurtain County Hospital Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, management and other regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma  
October 10, 2012

**2012-01 Limited Segregation of duties**

*Condition:* The Authority's books and records are maintained by one individual.

*Criteria:* Proper segregation of duties prevents an individual from authorizing improper transactions.

*Cause:* Proper segregation of duties has not been established.

*Effect:* Potential material misstatement in the financial statements or misappropriation could occur and not be prevented or detected in a timely manner.

*Auditor's Recommendation:* Management should periodically evaluate the cost versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed cost.

*Management's Corrective Action Plan:* Management has established controls to mitigate the limited segregation of duties, such as requiring two signatures on all disbursements.