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State Auditor & Inspector

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Management's Discussion and Analysis and
Financial Statements
June 30, 2011 and 2010

McCurtain County Hospital Authority

McCurtain County Hospital Authority
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June 30, 2011 and 2010

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CPAs & BUSINESS ADVISORS

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, 2011 and 2010, 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, 2011 and 2010, 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 25, 2011, 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.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 25, 2011

Introduction

Our discussion and analysis of McCurtain County Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Total assets decreased in 2011 by \$1,025,628 or 13% and decreased by \$244,879 or 3% in 2010
- Total liabilities decreased in 2011 by \$625,991 or 43% compared with an increase of \$63,901 or 5% in 2010
- Operating revenues decreased in 2011 by \$42,510 or 43% and decreased by \$62,870 or 39% in 2010
- Operating income (loss) decreased in 2011 by \$39,449 or 129% and decreased by \$40,130 or 57% in 2010
- The Authority's net assets decreased in 2011 by \$399,637 or 6% compared with a decrease of \$308,780 or 4% in 2010

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 \$399,637 or 6% in 2011 over 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets			
Current assets	\$ 402,273	\$ 726,629	\$ 398,246
Noncurrent cash and investments	551,333	1,247,958	2,413,560
Capital assets	5,609,578	5,320,565	4,447,346
Other assets	<u>439,162</u>	<u>732,822</u>	<u>1,013,701</u>
Total assets	<u>\$ 7,002,346</u>	<u>\$ 8,027,974</u>	<u>\$ 8,272,853</u>
Liabilities			
Current maturities	\$ 293,660	\$ 280,879	\$ 268,653
Other current liabilities	92,203	437,315	104,761
Long term debt	<u>439,162</u>	<u>732,822</u>	<u>1,013,701</u>
Total liabilities	<u>825,025</u>	<u>1,451,016</u>	<u>1,387,115</u>
Net Assets			
Invested in capital assets net of related debt	4,876,756	4,306,864	3,164,992
Restricted:			
For debt service	324,739	347,958	332,022
Expendable for capital acquisitions	259,657	1,150,817	2,112,229
Unrestricted	<u>716,169</u>	<u>771,319</u>	<u>1,276,495</u>
Total net assets	<u>6,177,321</u>	<u>6,576,958</u>	<u>6,885,738</u>
Total liabilities and net assets	<u>\$ 7,002,346</u>	<u>\$ 8,027,974</u>	<u>\$ 8,272,853</u>

Operating Results and Changes in Net Assets

In 2011, the Authority's net assets decreased by \$399,637 or 6% as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues			
Interest income	\$ 15,089	\$ 34,506	\$ 64,039
Lease income	40,513	63,606	96,943
	<u>55,602</u>	<u>98,112</u>	<u>160,982</u>
Total operating revenues			
Operating Expenses			
Interest expense	40,513	52,826	64,603
Other	8,010	142	13,732
Professional fees	16,061	14,677	12,050
	<u>64,584</u>	<u>67,645</u>	<u>90,385</u>
Total operating expenses			
Operating (loss) income	(8,982)	30,467	70,597
Capital Transfers			
Transfer of depreciation on equipment utilized by hospital	(390,655)	(347,777)	(300,643)
Intergovernmental transfers (sales tax revenue from county)	-	8,530	1,308,000
	<u>-</u>	<u>8,530</u>	<u>1,308,000</u>
(Decrease) Increase in net assets	<u>\$ (399,637)</u>	<u>\$ (308,780)</u>	<u>\$ 1,077,954</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 income for 2011 decreased by \$39,449 or 129% as compared to 2010. The primary components of the decreased operating income are:

- A decrease in interest income of \$19,417 or 56% and a decrease of \$29,533 or 46% in 2010
- A decrease in lease income of \$23,093 or 36% and a decrease of \$33,337 or 35% in 2010

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, 2011, the Authority had \$732,822 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.

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	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash	\$ 69,075	\$ 178,143
Assets limited as to use	33,063	250,817
Notes receivable	293,660	280,879
Interest receivable	6,475	16,790
Total current assets	<u>402,273</u>	<u>726,629</u>
Assets Limited as to Use		
Due from County	59,657	250,817
Restricted investments	200,000	900,000
Reserve fund required by loan resolution	324,739	347,958
	584,396	1,498,775
Less amount required to meet current obligations	<u>(33,063)</u>	<u>(250,817)</u>
Assets limited as to use, net	<u>551,333</u>	<u>1,247,958</u>
Capital Assets, Net	<u>5,609,578</u>	<u>5,320,565</u>
Other Assets		
Notes receivable, net	<u>439,162</u>	<u>732,822</u>
Total assets	<u>\$ 7,002,346</u>	<u>\$ 8,027,974</u>

McCurtain County Hospital Authority

Balance Sheets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 293,660	\$ 280,879
Accounts payable	33,063	365,166
Accrued interest payable	5,240	7,249
Advances from related party	53,900	64,900
Total current liabilities	<u>385,863</u>	<u>718,194</u>
Long-Term Debt, Net of current maturities	<u>439,162</u>	<u>732,822</u>
Total liabilities	<u>825,025</u>	<u>1,451,016</u>
Net Assets		
Invested in capital assets net of related debt	4,876,756	4,306,864
Restricted		
For debt service	324,739	347,958
Expendable for capital acquisitions	259,657	1,150,817
Unrestricted	716,169	771,319
Total net assets	<u>6,177,321</u>	<u>6,576,958</u>
Total liabilities and net assets	<u>\$ 7,002,346</u>	<u>\$ 8,027,974</u>

McCurtain County Hospital Authority
 Statements of Revenues, Expenses and Changes in Net Assets
 Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Interest income	\$ 15,089	\$ 34,506
Lease income	40,513	63,606
	55,602	98,112
Operating Expenses		
Interest	40,513	52,826
Other	8,010	142
Professional fees	16,061	14,677
	64,584	67,645
Operating (loss) income before capital transfers	(8,982)	30,467
Capital Transfers		
Transfer of depreciation on equipment utilized by the Hospital	(390,655)	(347,777)
Intergovernmental transfers (sales tax revenue from the County)	-	8,530
	(399,637)	(308,780)
Decrease in Net Assets		
Net Assets, Beginning of Year	6,576,958	6,885,738
Net Assets, End of Year	\$ 6,177,321	\$ 6,576,958

McCurtain County Hospital Authority
 Statements of Cash Flows
 Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Operating receipts	\$ 49,022	\$ 88,439
Operating expenditures	<u>(24,071)</u>	<u>(16,441)</u>
Net Cash from Operating Activities	<u>24,951</u>	<u>71,998</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets	(814,716)	-
Principal payments on long term debt	(280,879)	(268,653)
Interest paid on long-term debt	<u>(42,522)</u>	<u>(54,747)</u>
Net Cash used for Capital and Related Financing Activities	<u>(1,138,117)</u>	<u>(323,400)</u>
Investing Activities		
Proceeds from note receivable	280,879	268,653
Proceeds from redemption of certificates of deposit	700,000	100,000
Investment income proceeds	<u>-</u>	<u>7,116</u>
Net Cash from Investing Activities	<u>980,879</u>	<u>375,769</u>
Net Change in Cash	(132,287)	124,367
Cash, Beginning of Year	<u>526,101</u>	<u>401,734</u>
Cash, End of Year	<u><u>\$ 393,814</u></u>	<u><u>\$ 526,101</u></u>
Reconciliation of Cash to Balance Sheets		
Cash in current assets	\$ 69,075	\$ 178,143
Cash in assets limited as to use		
Cash restricted by reserve fund required by loan resolution	<u>324,739</u>	<u>347,958</u>
	<u><u>\$ 393,814</u></u>	<u><u>\$ 526,101</u></u>

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

McCurtain County Hospital Authority (the 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, amended November 3, 1999, the Authority subleased to McCurtain Memorial Medical Management, Inc., d/b/a McCurtain Memorial Hospital (Hospital), a non-profit corporation created under "The Non-Profit Corporation Act" of the State of Oklahoma, all real and personal property, unexpired contracts and leases, and revenue of the hospital. 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, 2011 and 2010:

	<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
	<u>Balance June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Amounts Within One Year</u>
Due from Hospital	\$ 1,282,354	\$ -	\$ 268,653	\$ 1,013,701	\$ 280,879

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, 2011 and 2010:

	2011	2010
Total Bank Balance		
Insured (FDIC)	\$ 500,000	\$ 1,000,000
Collateralized by securities held by the pledging financial institutions trust department in the Authority's name	93,814	432,571
Total	\$ 593,814	\$ 1,432,571
Total Carrying Value		
Cash	\$ 69,075	\$ 178,143
Assets limited as to use	524,739	1,254,428
Total	\$ 593,814	\$ 1,432,571

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, 2011 and 2010, the carrying amount of the Authority's deposits was \$593,814 and \$1,432,571 and the bank balance was \$593,814 and \$1,432,571 respectively.

The Authority's cash balances are maintained in various bank deposit accounts. At June 30, 2011 and 2010 none of the cash was at risk as amounts were covered by federally insured limits or fully collateralized.

Note 5 - Due from County

The County collects and retains sales tax collected for the benefit of the Authority. 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, 2011 and 2010:

McCurtain County Hospital Authority
 Notes to Financial Statements
 June 30, 2011 and 2010

	2011	2010
Beginning Balance	\$ 250,817	\$ 890,978
Sales tax collected	-	229,781
Interest earned	5,845	14,957
Purchases	(197,005)	(884,899)
Ending Balance	\$ 59,657	\$ 250,817

Note 6 - Capital Assets

Capital asset additions, retirements, and balances for the years ended June 30, 2011 and 2010 were as follows:

	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	\$ 5,320,565	\$ 289,013	\$ -	\$ -	\$ 5,609,578

McCurtain County Hospital Authority
 Notes to Financial Statements
 June 30, 2011 and 2010

	Balance June 30, 2009	Additions	Transfers	Reductions	Balance June 30, 2010
Building and improvements	\$ 3,804,454	\$ -	\$ 9,485	\$ -	\$ 3,813,939
Major moveable equipment	1,035,182	-	32,215	-	1,067,397
Fixed equipment	254,993	-	3,391	-	258,384
Construction in progress *	71,269	1,220,996	(45,091)	-	1,247,174
Totals at historical cost	5,165,898	1,220,996	-	-	6,386,894
Less accumulated depreciation for:					
Building and improvements	119,530	207,480	-	-	327,010
Major moveable equipment	554,521	124,562	-	-	679,083
Fixed equipment	44,501	15,735	-	-	60,236
Total accumulated depreciation	718,552	347,777	-	-	1,066,329
Capital assets, net	\$ 4,447,346	\$ 873,219	\$ -	\$ -	\$ 5,320,565

*Non-depreciable

Construction in progress was for a rehabilitation clinic in the existing hospital building. The project was completed by year-end.

Note 7 - Long-Term Debt

Long-term debt consists of:

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

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Within One Year
Note payable	\$ 1,282,354	\$ -	\$ 268,653	\$ 1,013,701	\$ 280,879

The terms and dates of the Authority's notes payable at June 30, 2011 and 2010, are as follows:

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

McCurtain County Hospital Authority

Notes to Financial Statements

June 30, 2011 and 2010

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 293,660	\$ 29,740
2013	307,024	16,376
2014	<u>132,138</u>	<u>2,998</u>
Total	<u>\$ 732,822</u>	<u>\$ 49,114</u>

Note 8 - Economic Dependency

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

Note 9 - Related Party Transactions

On April 1, 1975, amended November 3, 1999, 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. 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, 2011 and 2010, the Hospital had paid \$40,513 and \$63,606, respectively, to the Authority for lease payments. The Hospital advances funds to the Authority to satisfy its obligations when due. At June 30, 2011 and 2010, \$53,900 and \$64,900, respectively, were due to the Hospital for advances to the Authority for unrestricted use.

Note 10 - Sales Tax

On March 24, 2009, McCurtain County held an election to renew the allocation of sales tax monies to the Authority. The ordinance for continuation of the sales tax was unsuccessful and the collection of sales tax ended June 30, 2009. There is a two month time lag between the collection of sales tax by the Oklahoma Tax Commission and the receipt of sales tax funds by the Authority. At June 30, 2009, management estimated two months of revenue and the Authority accrued \$221,251 in sales tax revenue for the months of May and June that would not be received until July and August, respectively. Actual sales tax received in the prior year was greater than the amount accrued by management and therefore, \$8,530 of sales tax revenue was recognized for the year ended June 30, 2010.

Note 11 - Subsequent Events

The Authority has evaluated subsequent events through October 25, 2011, the date which the financial statements were available to be issued. During this period the Authority did not have any material recognizable subsequent events.



CPAs & BUSINESS ADVISORS

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, 2011, and have issued our report thereon dated October 10, 2011. 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 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 opinion 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, 2011-1. 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 result of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as 2011-2.

McCurtain County Hospital Authority's responses to the findings 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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
October 25, 2011

2011-01 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.

2011-02 Filing Conflict of Interest Statements

Condition: The Authority has not filed a compiled list of all conflict of interest disclosed by the trustees on a semi-annual basis with the State

Criteria: The Authority is required to compile a list of all conflict of interest disclosed by the trustees and file the listing on a semi-annual basis with the State.

Cause: Policy has not been established.

Effect: Violation of title 60 trust statutes.

Auditor's Recommendation: Management should compile the list of all conflict of interest disclosed by the trustees and file the list with the State.

Management's Corrective Action Plan: Management will implement policies and procedures to ensure conflict of interest listings are filed with the state.

