CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION
GRACEVILLE, FLORIDA

FINANCIAL STATEMENTS

for the years ended September 30, 2011 and 2010

CONTENTS

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Member:
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Campbellton-Graceville Hospital Corporation
Graceville, Florida

We have audited the accompanying balance sheets of Campbellton-Graceville Hospital Corporation ("the Hospital"), as of September 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 Hospital'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 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 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 the Hospital as of September 30, 2011 and 2010, and the results of its operations and 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.

Continued

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2012, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Management's discussion and analysis on pages 3 through 7 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

DRAFFIN + TUCKER, LLP

Albany, Georgia
February 27, 2012

Management's Discussion and Analysis
For the Year Ending September 30, 2011

This section of the Campbellton-Graceville Hospital Corporation's (Hospital) annual financial report presents our discussion and analysis of the Hospital's financial performance during the fiscal year ended September 30, 2011. Please read it in conjunction with the Hospital's financial statements and accompanying notes.

The Hospital is a self-supporting entity and follows proprietary fund reporting; accordingly, the financial statements are presented using full accrual accounting.

Campbellton-Graceville Hospital Corporation does business as Campbellton-Graceville Hospital (the Hospital). The Hospital operates a 25-bed critical access hospital that includes primary care physician's clinics. The Corporation was formed in 1961 and began operations as a general acute care hospital in 1964.

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

One of the most important questions asked about the Hospital's finances is, "Is the Hospital 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 Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all 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 Hospital's net assets and changes in them. You can think of the Hospital's net assets – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital'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 changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

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?"

Financial Analysis of the Hospital

The following table summarizes the balance sheets as of September 30, 2011, 2010 and 2009:

Balance Sheet

	2011	2010	2009
Current assets	$ 1,590,302	$ 1,556,735	$ 1,475,136
Capital assets	1,913,338	1,714,393	722,902
Total assets	$ 3,503,640	$ 3,271,128	$ 2,198,038
Current liabilities	$ 1,743,206	$ 1,031,528	$ 959,293
Long-term liabilities	743,979	861,244	-
Total liabilities	2,487,185	1,892,772	959,293
Net assets:			
Invested in capital assets, net of related debt	1,072,791	748,800	615,036
Unrestricted net assets	(56,336)	629,556	623,709
Total net assets	1,016,455	1,378,356	1,238,745
Total liabilities and net assets	$ 3,503,640	$ 3,271,128	$ 2,198,038

Current assets increased due to the increase in estimated third-party payor settlements. Capital assets increased due to electronic health record purchases. Current liabilities increased due to the increase in accounts payable.

The following table summarizes the changes in net assets for the years ended September 30, 2011, 2010 and 2009:

Change in Net Assets

	2011	2010	2009
Operating revenues	$ 6,977,970	$ 7,111,693	$ 5,948,676
Expenses:			
Operating expenses	7,531,685	7,190,417	5,972,549
Depreciation	249,872	222,046	164,642
Total expenses	7,781,557	7,412,463	6,137,191
Operating loss	(803,587)	(300,770)	(188,515)
Nonoperating revenues	265,740	254,755	275,931
Excess revenues (expenses)	(537,847)	(46,015)	87,416
Capital grants and contributions	175,946	185,626	160,667
Change in net assets	(361,901)	139,611	248,083
Beginning net assets	1,378,356	1,238,745	990,662
Ending net assets	$ 1,016,455	$ 1,378,356	$ 1,238,745

Net operating revenues remained stable for 2011 compared to 2010.

Overall expenses increased approximately 5%. There was an approximately 6% overall manpower increase, which includes salaries, benefits, and professional fees, which were in line with Board approved payroll and manpower increases.

Due to continuing cash flow problems, it can be anticipated that without further restructuring of debt and/or increased net revenues, the Hospital will continue to have critical cash flow issues for the immediate future.

Capital Assets and Long-Term Debt

The Hospital's investment in capital assets for 2011 is summarized in the table below:

Capital Assets	
Electronic health records software and installation	$ 437,075
Other equipment	11,742
Total capital asset additions	$ 448,817

A recap of the Hospital's debt and capital lease obligations outstanding at September 30, 2011, 2010 and 2009 follows:

Description	Interest Rates	2011	2010	2009
Note payable	5.00%	$ 150,000	$ -	$ 107,866
Rural health clinic Loan I	7.00%	369,219	420,476	-
Rural health clinic Loan II	5.00%	375,681	426,369	-
Capital lease obligation	3.17%	95,647	118,748	-
Total debt and capital lease obligation		$ 990,547	$ 965,593	$ 107,866

See notes 6 and 7 in the financial statements for additional capital assets and debt information.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact administration, at Campbellton-Graceville Hospital, 5429 College Drive, Graceville, FL 32440.

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Balance Sheets
September 30, 2011 and 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 254,644	$ 154,752
Patient accounts receivable, net of estimated uncollectibles of $493,427 and $436,814	864,017	958,145
Estimated third-party payor settlements	226,713	170,724
Supplies, at lower of cost (first-in, first-out) or market	170,340	201,542
Prepaid expenses	23,671	19,294
Restricted by contributors and grantors	50,917	52,278
Total current assets	1,590,302	1,556,735
Capital assets:		
Nondepreciable capital assets	474,057	185,101
Depreciable capital assets, net of accumulated depreciation	1,439,281	1,529,292
Total capital assets, net of accumulated depreciation	1,913,338	1,714,393
Total assets	$ 3,503,640	$ 3,271,128

	2011	2010
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 246,568	$ 104,349
Accounts payable	937,927	222,064
Accrued expenses	74,159	68,609
Accrued compensation	345,196	341,418
Estimated third-party payor settlements	85,766	242,810
Unearned revenue	53,590	52,278
Total current liabilities	1,743,206	1,031,528
Long-term debt, excluding current maturities	743,979	861,244
Total liabilities	2,487,185	1,892,772
Net assets:		
Invested in capital assets, net of related debt	1,072,791	748,800
Unrestricted	(56,336)	629,556
Total net assets	1,016,455	1,378,356
Total liabilities and net assets	$ 3,503,640	$ 3,271,128

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Net Assets
years ended September 30, 2011 and 2010

	2011	2010
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $702,241 and $731,715)	$ 6,257,670	$ 6,408,793
Other	720,300	702,900
Total operating revenues	6,977,970	7,111,693
Operating expenses:		
Salaries and wages	4,275,387	3,975,146
Employee benefits	808,234	832,900
Supplies and drugs	637,997	655,439
Physician fees	630,952	593,042
Purchased services	218,593	244,579
Repairs and maintenance	361,601	242,120
Utilities and communications	154,648	156,401
Insurance	43,208	43,853
Depreciation	249,872	222,046
Other	401,065	446,937
Total operating expenses	7,781,557	7,412,463
Operating loss	(803,587)	(300,770)
Nonoperating revenues (expenses):		
Tax revenue	282,685	274,299
Investment income	1,288	1,941
Interest expense	(33,910)	(34,376)
Other nonoperating revenue	15,677	12,891
Total nonoperating revenues	265,740	254,755
Excess expenses before capital grants and contributions	(537,847)	(46,015)
Capital grants and contributions	175,946	185,626
Change in net assets	(361,901)	139,611
Net assets, beginning of year	1,378,356	1,238,745
Net assets, end of year	$ 1,016,455	$ 1,378,356

See accompanying notes to financial statements.

Statements of Cash Flows
years ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 6,859,065	$ 7,367,769
Payments to suppliers and contractors	(1,705,376)	(2,539,559)
Payments to employees	(5,072,981)	(4,741,031)
Net cash provided by operating activities	80,708	87,179
Cash flows from noncapital financing activities:		
Contributions	15,677	12,891
Proceeds from long-term debt	150,000	-
Unrestricted ad valorem tax receipts	282,685	274,299
Net cash provided by noncapital financing activities	448,362	287,190
Cash flows from capital and related financing activities:		
City and county contributions	175,946	185,626
Proceeds from long-term debt	-	971,532
Principal paid on long-term debt and capital leases	(125,046)	(236,975)
Interest paid on long-term debt and capital leases	(33,910)	(34,376)
Purchase of capital assets	(448,817)	(1,090,367)
Net cash used by capital and related financing activities	(431,827)	(204,560)
Cash flows from investing activities:		
Investment income	1,288	1,941
Net increase in cash and cash equivalents	98,531	171,750
Cash and cash equivalents, beginning of year	207,030	35,280
Cash and cash equivalents, end of year	$ 305,561	$ 207,030

Continued

Statements of Cash Flows, Continued
years ended September 30, 2011 and 2010

	2011	2010
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents	$ 254,644	$ 154,752
Restricted by contributors and grantors	50,917	52,278
Total cash and cash equivalents	$ 305,561	$ 207,030
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	$(803,587)	$(300,770)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	249,872	222,046
Provision for bad debts	702,241	731,715
Changes in:		
Patient accounts receivable	(608,113)	(751,535)
Estimated third-party payor settlements	(213,033)	275,896
Supplies	31,202	(45,822)
Prepaid expenses	(4,377)	(4,075)
Accounts payable	715,863	(107,291)
Accrued compensation	10,640	67,015
Net cash provided by operating activities	$ 80,708	$ 87,179

See accompanying notes to financial statements.

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting entity. Campbellton-Graceville Hospital Corporation (the Hospital) is a tax supported hospital organized under Section 61-2290 of the Laws of Florida. The Board of Trustees is appointed by the Governor of the State of Florida. The Hospital operates as a Critical Access Hospital with 25 beds.

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 disclosures 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.

Enterprise fund accounting. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and cash equivalents. Cash and cash equivalents include certain investments in highly liquid debt instruments with an original maturity of three months or less.

Allowance for doubtful accounts. The Hospital provides an allowance for doubtful accounts based on the evaluation of the overall collectibility of the accounts receivable. As accounts are known to be uncollectible, the accounts are charged against the allowance.

Continued

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Capital assets. The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful life is assigned using AHA Useful Lives Guidelines listed below. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Land improvements	15 To 20 Years
Buildings and improvements	20 To 40 Years
Equipment	3 To 7 Years

Impairment of long-lived assets. The Hospital evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Hospital has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net assets for the years ended September 30, 2011 and 2010.

Net assets. Net assets of the Hospital are classified in two components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt.*

Operating revenues and expenses. The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Continued

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Tax Revenue. The Hospital receives the proceeds of a special 1.56 mill ad valorem tax levied on taxable property in Jackson County, Florida. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Hospital recognizes revenue from these tax receipts over the period of time for which the taxes are levied. The funds may be used at the discretion of the Hospital. Tax revenue is reported as nonoperating revenue.

Tax funds were used as follows:

Used for debt service payments	$ 282,685

Net patient service revenue. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Unearned revenue. Unearned revenue is the result of unspent grant funds.

Compensated absences. The Hospital's employees earn paid time off at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees who leave in good standing will be eligible for payment of paid time off upon their resignation.

Charity care. The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Continued

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Grants and contributions. The Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted resources. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Income taxes. The Hospital is a governmental entity and is exempt from income taxes. Accordingly, no provision for income taxes has been considered in the accompanying financial statements.

Risk management. The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; dental; and accident benefits. The Hospital is covered under the sovereign immunity provisions for the State of Florida, Statute Section 768.28. Settled claims have not exceeded these limits in any of the three preceding years. See Note 11 for additional information related to the Hospital's insurance coverage under sovereign immunity.

2. Net Patient Service Revenue

The Hospital has arrangements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The Hospital does not believe that there are any significant credit risks associated with receivables due from third-party payors.

Continued

2. Net Patient Service Revenue, Continued

A summary of the payment arrangements with major third-party payors follows:

- *Medicare.* Effective November 1, 2000, the Hospital was granted Critical Access Hospital (CAH) designation by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2008.

- *Medicaid.* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined per diem. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed on a fee schedule methodology. Retroactive adjustments are made to these prospective payment amounts after the related cost report is audited by the intermediary.

The Hospital recorded revenue of approximately $698,000 and $843,000 during 2011 and 2010, respectively for funding from the State of Florida under the Medicaid Rural Financial Assistance Program (the "Program"). For 2011 and 2010, this amount has two components. The two components are regular DSH payments and lower income pool payments.

	2011	2010
DSH	$ 504,000	$ 601,000
Lower income pool payments	194,000	242,000
Total	$ 698,000	$ 843,000

Continued

2. Net Patient Service Revenue, Continued

Program proceeds are based on an allocation of a fixed sum appropriated by the Florida Legislature to be distributed to eligible rural hospitals based on the level of indigent and Medicaid care provided. Such amounts have been recognized as net patient service revenue in the accompanying statements of revenues and expenses.

Revenue from the Medicare and Medicaid programs accounted for approximately 81% and 4%, respectively of the Hospital's net patient revenue for the year ended 2011, and 78% and 3%, respectively of the Hospital's net patient revenue for the year ended 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program. The RAC program was created to review Medicare claims for medical necessity and coding appropriateness.

The RAC's have authority to pursue improper payments made on or after October 1, 2007. While no such material judgments have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

3. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were approximately $71,226 and $67,857 for 2011 and 2010.

Continued

4. Bank Deposits

Custodial credit risk. Custodial credit risk is the risk that the Hospital's deposits may not be returned in the event of bank failure. The Hospital has no custodial credit risk at year end.

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at September 30, 2011 and 2010 consisted of these amounts:

	2011	2010
Patient Accounts Receivable		
Receivable from patients and their insurance carriers	$ 725,815	$ 739,255
Receivable from Medicare	614,858	640,165
Receivable from Medicaid	16,771	15,539
Total patient accounts receivable	1,357,444	1,394,959
Less allowance for uncollectible accounts	493,427	436,814
Patient accounts receivable, net	$ 864,017	$ 958,145
Accounts Payable and Accrued Expenses		
Payable to employees (including payroll taxes)	$ 345,196	$ 341,418
Payable to suppliers	937,927	222,064
Other	74,159	68,609
Total accounts payable and accrued expenses	$ 1,357,282	$ 632,091

Continued

6. Capital Assets

Capital asset additions, deletions, transfers, and balances for the years ended September 30, 2011 and 2010 are as follows:

	Balance September 30 2010	Additions	Deletions	Transfers	Balance September 30 2011
Land	$ 11,485	$ -	$ -	$ -	$ 11,485
Project in progress	173,616	443,621	-	(154,665)	462,572
Nondepreciable capital assets	185,101	443,621	-	(154,665)	474,057
Land improvements	226,169	-	-	-	226,169
Buildings	1,861,564	-	-	-	1,861,564
Fixed equipment	665,425	-	-	129,715	795,140
Major movable equipment	2,968,441	5,196	-	24,950	2,998,587
Vehicles	13,227	-	-	-	13,227
Depreciable capital assets	5,734,826	5,196	-	154,665	5,894,687
Less accumulated depreciation for:					
Land improvements	58,255	19,122	-	-	77,377
Buildings	1,126,125	47,966	-	-	1,174,091
Fixed equipment	461,093	29,665	-	-	490,758
Major movable equipment	2,546,834	153,119	-	-	2,699,953
Vehicles	13,227	-	-	-	13,227
Total accumulated depreciation	4,205,534	249,872	-	-	4,455,406
Depreciable capital assets, net	1,529,292	(244,676)	-	154,665	1,439,281
Total capital assets, net	$ 1,714,393	$ 198,945	$ -	$ -	$ 1,913,338

Continued

6. Capital Assets, Continued

	Balance September 30 2009	Additions	Deletions	Transfers	Balance September 30 2010
Land	$ 11,485	$ -	$ -	$ -	$ 11,485
Project in progress	18,308	167,400	-	(12,092)	173,616
Nondepreciable capital assets	29,793	167,400	-	(12,092)	185,101
Land improvements	48,694	177,475	-	-	226,169
Buildings	1,212,216	641,056	(3,800)	12,092	1,861,564
Fixed equipment	485,469	179,956	-	-	665,425
Major movable equipment	2,923,436	45,005	-	-	2,968,441
Vehicles	13,227	-	-	-	13,227
Depreciable capital assets	4,683,042	1,043,492	(3,800)	12,092	5,734,826
Less accumulated depreciation for:					
Land improvements	48,694	9,561	-	-	58,255
Buildings	1,091,067	38,858	(3,800)	-	1,126,125
Fixed equipment	448,722	12,371	-	-	461,093
Major movable equipment	2,388,223	158,611	-	-	2,546,834
Vehicles	13,227	-	-	-	13,227
Total accumulated depreciation	3,989,933	219,401	(3,800)	-	4,205,534
Depreciable capital assets, net	693,109	824,091	-	12,092	1,529,292
Total capital assets, net	$ 722,902	$ 991,491	$ -	$ -	$ 1,714,393

Software contracts of $382,451 exist for implementation of electronic medical records. At September 30, 2011, the remaining commitment on these contracts is approximately $280,464.

Continued

7. Long-Term Debt and Noncurrent Liabilities

Changes in long-term debt and other noncurrent liabilities are as follows:

	Balance September 30, 2010	Additions	Reductions	Balance September 30, 2011	Amounts Due Within One Year
Note payable	$ -	$ 150,000	$ -	$ 150,000	$ 150,000
Rural Health Clinic Loan I	420,476	-	(51,257)	369,219	34,345
Rural Health Clinic Loan II	426,369	-	(50,688)	375,681	38,379
Capital lease obligation	118,748	-	(23,101)	95,647	23,844
Total long-term debt	$ 965,593	$ 150,000	$(125,046)	$ 990,547	$ 246,568

	Balance September 30, 2009	Additions	Reductions	Balance September 30, 2010	Amounts Due Within One Year
Note payable	$ 107,866	$ -	$(107,866)	$ -	$ -
Rural Health Clinic Loan I	-	485,766	(65,290)	420,476	39,729
Rural Health Clinic Loan II	-	485,766	(59,397)	426,369	41,519
Capital lease obligation	-	123,170	(4,422)	118,748	23,101
Total long-term debt	$ 107,866	$ 1,094,702	$(236,975)	$ 965,593	$ 104,349

Note payable, interest accrues monthly at 5.00%, due March 27, 2012, collateralized by tax revenues. No monthly payments are due, instead one payment is due at maturity.

Rural Health Clinic loan I, stated interest rate of 7.00%, due and payable in annual installments on April 1, with a maturity date of April 1, 2019, collateralized by the rural health clinic building.

Continued

7. Long-Term Debt and Noncurrent Liabilities, Continued

Rural Health Clinic loan II, stated interest rate of 5.00%, due and payable in annual installments on April 1, with a maturity date of April 1, 2019, collateralized by the rural health clinic building.

Capital lease obligation, at an imputed interest rate of 3.17% collateralized by leased equipment with an amortized cost of $110,853.

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

	Long-Term Debt		Capital Lease Obligations	
Year Ending September 30:	Principal	Interest	Principal	Interest
2012	$ 222,724	$ 63,030	$ 23,844	$ 2,687
2013	90,927	41,073	24,611	1,920
2014	96,476	35,524	25,402	1,129
2015	102,374	29,626	21,790	318
2016	108,645	23,355	-	-
2017-2020	273,754	28,340	-	-
Total	$ 894,900	$ 220,948	$ 95,647	$ 6,054

8. Commitments and Contingencies

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Continued

8. Commitments and Contingencies, Continued

Health Care Reform

In recent years, there has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare on the national or at the state levels. In 2010 legislation was enacted which included cost controls on hospitals, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of certain provisions will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Hospital.

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2011 and 2010 was as follows:

	2011	2010
Medicare	73%	64%
Medicaid	2%	1%
Blue Cross	2%	6%
Other third-party payors	20%	22%
Patients	3%	7%
	100%	100%

10. Tax Sheltered Annuity Plan

Substantially all employees of the Hospital are covered under a hospital-sponsored tax sheltered annuity, qualified under Internal Revenue Service Section 403(b). The plan mandates employer matching contributions dollar for dollar up to 3% of each eligible employee's compensation. Total expense for the years ended September 30, 2011 and 2010 was $51,706 and $44,373, respectively.

Continued

11. Malpractice Insurance

The Hospital was covered by medical malpractice insurance through May 22, 2003. The Hospital became self-insured after that date under the sovereign immunity provisions for the State of Florida, Statute Section 768.28. Those provisions limit the Hospital's liability to $100,000 for any single claim or judgment, or $200,000 when totaled with all other claims or judgments arising out of the same incident or occurrence. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

12. Regulatory Compliance

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. The Hospital has implemented a compliance plan focusing on such issues. There can be no assurance that the Hospital will not be subjected to future investigations with accompanying monetary damages.

Draffin
& Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Member:
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S MANAGEMENT LETTER COMMENTS

Board of Directors
Campbellton-Graceville Hospital Corporation
Graceville, Florida

We have audited the financial statements of Campbellton-Graceville Hospital Corporation as of and for the fiscal years ended September 30, 2011 and 2010, and have issued our report thereon dated February 27, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in those reports, if any, which are dated February 27, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions have not been taken to address the following findings and recommendations made in the preceding annual financial audit report:

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Prior Year Findings and Recommendations

– Segregation of Duties

During our audit, we noted a general lack of segregation of duties resulting from limited staffing. The limited staffing results from various factors beyond the Hospital's control. We recommend the Hospital review and revise their internal policies and procedures in order to segregate custodial and record keeping responsibilities of current staff, where possible.

– Establish Supervisory Review

During our audit, we noted a general lack of supervisory review of accounting transactions and month end reconciliations. We recommend the Hospital establish a regular supervisory review of accounting transactions and reconciliations.

Both of these findings have been reported under Section 10.554(1)(i)5 in each of the two preceding financial audit reports.

- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Campbellton-Graceville Hospital Corporation did not have any funds in excess of those required to meet current expenses available for investment.

- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have findings related to (1). We did have findings as they relate to (2). These findings are listed above in our response for Section 10.554(1)(i)1.

The Hospital's management response to the comments noted above is attached as Exhibit A.

- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Campbellton-Graceville Hospital Corporation met conditions described in Section 218.503(1), Florida Statutes. The Hospital experienced continuing cash flow problems during the year resulting in failure to pay obligations within the 90 day period and failure to transfer payroll taxes at the appropriate time.

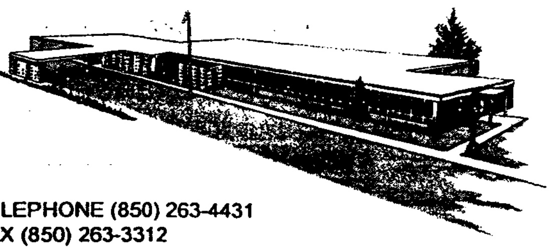
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Campbellton-Graceville Hospital Corporation for the fiscal years ended September 30, 2011 and 2010, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.

- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Campbellton-Graceville Hospital Corporation's financial condition, and our financial condition assessment was based in part on representations made by management, and the review of financial information provided by same. In performing financial condition assessment procedures, it was noted that the Hospital has experienced declining conditions evidenced by operating losses incurred over the past several years. It has experienced cash flow problems both during and after year end. We recommend that the Hospital seek ways to maximize reimbursements and collections in order to increase operating revenues. We also recommend that the Hospital continue to seek alternative funding sources.

Pursuant to Chapter 119, Florida Statues, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

DRAFFIN + TUCKER, LLP

Albany, Georgia
February 27, 2012



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CAMPBELLTON-GRACEVILLE HOSPITAL

A Community Owned Hospital

5429 COLLEGE DRIVE
GRACEVILLE, FLORIDA 32440

February 27, 2012

Draffin & Tucker, LLP
P.O. Box 6
2617 Gillionville Road
Albany, GA 31702-0006

We have reviewed the current year findings referenced under bulleted paragraph Section 10.554(1)(i)5, in the preceding Independent Auditor's Management Letter Comments report required by the Florida Auditor General. We will evaluate each comment independently and determine the most reasonable solution given our operating circumstances and staffing limitations.

2/27/12

Jimmy Rigsby, Administrator — Date

2/27/12

Dena R. Cooper, Chief Financial Officer — Date

Exhibit A

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 Directors
Campbellton-Graceville Hospital Corporation
Graceville, Florida

We have audited the financial statements of Campbellton-Graceville Hospital Corporation ("the Hospital"), as of and for the years ended September 30, 2011 and 2010, and have issued our report thereon dated February 27, 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 the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital'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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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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 a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. 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 the Hospital'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*.

We noted certain other matters that we reported to management of the Hospital in a separate letter dated February 27, 2012.

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

This report is intended solely for the information and use of the Board of Directors, management of the Hospital and other state officials and is not intended to be and should not be used by anyone other than these specified parties.

DRAFFIN + TUCKER, LLP

Albany, Georgia
February 27, 2012

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES
for the year ended September 30, 2011

Significant Deficiency 2011-1

Condition: Monthly bank reconciliations for the operating cash account were not prepared in a timely manner for several months during the year.

Criteria: We recommend the Hospital prepare monthly bank reconciliations for all cash accounts in a timely manner.

Effect: When bank reconciliations are not prepared in a timely manner, the ability to correct and detect potential financial statement misstatements on a timely basis is diminished.

Views of responsible officials and planned corrective actions:

We will cross-train additional employees in the bank reconciliation process to ensure cash reconciliations are performed on a monthly basis.