CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION
GRACEVILLE, FLORIDA

FINANCIAL STATEMENTS

for the years ended September 30, 2012 and 2011

C O N T E N T S

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, 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 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, 2012 and 2011, 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.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013, 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.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 did not provide us with sufficient evidence to express an opinion or provide any assurance.

Draffin & Tucker, LLP

Albany, Georgia
March 22, 2013

Management's Discussion and Analysis
For the Year Ending September 30, 2012

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, 2012. 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 Hospital 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, 2012, 2011 and 2010:

Balance Sheet

	2012	2011	2010
Current assets	$ 1,467,156	$ 1,590,302	$ 1,556,735
Capital assets	1,638,145	1,913,338	1,714,393
Total assets	$ 3,105,301	$ 3,503,640	$ 3,271,128
Current liabilities	$ 1,520,575	$ 1,743,206	$ 1,031,528
Long-term liabilities	628,439	743,979	861,244
Total liabilities	2,149,014	2,487,185	1,892,772
Net assets:			
Invested in capital assets, net of related debt	894,168	1,072,791	748,800
Unrestricted net assets	62,119	(56,336)	629,556
Total net assets	956,287	1,016,455	1,378,356
Total liabilities and net assets	$ 3,105,301	$ 3,503,640	$ 3,271,128

Current assets decreased overall due to net accounts receivable decreasing approximately 25% and cost report settlements increasing due to the estimated receivable recorded for the FY 2012 as-filed cost report. Capital assets decreased due to a full year of depreciation taken on Electronic Health Record assets during FY 2012. Current liabilities decreased as a result of an approximate 15% decrease in accounts payable and a decrease in cost report settlements due to payment of the FY 2011 cost report payable. Long-term liabilities decreased due to paying down the debt related to the construction of the rural health clinic.

The following table summarizes the changes in net assets for the years ended September 30, 2012, 2011 and 2010:

Change in Net Assets

	2012	2011	2010
Operating revenues	$ 7,645,694	$ 6,977,970	$ 7,111,693
Expenses:			
Operating expenses	7,701,954	7,531,685	7,190,417
Depreciation	334,453	249,872	222,046
Total expenses	8,036,407	7,781,557	7,412,463
Operating loss	(390,713)	(803,587)	(300,770)
Nonoperating revenues	225,531	265,740	254,755
Excess revenues (expenses)	(165,182)	(537,847)	(46,015)
Capital grants and contributions	105,014	175,946	185,626
Change in net assets	(60,168)	(361,901)	139,611
Beginning net assets	1,016,455	1,378,356	1,238,745
Ending net assets	$ 956,287	$ 1,016,455	$ 1,378,356

The increase in operating revenues is due to the receipt of the initial Medicare Electronic Health Records incentive payment of approximately $586,000 in FY 2012.

Overall expenses increased approximately 3%. The increase in salaries and employee benefits is attributed to the Hospital hiring new employees and paying out the accrued vacation for employees that retired in FY 2012, including the Director of Nursing.

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 2012 is summarized in the table below:

Capital Assets

Electronic Health Records software, hardware and installation	$ 14,365
Defibrillator	19,043
PACS	15,000
Other equipment	10,852
Total capital asset additions	$ 59,260

A recap of the Hospital's debt and capital lease obligations outstanding at September 30, 2012, 2011 and 2010 follows:

Description	Interest Rates	2012	2011	2010
Note payable	6.00%	$ 104,002	$ 150,000	$ -
Rural Health Clinic Loan I	7.00%	334,853	369,219	420,476
Rural Health Clinic Loan II	5.00%	337,320	375,681	426,369
Capital lease obligation	3.17%	71,804	95,647	118,748
Total debt and capital lease obligation		$ 847,979	$ 990,547	$ 965,593

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, 2012 and 2011

	2012	2011
Assets		
Current assets:		
Cash	$ 314,248	$ 254,644
Patient accounts receivable, net of estimated uncollectibles of $417,502 and $493,427	648,484	864,017
Estimated third-party payor settlements	326,365	226,713
Supplies, at lower of cost (first-in, first-out) or market	142,261	170,340
Prepaid expenses	23,914	23,671
Restricted by contributors and grantors	11,884	50,917
Total current assets	1,467,156	1,590,302
Capital assets:		
Nondepreciable capital assets	11,485	474,057
Depreciable capital assets, net of accumulated depreciation	1,626,660	1,439,281
Total capital assets, net of accumulated depreciation	1,638,145	1,913,338
Total assets	$ 3,105,301	$ 3,503,640

	2012	2011
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 219,540	$ 246,568
Accounts payable	797,915	937,927
Accrued expenses	42,816	74,159
Accrued compensation	448,419	345,196
Estimated third-party payor settlements	-	85,766
Unearned revenue	11,885	53,590
Total current liabilities	1,520,575	1,743,206
Long-term debt, excluding current maturities	628,439	743,979
Total liabilities	2,149,014	2,487,185
Net assets:		
Invested in capital assets, net of related debt	894,168	1,072,791
Unrestricted	62,119	(56,336)
Total net assets	956,287	1,016,455
Total liabilities and net assets	$ 3,105,301	$ 3,503,640

See accompanying notes to financial statements.

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets
years ended September 30, 2012 and 2011

	2012	2011
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $456,258 and $702,241)	$ 6,602,953	$ 6,257,670
EHR revenue	585,741	-
Other	457,000	720,300
Total operating revenues	7,645,694	6,977,970
Operating expenses:		
Salaries and wages	4,472,047	4,275,387
Employee benefits	899,394	808,234
Supplies and drugs	586,393	637,997
Physician fees	627,969	630,952
Purchased services	178,058	218,593
Repairs and maintenance	304,633	361,601
Utilities and communications	156,364	154,648
Insurance	36,678	43,208
Depreciation	334,453	249,872
Other	440,418	401,065
Total operating expenses	8,036,407	7,781,557
Operating loss	(390,713)	(803,587)
Nonoperating revenues (expenses):		
Tax revenue	281,366	282,685
Investment income	1,048	1,288
Interest expense	(68,333)	(33,910)
Other nonoperating revenue	11,450	15,677
Total nonoperating revenues	225,531	265,740

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets, Continued
years ended September 30, 2012 and 2011

	2012	2011
Excess expenses before capital grants and contributions	(165,182)	(537,847)
Capital grants and contributions	105,014	175,946
Change in net assets	(60,168)	(361,901)
Net assets, beginning of year	1,016,455	1,378,356
Net assets, end of year	$ 956,287	$ 1,016,455

See accompanying notes to financial statements.

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statements of Cash Flows
years ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 7,675,809	$ 6,859,065
Payments to suppliers and contractors	(2,442,689)	(1,705,376)
Payments to employees	(5,341,266)	(5,072,981)
Net cash provided (used) by operating activities	(108,146)	80,708
Cash flows from noncapital financing activities:		
Contributions	11,450	15,677
Proceeds from long-term debt	-	150,000
Unrestricted ad valorem tax receipts	281,366	282,685
Net cash provided by noncapital financing activities	292,816	448,362
Cash flows from capital and related financing activities:		
Capital grants and contributions	105,014	175,946
Principal paid on long-term debt and capital leases	(142,568)	(125,046)
Interest paid on long-term debt and capital leases	(68,333)	(33,910)
Purchase of capital assets	(59,260)	(448,817)
Net cash used by capital and related financing activities	(165,147)	(431,827)
Cash flows from investing activities:		
Investment income	1,048	1,288
Net increase in cash	20,571	98,531
Cash, beginning of year	305,561	207,030
Cash, end of year	$ 326,132	$ 305,561

Continued

Statements of Cash Flows, Continued
years ended September 30, 2012 and 2011

	2012	2011
Reconciliation of cash to the balance sheet:		
Cash	$ 314,248	$ 254,644
Restricted by contributors and grantors	11,884	50,917
Total cash	$ 326,132	$ 305,561
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	$(390,713)	$(803,587)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	334,453	249,872
Provision for bad debts	456,258	702,241
Changes in:		
Patient accounts receivable	(240,725)	(608,113)
Estimated third-party payor settlements	(185,418)	(213,033)
Supplies	28,079	31,202
Prepaid expenses	(243)	(4,377)
Accounts payable	(140,012)	715,863
Accrued compensation	30,175	10,640
Net cash provided (used) by operating activities	$(108,146)	$ 80,708

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. Cash includes cash on hand and in demand deposit accounts.

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

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

Continued

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

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, 2012 and 2011.

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.

Tax Revenue. The Hospital receives the proceeds of a special 1.58 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	$ 143,132
Used for operations	138,234
Total	$ 281,366

Continued

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

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.

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.

Continued

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

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 four 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.

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 Administrative Contractor (MAC). 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 MAC through September 30, 2010.

Continued

2. Net Patient Service Revenue, Continued

- *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 $443,000 and $698,000 during 2012 and 2011, respectively for funding from the State of Florida under the Medicaid Rural Financial Assistance Program (the "Program"). For 2012 and 2011, this amount has two components. The two components are regular DSH payments and lower income pool payments.

	2012	2011
DSH	$ 443,000	$ 504,000
Low income pool payments	-	194,000
Total	$ 443,000	$ 698,000

  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.

Continued

2. Net Patient Service Revenue, Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 83% and 3%, respectively of the Hospital's net patient revenue for the year ended 2012, and 81% and 4%, respectively of the Hospital's net patient revenue for the year ended 2011. 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 and Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws 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. Uncompensated Services

The Hospital was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2012 and 2011 were approximately $5,094,000 and $6,023,000, respectively.

Uncompensated care includes charity and indigent care services of approximately $130,000 and $71,000 in 2012 and 2011, respectively. The cost of charity and indigent care services provided during 2012 and 2011 was approximately $87,000 and $40,000, respectively, computed by applying a total cost factor to the charges foregone.

Continued

3. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2012 and 2011.

	2012	2011
Gross patient charges	$ 11,697,388	$ 12,280,783
Uncompensated services:		
Charity and indigent care	129,889	71,266
Medicare	2,907,129	3,383,513
Medicaid	425,406	561,459
Other allowances	1,175,753	1,304,634
Bad debts	456,258	702,241
Total uncompensated care	5,094,435	6,023,113
Net patient service revenue, net of provisions for bad debts	$ 6,602,953	$ 6,257,670

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.

The carrying amounts of deposits are included in the Authority's balance sheet as follows:

	2012	2011
Carrying amount:		
Deposits	$ 326,132	$ 305,561
Included in the following balance sheet captions:		
Cash	$ 314,248	$ 254,644
Restricted by contributors and grantors	11,884	50,917
Total	$ 326,132	$ 305,561

Continued

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, 2012 and 2011 consisted of these amounts:

	2012	2011
Patient Accounts Receivable		
Receivable from patients and their insurance carriers	$ 575,347	$ 725,815
Receivable from Medicare	460,113	614,858
Receivable from Medicaid	30,526	16,771
Total patient accounts receivable	1,065,986	1,357,444
Less allowance for uncollectible accounts	417,502	493,427
Patient accounts receivable, net	$ 648,484	$ 864,017
Accounts Payable and Accrued Expenses		
Payable to employees (including payroll taxes)	$ 448,419	$ 345,196
Payable to suppliers	797,915	937,927
Other	42,816	74,159
Total accounts payable and accrued expenses	$ 1,289,150	$ 1,357,282

Continued

6. Capital Assets

Capital asset additions, deletions, transfers, and balances for the years ended September 30, 2012 and 2011 are as follows:

	Balance September 30 2011	Additions	Deletions	Transfers	Balance September 30 2012
Land	$ 11,485	$ -	$ -	$ -	$ 11,485
Project in progress	462,572	29,364	-	(491,936)	-
Nondepreciable capital assets	474,057	29,364	-	(491,936)	11,485
Land improvements	226,169	-	-	-	226,169
Buildings	1,861,564	-	-	-	1,861,564
Fixed equipment	795,140	-	-	476,936	1,272,076
Major movable equipment	2,998,587	29,896	-	15,000	3,043,483
Vehicles	13,227	-	-	-	13,227
Depreciable capital assets	5,894,687	29,896	-	491,936	6,416,519
Less accumulated depreciation for:					
Land improvements	77,377	19,122	-	-	96,499
Buildings	1,174,091	47,092	-	-	1,221,183
Fixed equipment	490,758	117,174	-	-	607,932
Major movable equipment	2,699,953	151,065	-	-	2,851,018
Vehicles	13,227	-	-	-	13,227
Total accumulated depreciation	4,455,406	334,453	-	-	4,789,859
Depreciable capital assets, net	1,439,281	(304,557)	-	491,936	1,626,660
Total capital assets, net	$ 1,913,338	$(275,193)	$ -	$ -	$ 1,638,145

Continued

6. Capital Assets, Continued

	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

7. Long-Term Debt and Noncurrent Liabilities

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

	Balance September 30, 2011	Additions	Reductions	Balance September 30, 2012	Amounts Due Within One Year
Note payable	$ 150,000	$ -	$(45,998)	$ 104,002	$ 104,002
Rural Health Clinic Loan I	369,219	-	(34,366)	334,853	44,956
Rural Health Clinic Loan II	375,681	-	(38,361)	337,320	45,972
Capital lease obligation	95,647	-	(23,843)	71,804	24,610
Total long-term debt	$ 990,547	$ -	$(142,568)	$ 847,979	$ 219,540

	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

Note payable, interest accrues monthly at 6.00%, due December 30, 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 $86,219.

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
2013	$ 194,930	$ 42,988	$ 24,610	$ 1,920
2014	96,476	35,524	25,402	1,129
2015	102,374	29,626	21,792	318
2016	108,645	23,355	-	-
2017	115,313	16,687	-	-
2018-2021	158,437	11,653	-	-
Total	$ 776,175	$ 159,833	$ 71,804	$ 3,367

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, 2012 and 2011 was as follows:

	2012	2011
Medicare	71%	73%
Medicaid	5%	2%
Blue Cross	7%	2%
Other third-party payors	12%	20%
Patients	5%	3%
	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, 2012 and 2011 was $69,811 and $51,706, 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 $200,000 for any single claim or judgment, or $300,000 when totaled with all other claims or judgments arising out of the same incident or occurrence.

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.

13. Electronic Health Records Incentive Payments

The Health Information Technology for Economic and Clinical Health Act (the HITECH Act) was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in Medicare reimbursements beginning in FY 2015. On July 13, 2010, the Department of Health and Human Services (DHHS) released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages: I, II and III. The final rules specify the initial criteria for physicians and eligible hospitals necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

Continued

13. Electronic Health Records Incentive Payments, Continued

The final rule set the earliest interim payment date of the incentive payment at May 2011. The first year of the Medicare portion of the program is defined as the federal government fiscal year October 1, 2010 to September 30, 2011.

The Hospital recognizes income related to the Medicare incentive payment using a grant model based upon when it has determined that it is reasonably assured that the Hospital will be meaningfully using EHR technology for the applicable period and the cost report information is reasonably estimable.

Attestation of meaningful use requirements for the first year (October 1, 2011 – September 30, 2012) began on November 1, 2011. The Hospital registered for the program and successfully attested compliance with Stage I of the Medicare EHR incentive program for federal fiscal year 2012. The Hospital received their initial incentive payment of approximately $586,000 from Medicare in May of 2012. These funds are recorded in other revenue on the statement of revenues, expenses and changes in net assets.

The Hospital's attestation to the demonstration of meaningful use and other requirements under the Medicare EHR program is subject to audit. If the Authority is selected for an audit, there is a possibility the incentive payments could be reduced or recouped based on the audit results.

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 year ended September 30, 2012, and have issued our report thereon dated March 22, 2013.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, Rules of the Florida Auditor General. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*, and Schedule of Findings and Responses. Disclosures in those reports and schedule, which are dated March 22, 2013, 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:

Continued

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Prior Year Findings and Recommendations

12-1 Segregation of Duties (Reported in two previous audit reports)

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.

12-2 Establish Supervisory Review (Reported in two previous audit reports)

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.

- 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 complied with Section 218.415, Florida Statutes.

- 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, fraud, illegal acts, or abuse that have occurred or are likely to have occurred, 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.

Continued

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, 2012 and 2011, 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, 2012. 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.

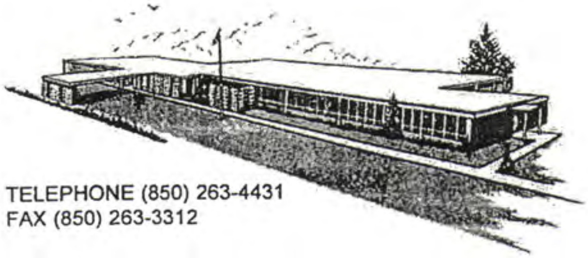
  12-3 Financial Condition (Reported in two previous audit reports)

  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.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Draffin & Tucker, LLP

Albany, Georgia
March 22, 2013



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CAMPBELLTON-GRACEVILLE HOSPITAL

A Community Owned Hospital

5429 COLLEGE DRIVE
GRACEVILLE, FLORIDA 32440

March 22, 2013

Draffin & Tucker, LLP
P.O. Box 71309
2617 Gillionville Road
Albany, GA 31702-0006

We have received 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.

Jimmy Rigsby, Administrator — 03/22/2013 Date

Judy Austin, Asst. Administrator — 03/22/2013 Date

Exhibit A

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Member:
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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, 2012 and 2011, and have issued our report thereon dated March 22, 2013. 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.

Continued

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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.

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 2012-1 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 March 22, 2013.

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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Draffin & Tucker, LLP

Albany, Georgia
March 22, 2013

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES
for the year ended September 30, 2012

(Comment reported in prior year still applicable to fiscal year 2012)

Significant Deficiency 2012-1

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.