CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION
GRACEVILLE, FLORIDA

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FINANCIAL STATEMENTS

for the years ended September 30, 2013 and 2012

# 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

**Report on the Financial Statements**

We have audited the accompanying financial statements of Campbellton-Graceville Hospital Corporation, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Campbellton-Graceville Hospital Corporation as of September 30, 2013 and 2012, and the results of its operations and changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 8, management has outlined its plan to improve the financial position of the Hospital during 2014. Our opinion is not modified with respect to that matter.

***Other Matter***

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 do not provide us with sufficient evidence to express an opinion or provide any assurance.

Continued

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2014, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Albany, Georgia
June 4, 2014

Management's Discussion and Analysis
For the Year Ending September 30, 2013

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, 2013. 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 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 Position

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 position 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 position and its changes. You can think of the Hospital's net position – 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 position is 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 operating, 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, 2013, 2012 and 2011:

### Balance Sheet

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Current assets | $ 1,406,784 | $ 1,467,156 | $ 1,590,302 |
| Capital assets | 1,481,847 | 1,638,145 | 1,913,338 |
| Total assets | $ 2,888,631 | $ 3,105,301 | $ 3,503,640 |
| Current liabilities | $ 1,796,326 | $ 1,520,575 | $ 1,743,206 |
| Long-term liabilities | 509,029 | 628,439 | 743,979 |
| Total liabilities | 2,305,355 | 2,149,014 | 2,487,185 |
| Net position: | | | |
| Net investment in capital assets | 825,006 | 894,168 | 1,072,791 |
| Unrestricted | ( 241,730) | 62,119 | ( 56,336) |
| Total net position | 583,276 | 956,287 | 1,016,455 |
| Total liabilities and net position | $ 2,888,631 | $ 3,105,301 | $ 3,503,640 |

Current assets decreased overall due to cash decreasing approximately 36%. Capital assets decreased due to the Hospital purchasing fewer assets in FY 2013. Current liabilities increased as a result of an approximate $230,000 increase in cost report settlements due to the estimated payable recorded for the FY 2013 as-filed cost report. 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 position for the years ended September 30, 2013, 2012 and 2011:

Change in Net Position

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| Operating revenues | $ 7,539,522 | $ 7,645,694 | $ 6,977,970 |
| Expenses: | | | |
| Operating expenses | 7,789,493 | 7,701,954 | 7,531,685 |
| Depreciation | 371,713 | 334,453 | 249,872 |
| Total expenses | 8,161,206 | 8,036,407 | 7,781,557 |
| Operating loss | ( 621,684) | ( 390,713) | ( 803,587) |
| Nonoperating revenues | 248,673 | 225,531 | 265,740 |
| Excess revenues (expenses) | ( 373,011) | ( 165,182) | ( 537,847) |
| Capital grants and contributions | - | 105,014 | 175,946 |
| Change in net position | ( 373,011) | ( 60,168) | ( 361,901) |
| Beginning net position | 956,287 | 1,016,455 | 1,378,356 |
| Ending net position | $ 583,276 | $ 956,287 | $ 1,016,455 |

The decrease in operating revenues is due to a decrease of approximately $470,000 in the Electronic Health Records incentive payment in FY 2013.

Overall expenses increased approximately 2%. Purchased services increased 82% due to a new Emergency Room contract in FY 2013.

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 2013 is summarized in the table below:

| Capital Assets | |
|---|---|
| Computer equipment | $ 152,915 |
| Electronic health records software, hardware and installation | 62,500 |
| Total capital asset additions | $ 215,415 |

A recap of the Hospital's debt and capital lease obligations outstanding at September 30, 2013, 2012 and 2011 follows:

| Description | Interest Rates | 2013 | 2012 | 2011 |
|---|---|---|---|---|
| Note payable | 6.00% | $ - | $ 104,002 | $ 150,000 |
| Rural Health Clinic Loan I | 7.00% | 289,897 | 334,853 | 369,219 |
| Rural Health Clinic Loan II | 5.00% | 291,349 | 337,320 | 375,681 |
| Capital lease obligation | 3.17% | 47,193 | 71,804 | 95,647 |
| Total debt and capital lease obligation | | $ 628,439 | $ 847,979 | $ 990,547 |

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, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 200,766 | $ 314,248 |
| Patient accounts receivable, net of estimated uncollectibles of $495,088 in 2013 and $417,502 in 2012 | 729,197 | 648,484 |
| Estimated third-party payor settlements | 112,922 | 326,365 |
| Supplies, at lower of cost (first-in, first-out) or market | 142,277 | 142,261 |
| Prepaid expenses | 21,868 | 23,914 |
| Restricted by contributors and grantors | 199,754 | 11,884 |
| Total current assets | 1,406,784 | 1,467,156 |
| Capital assets: | | |
| Nondepreciable capital assets | 73,985 | 11,485 |
| Depreciable capital assets, net of accumulated depreciation | 1,407,862 | 1,626,660 |
| Total capital assets, net of accumulated depreciation | 1,481,847 | 1,638,145 |
| Total assets | $ 2,888,631 | $ 3,105,301 |

| | 2013 | 2012 |
|---|---|---|
| **Liabilities and Net Position** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 119,410 | $ 219,540 |
| Accounts payable | 733,686 | 797,915 |
| Accrued expenses | 18,412 | 42,816 |
| Accrued compensation | 672,383 | 448,419 |
| Estimated third-party payor settlements | 229,550 | - |
| Unearned revenue | 22,885 | 11,885 |
| Total current liabilities | 1,796,326 | 1,520,575 |
| Long-term debt, excluding current maturities | 509,029 | 628,439 |
| Total liabilities | 2,305,355 | 2,149,014 |
| Net position: | | |
| Net investment in capital assets | 825,006 | 894,168 |
| Unrestricted | ( 241,730) | 62,119 |
| Total net position | 583,276 | 956,287 |
| Total liabilities and net position | $ 2,888,631 | $ 3,105,301 |

See accompanying notes to financial statements.

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statements of Revenues, Expenses and Changes in Net Position
for the years ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Operating revenues: | | |
| Net patient service revenue (net of provision for bad debts of $545,611 and $456,258) | $ 6,958,064 | $ 6,602,953 |
| EHR revenue | 115,000 | 585,741 |
| Other | 466,458 | 457,000 |
| Total operating revenues | 7,539,522 | 7,645,694 |
| Operating expenses: | | |
| Salaries and wages | 4,457,171 | 4,472,047 |
| Employee benefits | 876,880 | 899,394 |
| Supplies and drugs | 686,015 | 586,393 |
| Physician fees | 503,782 | 627,969 |
| Purchased services | 323,362 | 178,058 |
| Repairs and maintenance | 292,784 | 304,633 |
| Utilities and communications | 148,189 | 156,364 |
| Insurance | 34,329 | 36,678 |
| Depreciation | 371,713 | 334,453 |
| Other | 466,981 | 440,418 |
| Total operating expenses | 8,161,206 | 8,036,407 |
| Operating loss | ( 621,684) | ( 390,713) |
| Nonoperating revenues (expenses): | | |
| Tax revenue | 282,376 | 281,366 |
| Investment income | 795 | 1,048 |
| Interest expense | ( 42,021) | ( 68,333) |
| Other nonoperating revenue | 7,523 | 11,450 |
| Total nonoperating revenues | 248,673 | 225,531 |

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statements of Revenues, Expenses and Changes in Net Position, Continued
for the years ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Excess expenses before capital grants and contributions | $( 373,011) | $( 165,182) |
| Capital grants and contributions | - | 105,014 |
| Change in net position | ( 373,011) | ( 60,168) |
| Net position, beginning of year | 956,287 | 1,016,455 |
| Net position, end of year | $ 583,276 | $ 956,287 |

See accompanying notes to financial statements.

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statements of Cash Flows
for the years ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | $ 7,901,802 | $ 7,675,809 |
| Payments to suppliers and contractors | (2,517,641) | (2,442,689) |
| Payments to employees | (5,123,491) | (5,341,266) |
| Net cash provided (used) by operating activities | 260,670 | ( 108,146) |
| Cash flows from noncapital financing activities: | | |
| Contributions | 7,523 | 11,450 |
| Unrestricted ad valorem tax receipts | 282,376 | 281,366 |
| Net cash provided by noncapital financing activities | 289,899 | 292,816 |
| Cash flows from capital and related financing activities: | | |
| Capital grants and contributions | - | 105,014 |
| Principal paid on long-term debt and capital leases | ( 219,540) | ( 142,568) |
| Interest paid on long-term debt and capital leases | ( 42,021) | ( 68,333) |
| Purchase of capital assets | ( 215,415) | ( 59,260) |
| Net cash used by capital and related financing activities | ( 476,976) | ( 165,147) |
| Cash flows from investing activities: | | |
| Investment income | 795 | 1,048 |
| Net increase in cash | 74,388 | 20,571 |
| Cash, beginning of year | 326,132 | 305,561 |
| Cash, end of year | $ 400,520 | $ 326,132 |

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statements of Cash Flows, Continued
for the years ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| Reconciliation of cash to the balance sheet: | | |
| Cash | $ 200,766 | $ 314,248 |
| Restricted by contributors and grantors | 199,754 | 11,884 |
| Total cash | $ 400,520 | $ 326,132 |
| | | |
| Reconciliation of operating loss to net cash flows from operating activities: | | |
| Operating loss | $( 621,684) | $( 390,713) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | |
| Depreciation | 371,713 | 334,453 |
| Provision for bad debts | 545,611 | 456,258 |
| Changes in: | | |
| Patient accounts receivable | ( 626,324) | ( 240,725) |
| Estimated third-party payor settlements | 442,993 | ( 185,418) |
| Supplies | ( 16) | 28,079 |
| Prepaid expenses | 2,046 | ( 243) |
| Accounts payable | ( 64,229) | ( 140,012) |
| Accrued compensation | 210,560 | 30,175 |
| Net cash provided (used) by operating activities | $ 260,670 | $( 108,146) |

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. The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

*New accounting pronouncements.* The GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* in December 2010. GASB Statement No. 62 superseded previous guidance contained in GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Funds Accounting*. GASB Statement No. 62 incorporates FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, issued on or before November 30, 1989, which do not conflict or contradict with GASB pronouncements into the GASB authoritative literature. The Hospital adopted this GASB statement in fiscal year 2013.

The GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* in June 2011. GASB Statement No. 63 provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The Hospital adopted this GASB Statement in fiscal year 2013.

*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.

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 position for the years ended September 30, 2013 and 2012.

*Net position*. Net position of the Hospital is classified in two components. *Net investment in capital assets* 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 position* is the remaining net amount of assets and liabilities that do not meet the definition of *net investment in capital assets*.

*Operating revenues and expenses*. The Hospital's statement of revenues, expenses and changes in net position 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 1.58 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:

| | 2013 |
|---|---|
| Used for debt service payments | $ 219,540 |
| Used for operations | 62,836 |
| Total | $ 282,376 |

*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 five 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

Continued

## 2. Net Patient Service Revenue, Continued

- *Medicare, continued.* 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, 2012.

- *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 $460,000 and $443,000 during 2013 and 2012, respectively for funding from the State of Florida under the Medicaid Rural Financial Assistance Program (the "Program"). For 2013 and 2012, this amount has two components. The two components are regular DSH payments and lower income pool payments.

| | 2013 | 2012 |
|---|---|---|
| DSH | $ 460,000 | $ 443,000 |
| Low income pool payments | - | - |
| Total | $ 460,000 | $ 443,000 |

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 78% and 3%, respectively of the Hospital's net patient revenue for the year ended 2013, and 83% and 3%, respectively of the Hospital's net patient revenue for the year ended 2012. 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 2013 and 2012 were approximately $6,728,000 and $5,094,000, respectively.

Uncompensated care includes charity and indigent care services of approximately $179,000 and $130,000 in 2013 and 2012, respectively. The cost of charity and indigent care services provided during 2013 and 2012 was approximately $104,000 and $87,000, 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 2013 and 2012.

| | 2013 | 2012 |
|---|---|---|
| Gross patient charges | $ 13,685,816 | $ 11,697,388 |
| Uncompensated services: | | |
| Charity and indigent care | 178,717 | 129,889 |
| Medicare | 4,134,355 | 2,907,129 |
| Medicaid | 383,151 | 425,406 |
| Other allowances | 1,485,918 | 1,175,753 |
| Bad debts | 545,611 | 456,258 |
| Total uncompensated care | 6,727,752 | 5,094,435 |
| Net patient service revenue, net of provisions for bad debts | $ 6,958,064 | $ 6,602,953 |

## 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 Hospital's balance sheet as follows:

| | 2013 | 2012 |
|---|---|---|
| Carrying amount: | | |
| Deposits | $ 400,520 | $ 326,132 |
| Included in the following balance sheet captions: | | |
| Cash | $ 200,766 | $ 314,248 |
| Restricted by contributors and grantors | 199,754 | 11,884 |
| Total | $ 400,520 | $ 326,132 |

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, 2013 and 2012 consisted of these amounts:

| | 2013 | 2012 |
|---|---|---|
| **Patient Accounts Receivable** | | |
| Receivable from patients and their insurance carriers | $ 850,053 | $ 575,347 |
| Receivable from Medicare | 353,780 | 460,113 |
| Receivable from Medicaid | 20,452 | 30,526 |
| Total patient accounts receivable | 1,224,285 | 1,065,986 |
| Less allowance for uncollectible accounts | 495,088 | 417,502 |
| Patient accounts receivable, net | $ 729,197 | $ 648,484 |
| **Accounts Payable and Accrued Expenses** | | |
| Payable to employees (including payroll taxes) | $ 672,383 | $ 448,419 |
| Payable to suppliers | 733,686 | 797,915 |
| Other | 18,412 | 42,816 |
| Total accounts payable and accrued expenses | $ 1,424,481 | $ 1,289,150 |

Continued

## 6. Capital Assets

Capital asset additions, deletions, transfers, and balances for the years ended September 30, 2013 and 2012 are as follows:

| | Balance September 30 2012 | Additions | Deletions | Transfers | Balance September 30 2013 |
|---|---|---|---|---|---|
| Land | $ 11,485 | $ - | $ - | $ - | $ 11,485 |
| Deposit on equipment | - | 62,500 | - | - | 62,500 |
| Nondepreciable capital assets | 11,485 | 62,500 | - | - | 73,985 |
| Land improvements | 226,169 | - | - | - | 226,169 |
| Buildings | 1,861,564 | - | - | - | 1,861,564 |
| Fixed equipment | 1,272,076 | 152,915 | - | - | 1,424,991 |
| Major movable equipment | 3,043,483 | - | - | - | 3,043,483 |
| Vehicles | 13,227 | - | - | - | 13,227 |
| Depreciable capital assets | 6,416,519 | 152,915 | - | - | 6,569,434 |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 96,499 | 19,122 | - | - | 115,621 |
| Buildings | 1,221,183 | 47,093 | - | - | 1,268,276 |
| Fixed equipment | 607,932 | 210,181 | - | - | 818,113 |
| Major movable equipment | 2,851,018 | 95,317 | - | - | 2,946,335 |
| Vehicles | 13,227 | - | - | - | 13,227 |
| Total accumulated depreciation | 4,789,859 | 371,713 | - | - | 5,161,572 |
| Depreciable capital assets, net | 1,626,660 | (218,798) | - | - | 1,407,862 |
| Total capital assets, net | $ 1,638,145 | $(156,298) | $ - | $ - | $ 1,481,847 |

Continued

## 6. Capital Assets, Continued

| | 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

## 7. Long-Term Debt and Noncurrent Liabilities

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

| | Balance September 30, 2012 | Additions | Reductions | Balance September 30, 2013 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Note payable | $ 104,002 | $ - | $(104,002) | $ - | $ - |
| Rural Health Clinic Loan I | 334,853 | - | ( 44,956) | 289,897 | 48,206 |
| Rural Health Clinic Loan II | 337,320 | - | ( 45,971) | 291,349 | 45,802 |
| Capital lease obligation | 71,804 | - | ( 24,611) | 47,193 | 25,402 |
| Total long-term debt | $ 847,979 | $ - | $(219,540) | $ 628,439 | $ 119,410 |

| | 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 |

Continued

## 7. Long-Term Debt and Noncurrent Liabilities, Continued

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.

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 $61,585.

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 |
| 2014 | $ 94,008 | $ 37,992 | $ 25,402 | $ 1,129 |
| 2015 | 102,396 | 29,604 | 21,791 | 318 |
| 2016 | 108,668 | 23,332 | - | |
| 2017 | 115,337 | 16,663 | - | |
| 2018 | 122,429 | 9,571 | - | |
| 2019-2022 | 38,408 | 2,029 | - | - |
| Total | $ 581,246 | $ 119,191 | $ 47,193 | $ 1,447 |

Continued

## 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. See malpractice insurance disclosure at Note 11.

*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.

*Financial position*. As indicated in the accompanying financial statements, the Hospital reported a decrease in net position of $373,011 and $60,168 in 2013 and 2012, respectively. Management's plan to improve the Hospital's financial position is as follows:

- *Expense reduction.* The Hospital has taken steps to reduce labor costs through reducing employees, reducing overtime and renegotiating professional service contracts. This has resulted in a decrease in both salary, contract labor, and benefit costs.

- *Revenue increasing initiatives*. Steps are being taken to hire a Clinic manager to increase volume and patient satisfaction. The focus will be on marketing efforts and increasing efficiency. There are also plans to open a new clinic in the area.

- *Reduction in bad debts*. The Hospital intends to reduce the increasing number of bad debts through advance pay requirements, prompt pay discounts, improved billing and collecting practices.

- *Refinancing debt*. Management has begun the process of refinancing the debt associated with the Clinic building in order to obtain more favorable interest rates.

Continued

## 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, 2013 and 2012 was as follows:

| | 2013 | 2012 |
|---|---|---|
| Medicare | 49% | 71% |
| Medicaid | 3% | 5% |
| Blue Cross | 6% | 7% |
| Other third-party payors | 40% | 12% |
| Patients | 2% | 5% |
| | 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, 2013 and 2012 was $66,988 and $69,811, respectively.

## 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.

Continued

## 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 federal 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.

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.

Continued

## 13. Electronic Health Records Incentive Payments, Continued

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 Stage I Year 1 incentive payment of approximately $586,000 from Medicare in May of 2012. The Hospital successfully attested compliance for Stage I Year 2 of the Medicare EHR incentive program for federal fiscal year 2013 in March of 2014. Approximately $115,000 has been accrued related to the Medicare Stage I Year 2 incentive payment. These funds are recorded in other revenue on the statement of revenues, expenses and changes in net position.

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

Draffin
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CERTIFIED PUBLIC ACCOUNTANTS

Member:
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# 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, 2013, and have issued our report thereon dated June 4, 2014.

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*, Chapter 10.550, Rules of the Florida Auditor General, and Schedule of Findings and Responses. Disclosures in those reports and schedule, which are dated June 4, 2014, 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

13-1 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.

13-2 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 noncompliance with provisions of contracts or grant agreements, 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 which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

- Section 10.554(1)(i)5., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. This information is located in Note 1 to the financial statements.

Continued

- Section 10.554(1)(i)6.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 due to deteriorating financial conditions during the year which resulted 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)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Campbellton-Graceville Hospital Corporation for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.

- Pursuant to Sections 10.554(1)(i)6.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.

  13-3 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
June 4, 2014

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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# INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of Campbellton-Graceville Hospital Corporation as of and for the year ended September 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated June 4, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as Item 2013-1, that we consider to be a significant deficiency.

**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*.

**Cambellton-Graceville Hospital Corporation's Response to Findings**

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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 Hospital'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
June 4, 2014

SCHEDULE OF FINDINGS AND RESPONSES
for the year ended September 30, 2013

**(Comment reported in two preceding years still applicable to fiscal year 2013)**

**Significant Deficiency 2013-1**

| | |
|---|---|
| ***Condition:*** | Monthly bank reconciliations for the operating cash account were not prepared in a timely manner for several months during the year. |
| ***Criteria:*** | Bank reconciliations should be performed monthly to reconcile the bank balance to the general ledger. |
| ***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. |
| ***Recommendation:*** | We recommend the Hospital prepare monthly bank reconciliations for all cash accounts in a timely manner. |
| ***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. |