

MADISON COUNTY HEALTH AND  
HOSPITAL DISTRICT



FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

## C O N T E N T S

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board  
Madison County Health and Hospital District  
Madison, Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Madison County Health and Hospital District (District), which comprise the balance sheets as of September 30, 2018 and 2017, 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.

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### ***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.

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 the 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 District'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 District'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 that 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 the Madison County Health and Hospital District as of September 30, 2018 and 2017 and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As disclosed in Note 14 to the financial statements, the District is facing financial difficulty and recurring operating losses. The District has become fiscally dependent on Madison County. See Note 14 for additional details. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2019, on our consideration of the District'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 effectiveness of the District's 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 District's internal control over financial reporting and compliance.

*Driffin & Tucker, LLP*

Albany, Georgia  
January 28, 2019

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

BALANCE SHEETS  
September 30, 2018 and 2017

|  | <u>2018</u>          | <u>2017</u>          |
|--|----------------------|----------------------|
| ASSETS   |                      |                      |
| Current assets:  |                      |                      |
| Cash   | \$ 2,421,425         | \$ 1,669,576         |
| Short-term investments   | 257,560              | 256,038              |
| Patient accounts receivable, net of contractual allowances and estimated uncollectibles of \$4,553,000 in 2018 and \$5,955,000 in 2017 | 788,350              | 1,342,900            |
| Estimated third-party payor settlements  | 671,354              | 628,993              |
| Inventory and other current assets   | <u>127,719</u>       | <u>115,810</u>       |
| Total current assets   | <u>4,266,408</u>     | <u>4,013,317</u>     |
| Restricted assets:   |                      |                      |
| Receivable from Madison County   | <u>570,570</u>       | <u>445,198</u>       |
| Capital assets:  |                      |                      |
| Nondepreciable   | 490,000              | 490,000              |
| Depreciable, net of accumulated depreciation   | <u>16,060,143</u>    | <u>17,499,027</u>    |
| Total capital assets, net of accumulated depreciation  | <u>16,550,143</u>    | <u>17,989,027</u>    |
| Total assets   | <u>\$ 21,387,121</u> | <u>\$ 22,447,542</u> |

|  | <u>2018</u>          | <u>2017</u>          |
|--|----------------------|----------------------|
| <b>LIABILITIES AND NET POSITION</b>          |                      |                      |
| Current liabilities:                         |                      |                      |
| Current maturities of long-term debt         | \$ 338,547           | \$ 594,662           |
| Accounts payable                             | 136,544              | 212,263              |
| Accrued salaries and benefits payable        | 432,847              | 424,457              |
| Other accrued expenses                       | <u>298,526</u>       | <u>312,810</u>       |
| Total current liabilities                    | 1,206,464            | 1,544,192            |
| Long-term liabilities:                       |                      |                      |
| Long-term debt, excluding current maturities | <u>22,114,651</u>    | <u>21,912,431</u>    |
| Total liabilities                            | <u>23,321,115</u>    | <u>23,456,623</u>    |
| Net position:                                |                      |                      |
| Net investment in capital assets             | ( 5,410,334)         | ( 3,970,450)         |
| Restricted for debt service                  | 570,570              | 445,198              |
| Unrestricted                                 | <u>2,905,770</u>     | <u>2,516,171</u>     |
| Total net position                           | ( 1,933,994)         | ( 1,009,081)         |
| Total liabilities and net position           | \$ <u>21,387,121</u> | \$ <u>22,447,542</u> |

See accompanying notes to financial statements.

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
for the years ended September 30, 2018 and 2017

|  | <u>2018</u>             | <u>2017</u>             |
|--|-------------------------|-------------------------|
| Operating revenues:  |                         |                         |
| Net patient service revenue (net of provision for bad<br>debts of \$2,839,000 in 2018 and \$3,049,000 in 2017) | \$ 8,784,860            | \$ 9,058,037            |
| Other revenue  | <u>305,295</u>          | <u>414,141</u>          |
| Total operating revenues   | <u>9,090,155</u>        | <u>9,472,178</u>        |
| Operating expenses:  |                         |                         |
| Salaries   | 4,489,069               | 4,444,616               |
| Employee benefits  | 558,340                 | 543,919                 |
| Purchased services   | 1,450,934               | 1,410,531               |
| Supplies   | 938,803                 | 898,412                 |
| Depreciation   | 1,554,260               | 1,659,713               |
| Insurance  | 76,077                  | 87,227                  |
| Rents and leases   | 65,384                  | 59,375                  |
| Other expenses   | <u>677,281</u>          | <u>661,782</u>          |
| Total operating expenses   | <u>9,810,148</u>        | <u>9,765,575</u>        |
| Operating loss   | ( <u>719,993</u> )      | ( <u>293,397</u> )      |
| Nonoperating revenues (expenses):  |                         |                         |
| Sales tax revenue  | 679,436                 | 641,772                 |
| Interest income and other  | 16,505                  | 30,707                  |
| Interest expense   | ( <u>900,861</u> )      | ( <u>863,272</u> )      |
| Total nonoperating expenses  | ( <u>204,920</u> )      | ( <u>190,793</u> )      |
| Excess expenses  | ( 924,913 )             | ( 484,190 )             |
| Net position, beginning of year  | ( <u>1,009,081</u> )    | ( <u>524,891</u> )      |
| Net position, end of year  | \$ ( <u>1,933,994</u> ) | \$ ( <u>1,009,081</u> ) |

See accompanying notes to financial statements.



MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS  
for the years ended September 30, 2018 and 2017

|   | <u>2018</u>         | <u>2017</u>         |
|---|---------------------|---------------------|
| Cash flows from operating activities:                     |                     |                     |
| Cash received from patients and payors                    | \$ 9,602,344        | \$ 9,255,722        |
| Cash payments to vendors and other suppliers              | (3,291,041)         | (3,225,155)         |
| Cash payments to employees                                | (5,039,019)         | (4,935,761)         |
| Net cash provided by operating activities                 | <u>1,272,284</u>    | <u>1,094,806</u>    |
| Cash flows from capital and related financing activities: |                     |                     |
| Proceeds from tax revenue                                 | 554,064             | 1,436,859           |
| Proceeds from restructuring bonds                         | 1,000               | -                   |
| Principal paid on long-term debt                          | ( 54,895)           | ( 638,490)          |
| Cash paid for interest                                    | ( 900,861)          | ( 863,272)          |
| Purchase of capital assets                                | ( 134,726)          | ( 6,450)            |
| Net cash used by capital and related financing activities | <u>( 535,418)</u>   | <u>( 71,353)</u>    |
| Cash flows from investing activities:                     |                     |                     |
| Purchase of short-term investments                        | ( 1,522)            | ( 1,302)            |
| Interest income and other                                 | <u>16,505</u>       | <u>30,707</u>       |
| Net cash provided by investing activities                 | <u>14,983</u>       | <u>29,405</u>       |
| Net increase in cash                                      | 751,849             | 1,052,858           |
| Cash, beginning of year                                   | <u>1,669,576</u>    | <u>616,718</u>      |
| Cash, end of year   | <u>\$ 2,421,425</u> | <u>\$ 1,669,576</u> |

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS, Continued  
for the years ended September 30, 2018 and 2017

|  | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| Reconciliation of operating loss to net cash flows from operating activities:        |                     |                     |
| Operating loss   | \$( 719,993)        | \$( 293,397)        |
| Adjustments to reconcile operating loss to net cash flows from operating activities: |                     |                     |
| Depreciation   | 1,554,260           | 1,659,713           |
| Provision for bad debt   | 2,838,695           | 3,049,223           |
| Change in:   |                     |                     |
| Patient accounts receivable  | (2,284,145)         | (3,000,483)         |
| Inventory and other current assets   | ( 11,909)           | ( 88,888)           |
| Estimated third-party payor settlements  | ( 42,361)           | ( 265,196)          |
| Accounts payable   | ( 56,369)           | ( 62,380)           |
| Salaries and benefits payable  | 8,390               | 52,775              |
| Other accrued expenses   | ( 14,284)           | <u>43,439</u>       |
| Net cash provided by operating activities  | \$ <u>1,272,284</u> | \$ <u>1,094,806</u> |
| Supplemental schedule of noncash investing, capital and financing activities:        |                     |                     |
| Acquisition of capital assets included in accounts payable                           | \$ <u>-</u>         | \$ <u>19,350</u>    |

See accompanying notes to financial statements.

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

1. Summary of Significant Accounting Policies

Organization

Madison County Health and Hospital District (District) is an independent special district organized under Section 2003–333 of the Laws of Florida for the purpose of providing public health care services. The District has a seven-member governing board that is appointed by the Governor of the State of Florida. The members of the District’s board also serve as members of the Board of Directors of Madison County Hospital Health Systems, Inc., D/B/A Madison County Memorial Hospital (Hospital), a Florida not-for-profit corporation under Internal Revenue Code 501(c)(3). The Hospital is a blended component unit of the Madison County Health and Hospital District located in Madison, Florida.

The Hospital is a 25 bed critical access healthcare facility licensed by the State of Florida through the Agency for Healthcare Administration. Serving its rural community since 1938, the Hospital offers ancillary services such as: routine radiology, mammography, ultrasound, laboratory, respiratory therapy, as well as providing a 24 hour emergency room, swing bed services (skilled nursing beds) and an acute care setting for inpatients.

The District has leased all assets, liabilities and operations to the Hospital for a period of 40 years expiring on October 1, 2052; as such the District does not have any activity. The District retains oversight of the Hospital as they share the same members of the board. The activity presented in the accompanying financial statements and notes to the financial statements represents the operations of the Hospital.

Tax Status

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

The Hospital is a not-for-profit organization exempt from income taxes, except on unrelated business income, under Internal Revenue Code Section 501(c)(3).

The Hospital applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Hospital only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability

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MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Tax Status, Continued

would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of September 30, 2018 and 2017 or for the years then ended. The Hospital's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

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

Allowance for Doubtful Accounts

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

Inventory

Inventory which consists principally of medical and other supplies, is valued at the lower of cost or market on the first-in, first-out (FIFO) method.

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MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Receivable from Madison County

Receivable from Madison County includes tax monies collected by Madison County pursuant to a voter approved one-half-cent sales surtax on the purchase of goods (“Sales Surtax”) under the authority of Section 212.055(7), Florida Statutes which allowed for the financing and construction of the new Hospital facility. The assets are held by Madison County under the terms of the interlocal agreement between the District and Madison County dated March 15, 2011, on behalf of the District. These funds are restricted by covenants to be used only for debt service related to bonds held by the United States Department of Agriculture, Rural Development Division.

Capital Assets

Facilities owned by the District are operated by the Hospital. The capital asset acquisitions are reported at historical cost. Contributed capital assets are reported at their acquisition 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. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

|                            |                |
|----------------------------|----------------|
| Land improvements          | 15 to 20 years |
| Buildings and improvements | 5 to 40 years  |
| Equipment                  | 3 to 15 years  |

Net Position

Net position is classified into three 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. *Restricted net position* is noncapital assets reduced by liabilities related to those assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net position* is the remaining net amount of assets and liabilities that do not meet the definition of *net investment in capital assets* or the *restricted net position*.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

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1. 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 arrangements 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.

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.

Operating Revenues and Expenses

The 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.

Compensated Absences

The Hospital’s employees earn paid time off (benefit time) at varying rates depending on years of service. Benefit time accumulates up to a maximum of 300 hours based on years of service. The estimated amount of benefit time payable is reported as a current liability in 2018 and 2017.

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MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Grants and Contributions

From time to time, the Hospital receives contributions from Madison County, individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. 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 revenue. 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.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; workers compensation; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from all such matters other than malpractice claims for which the Hospital is self-insured, see Note 11. The Hospital is insured for employee health insurance, see Note 12.

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. 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, 2018 and 2017.

Financing Cost

Costs incurred in connection with the issuance of bonds and notes are expensed in the period in which they are incurred.

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MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements

In 2018, the District adopted Statement No. 85, *Omnibus 2017* (GASB 85). GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits. The adoption of GASB 85 had no material impact on the financial statements of the District.

In 2018, the District adopted Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). GASB 86 establishes standards of accounting and financial reporting, including additional disclosure requirements, for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. GASB 86 also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished. The adoption of GASB 86 had no material impact on the financial statements of the District.

Accounting Pronouncements Not Yet Adopted

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources based on the guidance in this Statement. GASB 83 is effective for fiscal years beginning after June 15, 2018. The District is currently evaluating the impact GASB 83 will have on its financial statements.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 clarifies which liabilities should be included when disclosing information related to debt, requires additional essential information related to debt be disclosed, and requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB No. 88 is effective for fiscal years beginning after June 15, 2018. The District is currently evaluating the impact GASB 88 will have on its financial statements.

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MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

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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.

Revenue from the Medicare and Medicaid programs accounted for approximately 76% and 18%, respectively, of the Hospital's net patient service revenue for the year ended 2018 and 86% and 13%, respectively, of the Hospital's net patient service revenue for the year ended 2017. 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 and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

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

- Medicare

Effective January 1, 2006, 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 certain 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, 2015.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

- Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based upon a prospective cost reimbursement methodology. The Hospital is paid at a rate based upon the most recent cost report processed by the Agency for Health Care Administration adjusted for inflation and regional cost limitation.

The Hospital recorded revenue of approximately \$398,000 and \$236,000 during 2018 and 2017, respectively for funding from the State of Florida under the Medicaid Rural Financial Assistance Program (Program). In 2018 and 2017, the Hospital qualified for the rural assistance DSH payment. In 2018, the Hospital also qualified for lower income pool payments.

|                                 | <u>2018</u>       | <u>2017</u>       |
|---------------------------------|-------------------|-------------------|
| Lower income pool payments      | \$ 83,000         | \$ -              |
| Rural assistance DSH payments   | 308,000           | 285,000           |
| DSH adjustments for prior years | <u>7,000</u>      | <u>( 49,000)</u>  |
| Total                           | \$ <u>398,000</u> | \$ <u>236,000</u> |

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, expenses and changes in net position. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2016.

- Other Arrangements

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

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MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

• Uninsured Patients

In 2018, the Hospital updated its Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the Hospital for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

3. Uncompensated Services

The Hospital was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2018 and 2017 were approximately \$15,789,000 and \$16,866,000, respectively.

Charges for uncompensated care included charity and indigent care services of approximately \$784,000 and \$1,014,000 for fiscal years 2018 and 2017, respectively. The cost of charity and indigent care services provided during 2018 and 2017 was approximately \$342,000 and \$416,000, respectively computed by applying a total cost factor to the charges forgone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2018 and 2017.

|                             | <u>2018</u>          | <u>2017</u>          |
|-----------------------------|----------------------|----------------------|
| Gross patient charges       | \$ <u>24,574,257</u> | \$ <u>25,923,799</u> |
| Uncompensated services:     |                      |                      |
| Charity and indigent care   | 783,609              | 1,014,317            |
| Medicare                    | 7,735,639            | 7,709,892            |
| Medicaid                    | 1,343,137            | 1,860,090            |
| Other allowances            | 3,088,317            | 3,232,240            |
| Provision for bad debts     | <u>2,838,695</u>     | <u>3,049,223</u>     |
| Total uncompensated care    | <u>15,789,397</u>    | <u>16,865,762</u>    |
| Net patient service revenue | \$ <u>8,784,860</u>  | \$ <u>9,058,037</u>  |

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

4. Cash and Investments

The composition of cash and investments on the balance sheet includes the following:

|  | <u>2018</u>         | <u>2017</u>         |
|--|---------------------|---------------------|
| Cash – demand deposit accounts                 | \$ 2,421,425        | \$ 1,669,576        |
| Short-term investment – certificate of deposit | <u>257,560</u>      | <u>256,038</u>      |
| Total cash and investments                     | \$ <u>2,678,985</u> | \$ <u>1,925,614</u> |

- *Certificate of deposit.* The term of the certificate of deposit is twelve months and is reported at amortized cost which approximates fair value.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Hospital will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance or the deposits are uncollateralized.

The Hospital's unrestricted cash balances in checking and savings accounts and time deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida statutes.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

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, 2018 and 2017 consisted of these amounts:

|  | <u>2018</u>       | <u>2017</u>         |
|--|-------------------|---------------------|
| Patient accounts receivable:   |                   |                     |
| Receivable from patients and their insurance carriers                | \$ 3,890,734      | \$ 4,743,670        |
| Receivable from Medicare   | 1,091,389         | 1,844,150           |
| Receivable from Medicaid   | <u>359,555</u>    | <u>709,897</u>      |
| Total patient accounts receivable                                    | 5,341,678         | 7,297,717           |
| Less allowance for uncollectible amounts and contractual adjustments | <u>4,553,328</u>  | <u>5,954,817</u>    |
| Patient accounts receivable, net                                     | \$ <u>788,350</u> | \$ <u>1,342,900</u> |
| Accounts payable and accrued expenses:                               |                   |                     |
| Payable to employees (including payroll taxes)                       | \$ 432,847        | \$ 424,457          |
| Payable to suppliers   | 136,544           | 212,263             |
| Payable to others  | <u>298,526</u>    | <u>312,810</u>      |
| Total accounts payable and accrued expenses                          | \$ <u>867,917</u> | \$ <u>949,530</u>   |

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

6. Capital Assets

Capital asset changes for the years ended September 30, 2018 and 2017 are as follows:

|   | Balance<br>September 30,<br><u>2017</u> | <u>Increases</u>      | <u>Decreases</u> | Balance<br>September 30,<br><u>2018</u> |
|---|---|-----------------------|------------------|---|
| Land  | \$ <u>490,000</u>                       | \$ <u>-</u>           | \$ <u>-</u>      | \$ <u>490,000</u>                       |
| Total capital assets not<br>being depreciated | <u>490,000</u>                          | <u>-</u>              | <u>-</u>         | <u>490,000</u>                          |
| Land improvements                             | 13,960                                  | -                     | -                | 13,960                                  |
| Buildings                                     | 18,991,036                              | 19,600                | -                | 19,010,636                              |
| Equipment                                     | 2,911,445                               | 95,776                | -                | 3,007,221                               |
| Software                                      | 447,655                                 | -                     | -                | 447,655                                 |
| Leasehold improvements                        | 59,607                                  | -                     | -                | 59,607                                  |
| Capitalized interest                          | <u>802,330</u>                          | <u>-</u>              | <u>-</u>         | <u>802,330</u>                          |
| Total capital assets<br>being depreciated     | <u>23,226,033</u>                       | <u>115,376</u>        | <u>-</u>         | <u>23,341,409</u>                       |
| Less accumulated<br>depreciation:             |   |                       |                  |   |
| Land improvements                             | ( 8,960)                                | ( 1,000)              | -                | ( 9,960)                                |
| Buildings                                     | ( 3,449,967)                            | (1,069,228)           | -                | ( 4,519,195)                            |
| Equipment                                     | ( 1,710,913)                            | ( 357,986)            | -                | ( 2,068,899)                            |
| Software                                      | ( 363,837)                              | ( 83,818)             | -                | ( 447,655)                              |
| Leasehold improvements                        | ( 59,607)                               | -                     | -                | ( 59,607)                               |
| Capitalized interest                          | <u>( 133,722)</u>                       | <u>( 42,228)</u>      | <u>-</u>         | <u>( 175,950)</u>                       |
| Total accumulated<br>depreciation             | <u>( 5,727,006)</u>                     | <u>(1,554,260)</u>    | <u>-</u>         | <u>( 7,281,266)</u>                     |
| Capital assets being<br>depreciated, net      | <u>17,499,027</u>                       | <u>(1,438,884)</u>    | <u>-</u>         | <u>16,060,143</u>                       |
| Capital assets, net                           | \$ <u>17,989,027</u>                    | \$ <u>(1,438,884)</u> | \$ <u>-</u>      | \$ <u>16,550,143</u>                    |

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

6. Capital Assets, Continued

|   | Balance<br>September 30,<br><u>2016</u> | <u>Increases</u>      | <u>Decreases</u> | Balance<br>September 30,<br><u>2017</u> |
|---|---|-----------------------|------------------|---|
| Land  | \$ <u>490,000</u>                       | \$ <u>-</u>           | \$ <u>-</u>      | \$ <u>490,000</u>                       |
| Total capital assets not<br>being depreciated | <u>490,000</u>                          | <u>-</u>              | <u>-</u>         | <u>490,000</u>                          |
| Land improvements                             | 13,960                                  | -                     | -                | 13,960                                  |
| Buildings                                     | 18,991,036                              | -                     | -                | 18,991,036                              |
| Equipment                                     | 2,885,645                               | 25,800                | -                | 2,911,445                               |
| Software                                      | 447,655                                 | -                     | -                | 447,655                                 |
| Leasehold improvements                        | 59,607                                  | -                     | -                | 59,607                                  |
| Capitalized interest                          | <u>802,330</u>                          | <u>-</u>              | <u>-</u>         | <u>802,330</u>                          |
| Total capital assets<br>being depreciated     | <u>23,200,233</u>                       | <u>25,800</u>         | <u>-</u>         | <u>23,226,033</u>                       |
| Less accumulated<br>depreciation:             |   |                       |                  |   |
| Land improvements                             | ( 7,960)                                | ( 1,000)              | -                | ( 8,960)                                |
| Buildings                                     | ( 2,381,230)                            | (1,068,737)           | -                | ( 3,449,967)                            |
| Equipment                                     | ( 1,308,598)                            | ( 402,315)            | -                | ( 1,710,913)                            |
| Software                                      | ( 218,404)                              | ( 145,433)            | -                | ( 363,837)                              |
| Leasehold improvements                        | ( 59,607)                               | -                     | -                | ( 59,607)                               |
| Capitalized interest                          | <u>( 91,494)</u>                        | <u>( 42,228)</u>      | <u>-</u>         | <u>( 133,722)</u>                       |
| Total accumulated<br>depreciation             | <u>( 4,067,293)</u>                     | <u>(1,659,713)</u>    | <u>-</u>         | <u>( 5,727,006)</u>                     |
| Capital assets being<br>depreciated, net      | <u>19,132,940</u>                       | <u>(1,633,913)</u>    | <u>-</u>         | <u>17,499,027</u>                       |
| Capital assets, net                           | \$ <u>19,622,940</u>                    | \$ <u>(1,633,913)</u> | \$ <u>-</u>      | \$ <u>17,989,027</u>                    |

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

7. Long-Term Debt

Long-term debt schedule of changes for 2018 and 2017 are as follows:

|                           | Balance<br>September 30,<br><u>2017</u> | <u>Additions</u> | <u>Reductions</u> | Balance<br>September 30,<br><u>2018</u> | Amounts<br>Due Within<br><u>One Year</u> |
|---------------------------|---|------------------|-------------------|---|--|
| Notes and bonds payable:  |   |                  |                   |   |  |
| MCCB note                 | \$ 137,031                              | \$ -             | \$ 6,895          | \$ 130,136                              | \$ 7,547                                 |
| Office of<br>Tourism      | 258,971                                 | -                | 48,000            | 210,971                                 | 48,000                                   |
| Madison<br>County<br>BOCC | 151,614                                 | -                | -                 | 151,614                                 | -  |
| Series 2014<br>USDA bonds | <u>21,959,477</u>                       | <u>1,000</u>     | <u>-</u>          | <u>21,960,477</u>                       | <u>283,000</u>                           |
| Total long-term debt      | \$ <u>22,507,093</u>                    | \$ <u>1,000</u>  | \$ <u>54,895</u>  | \$ <u>22,453,198</u>                    | \$ <u>338,547</u>                        |
|                           | Balance<br>September 30,<br><u>2016</u> | <u>Additions</u> | <u>Reductions</u> | Balance<br>September 30,<br><u>2017</u> | Amounts<br>Due Within<br><u>One Year</u> |
| Notes and bonds payable:  |   |                  |                   |   |  |
| MCCB note                 | \$ 143,598                              | \$ -             | \$ 6,567          | \$ 137,031                              | \$ 6,662                                 |
| Office of<br>Tourism      | 306,971                                 | -                | 48,000            | 258,971                                 | 48,000                                   |
| Madison<br>County<br>BOCC | 151,614                                 | -                | -                 | 151,614                                 | -  |
| Series 2014<br>USDA bonds | <u>22,543,400</u>                       | <u>-</u>         | <u>583,923</u>    | <u>21,959,477</u>                       | <u>540,000</u>                           |
| Total long-term debt      | \$ <u>23,145,583</u>                    | \$ <u>-</u>      | \$ <u>638,490</u> | \$ <u>22,507,093</u>                    | \$ <u>594,662</u>                        |

Continued



MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

7. Long-Term Debt, Continued

• Long-Term Notes:

- Madison County Community Bank, at an interest rate of prime + 1.5%, currently at 6.25%. Final payment due September 1, 2030, collateralized by real estate.
- Florida Office of Tourism, Trade, and Economic Development (OTTED), whereas the original agreement dated December 22, 2006 in the amount of \$450,000 with a term of four years plus simple interest of 3%, reached a settlement with the Hospital in October 2016, as no payments were made in either 2015 or 2016 due to the economic condition of the Hospital. Per the terms of the settlement agreement, the OTTED agrees to forgive accrued interest and penalties. The settlement amount of \$306,971 will be repaid in monthly installments of \$4,000 beginning October 15, 2016 at zero percent interest.
- Madison County Board of County Commissioners, at an interest rate of 0.370%, unsecured. The Hospital did not make payments toward this note in 2017 or 2018. Madison County Board of Commissioners has delayed the due date of the note until the Hospital is in a better position to pay off the note.

On October 31, 2014, the District issued Hospital Revenue Bond Series 2014 in the amount of 22,543,400, at an interest rate of 4.00% with final payment due September 1, 2054. These bonds are payable to the United States Department of Agriculture Rural Development Division (USDA) and are first collateralized by a lien on all revenues received from the Local Government Half-Cent Sales Tax and a first lien on all revenues received by the District and its operational entity Madison County Hospital Health Systems, Inc., from the operation of the Hospital and all other activities. In March 2018, the District and the USDA entered into an agreement to substitute the original bond payment schedule with a revised version as the original principal payments were incorrectly calculated. Under the revised schedule, the overpayment of the 2017 principal payment was applied to the 2018 revised amount resulting in no payment to be required by the District for 2018. The five year debt summary has been updated to reflect these changes. No other changes were made to the agreements.

As part of the USDA requirements, the Hospital must meet certain conditions and reporting requirements as well as establish and fund a debt service reserve fund equal to 10% of the annual payment each year until the equivalent of one annual installment is accumulated. At September 30, 2018, the Hospital was in compliance with the debt service reserve requirement.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

7. Long-Term Debt, Continued

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

| <u>Years Ending September 30:</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>         |
|-----------------------------------|----------------------|----------------------|----------------------|
| 2019                              | \$ 338,547           | \$ 886,346           | \$ 1,224,893         |
| 2020                              | 351,033              | 874,540              | 1,225,573            |
| 2021                              | 364,549              | 862,224              | 1,226,773            |
| 2022                              | 375,099              | 849,354              | 1,224,453            |
| 2023                              | 513,270              | 836,049              | 1,349,319            |
| 2024-2028                         | 1,926,606            | 3,959,779            | 5,886,385            |
| 2029-2033                         | 2,303,617            | 3,538,063            | 5,841,680            |
| 2034-2038                         | 2,769,000            | 3,043,336            | 5,812,336            |
| 2039-2043                         | 3,365,000            | 2,443,615            | 5,808,615            |
| 2044-2048                         | 4,096,000            | 1,714,456            | 5,810,456            |
| 2049-2053                         | 4,981,000            | 827,336              | 5,808,336            |
| 2054                              | <u>1,069,477</u>     | <u>42,779</u>        | <u>1,112,256</u>     |
| Total                             | \$ <u>22,453,198</u> | \$ <u>19,877,877</u> | \$ <u>42,331,075</u> |

8. Pension Plan

The Madison County Memorial Hospital 401(k) Savings Plan (Plan) was established by the Hospital and administered by The Pension Center of Florida, Inc. to provide benefits at retirement to substantially all employees of the Hospital who have completed six months of service and have attained 21 years of age. Plan provisions and contribution requirements are established and may be amended by the Hospital.

Pension expense for the years ended September 30, 2018 and 2017 was \$12,176 and \$9,803. The amount of employer contributions to be made for any particular year end with respect to any particular participant is not to exceed 3%. Employees begin vesting after two years of service at 20% each year until they become fully vested in year six. Employees vest immediately in their contributions. The Hospital had an outstanding liability of \$4,372 and \$3,006 related to the plan at September 30, 2018 and 2017, respectively. There were no forfeitures recorded for the years ended September 30, 2018 and 2017.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

9. Concentration 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, 2018 and 2017 was as follows:

|                      | <u>2018</u> | <u>2017</u> |
|----------------------|-------------|-------------|
| Medicare             | 47%         | 49%         |
| Medicaid             | 7%          | 7%          |
| Commercial and other | 17%         | 22%         |
| Self-pay             | <u>29%</u>  | <u>22%</u>  |
| Total                | <u>100%</u> | <u>100%</u> |

10. Contingencies and Commitments

Health Care Reform

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of these provisions are and 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.

Litigation

The Hospital is involved in various claims and lawsuits arising out of the conduct of its business. The ultimate outcome of these matters is uncertain at this time; however, management does not believe that the ultimate liabilities resulting from the claims, if any, will have a material adverse effect on the Hospital's financial position, results of operations, or cash flows.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

10. Contingencies and Commitments, Continued

Operating Leases

The Hospital leases certain equipment from third parties. Total lease expense was \$65,385 and \$59,374 for the years ended September 30, 2018 and 2017, respectively. Future minimum lease payments under noncancelable operating leases at September 30, 2018 are as follows:

| <u>Year Ending September 30</u> | <u>Total</u>     |
|---------------------------------|------------------|
| 2019                            | \$ 26,428        |
| 2020                            | 19,579           |
| 2021                            | 2,940            |
| 2022                            | -                |
| 2023                            | -                |
| Thereafter                      | <u>-</u>         |
| Total                           | \$ <u>48,947</u> |

11. Malpractice Insurance

The Hospital is self-insured for malpractice claims. As a component unit of the District, a subdivision of the state of Florida, the Hospital has sovereign immunity for medical malpractice claims. As such, claim settlements may not exceed \$200,000 per individual and \$300,000 per occurrence.

Various claims and assertions have been made against the Hospital in its normal course of providing services. In addition other claims may be asserted arising from services provided to patients in the past. In the opinion of management, due to minimal prior expenses, the Hospital has not accrued a reserve for such asserted and unasserted claims.

12. Employee Health Insurance

The Hospital has purchased group health insurance coverage for the Hospital employees and their covered dependents. Under the group insurance program, the Hospital paid \$157,093 and \$133,715 in 2018 and 2017, respectively.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

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13. Regulatory Compliance

Compliance Plan

The healthcare industry has 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. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. 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.

14. Economic Dependency

The District has experienced net operating losses over the last several years which has resulted in an overall negative net position. The District currently receives a one-half-cent sales tax approved by the voters of Madison County to be used for the construction of the new hospital facilities in Madison County. The intention of these funds is to pay for the debt service related to the new hospital which opened in August 2014. The first principal payments became due on September 1, 2017. Without the support of the County, it would be doubtful the District would be able to meet these obligations. The District met with the USDA and has revised the payment schedule of the 2014 USDA bonds to enable the District to be better able to meet the obligations. The District plans to increase marketing efforts for outpatient services as well as look for new service lines to offer to the community. In addition, the District resumed Endoscopy services in January 2018 and plan to continue to build momentum to get their operating room fully operational by 2019. They have applied for three USDA grants of which two totaling approximately \$132,000 have been approved. The third grant application has been submitted to cover 75% of the cost required to fully utilize the operating room. The ultimate outcome of these plans is uncertain; however, management believes with the continued support of the County sales tax and progress toward their goals, they will be able to continue to provide services to Madison County and surrounding areas.

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*

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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*

Members of the Board  
Madison County Health and Hospital District  
Madison, 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 the Madison County Health and Hospital District (District) as of and for the year ended September 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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 District'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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency. [2018-001]

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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*.

### **Madison County Health and Hospital District's Response to Finding**

The Madison County Health and Hospital District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Driffin & Tucka, LLP*

Albany, Georgia  
January 28, 2019



MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES

for the year ended September 30, 2018

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(Comment reported in prior year still applicable to fiscal year 2018.)

**Significant Deficiency 2018-001**

|  |   |
|--|---|
| <b><i>Condition:</i></b>   | The CFO and human resource officer have access to more system modules than necessary to complete job related tasks creating a lack of segregation of duties in various processes including the financial reporting, cash, payroll, and accounts payable functions.  |
| <b><i>Criteria:</i></b>  | To ensure appropriate reporting and physical safeguard of assets, certain responsibilities such as authorization, recordkeeping, and custody should be appropriately segregated. In situations where all three elements cannot be adequately segregated, a robust review process should be implemented.   |
| <b><i>Cause:</i></b>   | Due to the nature of operations, there are not enough personnel to adequately staff all functions creating the need for key personnel to perform tasks outside their normal duties.   |
| <b><i>Effect:</i></b>  | While no specific misstatements were noted due to segregation issues, the potential for misappropriation exists when appropriate safeguards are not in place.   |
| <b><i>Recommendation:</i></b>  | It is recommended that a review process of system access be performed to determine which access is necessary to carry out day-to-day activities and limiting access, where possible. Further, it is recommended that an additional review process be implemented at the administrator or board level for areas where segregation is not possible.       |
| <b><i>Views of responsible officials and planned corrective actions:</i></b> | Due to staffing constraints, Madison County Memorial Hospital is not able to separate all duties. A review of the user access is performed quarterly to remove access not currently used or needed. We are continuing to look at adding additional review processes outside of those that are currently working in the system, to mitigate these risks. |

**INDEPENDENT AUDITOR'S MANAGEMENT LETTER**

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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Members of the Board  
Madison County Health and Hospital District  
Madison, Florida

**Report on the Financial Statements**

We have audited the financial statements of Madison County Health and Hospital District, Florida, as of and for the fiscal year ended September 30, 2018, and have issued our report thereon dated January 28, 2019.

**Auditor's Responsibility**

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 Auditor General.

**Other Reporting Requirements**

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in these reports, which are dated January 28, 2019, should be considered in conjunction with this management letter.

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**Prior Audit Findings**

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 financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding financial audit report except as noted in the table below.

**Tabulation of Uncorrected Audit Findings**

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| <u>Current Year<br/>Finding Number</u> | <u>FY 2016-2017<br/>Finding Number</u> | <u>FY 2015-2016<br/>Finding Number</u> |
|--|--|--|
| 2018-001                               | 2017-001                               | 2016-003                               |

**Official Title and Legal Authority**

Section 10.554(1)(i)4., 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. The Madison County Health and Hospital District was established pursuant to Chapter 2003-333, Laws of Florida, on June 10, 2003. It has been determined to be an independent special district of Florida and Madison County as enacted by the Legislature of the State of Florida to provide public health care services. Madison County Health Systems, Inc., D/B/A Madison County Memorial Hospital is a blended component unit of the Madison County Health and Hospital District.

**Financial Condition and Management**

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and communicate the results of our determination as to whether or not the Madison County Health and Hospital District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the Madison County Health and Hospital District did not meet any conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for Madison County Health and Hospital District. It is management’s responsibility to monitor Madison County Health and Hospital District’s financial condition, and our financial condition assessment was based in part on the representations made by management and the review of financial information provided by the same.

Continued

Based on our assessment at year end, it was noted that the financial condition worsened as compared to the prior year. The District continues to have an operating loss which has resulted in a negative net position. However, the District has shown improving positive cash flows from operations of \$1,272,284 and \$1,094,806 for the years ended 2018 and 2017, respectively. They also have a current ratio of 3.5 and are able to meet their current obligations. Please refer to Note 14 to the financial statements for additional details. Section 10.554(1)(i)(2), Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we have one recommendation to improve financial management. We recommend that the District continue to seek ways to maximize reimbursements and collections in order to increase operating revenues.

### **Additional Matters**

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate 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 warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

### **Purpose of this Letter**

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

*Draffan + Tucker, LLP*

Albany, Georgia  
January 28, 2019

INDEPENDENT ACCOUNTANT'S REPORT ON  
COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

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INDEPENDENT ACCOUNTANT'S REPORT ON  
COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

Members of the Board  
Madison County Health and Hospital District  
Madison, Florida

We have examined the Madison County Health and Hospital District's (District) compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2018, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the District's compliance with the specified requirements. Our responsibility is to express an opinion on the District's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced in Section 218.415, Florida Statutes. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2018.

This report is intended solely for the information and use of the Auditor General, State of Florida, Members of the Board, and management and is not intended to be and should not be used by anyone other than these specified parties.

*Draffin & Tucker, LLP*  
Albany, Georgia  
January 28, 2019