

**BAKER COUNTY HOSPITAL AUTHORITY**

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITORS' REPORT**

**SEPTEMBER 30, 2007**

**LYONS AND LYONS**

**CERTIFIED PUBLIC ACCOUNTANTS**

**BAKER COUNTY HOSPITAL AUTHORITY**  
**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**  
**SEPTEMBER 30, 2007**  
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**BAKER COUNTY HOSPITAL AUTHORITY**  
**BOARD OF DIRECTORS**  
**SERVING AS OF SEPTEMBER 30, 2007**

**BOARD OF DIRECTORS**

**Melba Dedmon**

**Karen Dolan**

**V. Todd Ferreira**

**Debra Gnann**

**Glen McKendree**

# LYONS AND LYONS

## CERTIFIED PUBLIC ACCOUNTANTS

106 West Boulevard North  
Macclenny, Florida 32063

Telephone (904) 259 4307  
Fax (904) 259 5102

### INDEPENDENT AUDITORS' REPORT

The Honorable Board of Directors  
Baker County Hospital Authority  
Macclenny, Florida

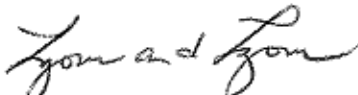
We have audited the accompanying financial statements of the governmental activities and its major fund, of the Baker County Hospital Authority (the Authority) as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, its major fund, and the aggregate of remaining fund information of the Authority as of September 30, 2007, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2008 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



Lyons and Lyons, CPA's  
September 9, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Baker County Hospital Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the Authority's financial statements, which follow this section.

The following are various financial highlights for fiscal year 2007.

- Total ending unrestricted net assets were approximately \$104,927.
- The Authority's note payable decreased by \$350,000.

### OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This annual report contains government-wide financial statements that report on the Authority's activities as a whole.

#### Government-wide Financial Statements

The first financial statement is the Statement of Net Assets. This statement includes all of the Authority's assets and liabilities using the accrual basis of accounting. Accrual accounting is similar to the accounting used by most private-sector companies. All of the current year revenues and expenditures are recorded, regardless of when cash is received or paid. Net assets – the difference between assets and liabilities – can be used to measure the Authority's financial position.

The second financial statement is the Statement of Activities. This statement is also shown using the accrual basis of accounting. It shows the increases and decreases in net assets during the fiscal year. Over time, the increases or decreases in net assets are useful indicators of whether the Authority's financial health is improving or deteriorating. However, other non-financial factors, such as changes in the tax base, must also be considered when assessing the overall health of the Authority.

Both of the government-wide financial statements distinguish between functions of the Authority's that are principally supported by lease revenues and ad valorem taxes.

#### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that are segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority uses a proprietary fund to account for its activities.

**Proprietary Funds** – Proprietary fund is used to account for all the activities of the Authority and it uses the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets.

#### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Net Assets

As noted earlier, net assets may over time be a useful indicator of a government's financial position. In the case of the Baker County Hospital Authority, assets exceeded liabilities by \$104,927 at the close of the fiscal year ended September 30, 2007.

Current and Other Assets	<u>\$9,759,160</u>
Total Assets	<u>\$9,759,160</u>
Current and Other Liabilities	529,233
Long Term Liabilities	<u>9,125,000</u>
Total Liabilities	<u>9,654,233</u>
Net Assets:	
Unrestricted	<u>104,927</u>
Total Net Assets	<u>\$ 104,927</u>

### Changes in Net Assets

Revenues:	
Program Revenues:	
Charge for Lease	\$ 495,381
General Revenues:	
Property Taxes	789,498
Other Taxes	25,000
Interest	<u>4,076</u>
Total Revenues	<u>1,313,955</u>
Expenses:	
Health & Welfare	856,802
Lease on Long-Term Debt	<u>495,381</u>
Total Expenses	<u>1,352,183</u>
Changes in Net Assets	( 38,228)
Net Assets-Beginning of Year	<u>143,155</u>
Net Assets-End of Year	<u>\$ 104,927</u>

### Business-Type Activities

The Authority's activities are accounted for in a proprietary fund. The business-type activities generated \$1,313,955 in revenues and incurred \$1,352,183 of expenses. This resulted in a \$38,228 decrease in net assets.

## BUDGETARY HIGHLIGHTS

Revenues received were \$14,589 less than budgeted amounts. The largest variances between final budget amounts and actual results occurred with taxes. Expenses were \$9,198 below budgeted amounts.

## **DEBT ADMINISTRATION**

No bonds were issued during the year. The net change in the Authority's long-term liabilities for the year was a decrease of \$350,000. Please refer to a note to the accompanying financial statements entitled Changes in Long-Term Debt for more detailed information about the Authority's long-term debt activity.

## **ECONOMIC FACTORS**

We are not currently aware of any conditions that are expected to have a significant effect on the Authority's financial position or results of operations.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact:

Baker County Hospital Authority  
20 E. Macclenny Ave.  
Macclenny, FL 32063

**BAKER COUNTY HOSPITAL AUTHORITY**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2007**

**ASSETS**

Cash and Equivalents	\$ 104,927
Lease Interest Receivable	164,233
Net Investment in Capital Leases	<u>9,490,000</u>

**TOTAL ASSETS** 9,759,160

**LIABILITIES**

Accrued Interest Payable	164,233
Non Current Liabilities:	
Due Within One Year	365,000
Due in More Than One Year	<u>9,125,000</u>

**TOTAL LIABILITIES** 9,654,233

**NET ASSETS**

Unrestricted	<u>104,927</u>
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**TOTAL NET ASSETS** \$ 104,927

See accompanying notes to the financial statements.

**BAKER COUNTY HOSPITAL AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Business-Type Activities</b>					
Health and Welfare	\$ 856,802	\$ 495,381	\$ -	\$ -	\$ (361,421)
Interest on Long-Term Debt	495,381	-	-	-	(495,381)
<b>Total Business-Type Activities</b>	<u>\$ 1,352,183</u>	<u>\$ 495,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(856,802)</u>
<b>General Revenues:</b>					
Property Taxes					789,498
Shared Revenues					25,000
Interest Income					<u>4,076</u>
<b>Total Business-Type Revenues</b>					<u>818,574</u>
<b>Change in Net Assets</b>					(38,228)
<b>Net Assets-October 1, 2006</b>					<u>143,155</u>
<b>Net Assets-September 30, 2007</b>					<u>\$ 104,927</u>

See accompanying notes to the financial statements.

**BAKER COUNTY HOSPITAL AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS-PROPRIETARY FUND**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

<b>OPERATING REVENUES</b>	
Lease Income	<u>\$495,381</u>
<b>TOTAL OPERATING REVENUES</b>	<u>495,381</u>
<b>OPERATING EXPENSES</b>	
Hospital Operations	775,000
Administrative Services	<u>27,620</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>802,620</u>
<b>OPERATING INCOME (LOSS)</b>	(307,239)
<b>NONOPERATING REVENUES</b>	
<b>(EXPENSES)</b>	
Property Taxes	789,498
Special Revenue Act	25,000
Interest Revenue	4,076
Property Appraiser Expenses	(37,797)
Tax Collector Expenses	(16,385)
Interest Expense	<u>(495,381)</u>
<b>TOTAL NONOPERATING REVENUES</b>	
<b>(EXPENSES)</b>	<u>269,011</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(38,228)
<b>NET ASSETS - October 1, 2006</b>	<u>143,155</u>
<b>NET ASSETS - September 30, 2007</b>	<u>\$104,927</u>

See accompanying notes to the financial statements.

**BAKER COUNTY HOSPITAL AUTHORITY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received From Lease	\$ 495,381
Cash Payments For Services	(31,920)
Cash Payments For Hospital Operations	<u>(775,000)</u>
	.
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>(311,539)</u>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Cash Received From Taxes	815,575
Cash Payments For Tax Collection & Assessment	(54,182)
Cash Payments For Lease	<u>(495,381)</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>266,012</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on Cash and Equivalents	<u>4,076</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>4,076</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	
	(41,451)
<b>CASH AND CASH EQUIVALENTS, OCTOBER 1, 2006</b>	<u>146,378</u>
<b>CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2007</b>	<u>\$ 104,927</u>
 <b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Income (loss) from operations	(307,239)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in Accounts Payable	(4,300)
Decrease in Lease Interest Receivable	5,368
Decrease in Lease Interest Payable	<u>(5,368)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ (311,539)</u>

See accompanying notes to the financial statements.

**BAKER COUNTY HOSPITAL AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Baker County Hospital Authority conform to generally accepted accounting principles as applicable to Hospitals. The following is a summary of the more significant policies.

**Reporting Entity**

The Baker County Hospital Authority (the Authority) is an independent special district created by an Act of the Florida Legislature on May 27, 1953. The Act provided for the creation of the Authority for the establishment and building, maintenance and operation of a public hospital at Macclenny in Baker County, primarily (although not limited) for the use and benefit of the citizens of Baker County, Florida. In addition, the Act provided for the appropriation of money and the raising of revenue by Baker County for the erection and maintenance of such hospital, by the allocation to such hospital authority of portions of race track funds which may be received by Baker County; to provide for the levy of ad valorem taxes by Baker County for the benefit of the hospital, and providing for a local referendum. The Authority is governed by a Board of Trustees, five in number, who are appointed by the Governor of Florida.

**Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Authority. Governmental activities, which normally are supported by taxes, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties. The Authority has no government-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: charges for services that are directly related to a given function; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not properly included among program revenues are reported as general revenues.

**Fund Financial Statements**

The Authority utilizes one fund to account for its activities. This fund is considered a major fund. The Authority utilizes the proprietary fund whereby revenues and expenses are recognized on the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include hospital operations and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**BAKER COUNTY HOSPITAL AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

**Deposits with Financial Institutions**

All cash resources of the Authority are placed in banks that qualify as public depositories, as required by law (Florida Security Public Deposits Act). Every qualified public depository is required to deposit with the State Treasurer eligible collateral equal to, or in excess of, an amount to be determined by the State Treasurer. The State Treasurer is required by this law to ensure that Authority funds are entirely collateralized throughout the fiscal year.

**Ad Valorem Taxes**

The Authority received approximately 62 percent of its financial support from ad valorem taxes in fiscal year 2006-07. The Baker County Tax Collector bills and collects property taxes for the Authority. Authority property tax revenues are recognized when levied, to the extent that they result in current receivables.

Details of the Authority's property tax calendar are presented below:

Lien Date	January 1
Levy Date	October 1
Installment Payments	
1st Installment	No later than June 30
2nd Installment	No later than September 30
3rd Installment	No later than December 31
4th Installment	No later than March 31
Regular Payments	
Discount Periods	November-February
No Discount Period	March
Delinquent Date	April 1

**Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

**Net Investment in Capital Leases**

Leases that transfer substantially all of the benefits and risks of financing obligations are accounted for as capital leases. The gross minimum lease payments are stated in the statement of net assets net of the unearned interest income, or at the present value of the future net minimum lease payments under the capital lease.

**BAKER COUNTY HOSPITAL AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 2 - LONG TERM LIABILITIES AND CAPITAL LEASE OBLIGATIONS**

Effective October 1, 1993, the Authority entered into a twenty-year lease agreement with Baker County Medical Services, Inc., (BCMS) under which BCMS will operate the Ed Fraser Memorial Hospital and Frank Wells Nursing Home (the Facilities). Pursuant to the lease agreement, BCMS assumed the existing assets and liabilities of the Authority, which at October 1, 1993 were as follows:

Cash	\$ 93,792
Patient Accounts Receivable, Net of Estimated Uncollectible of approximately \$175,000	725,332
Leased Facilities and Equipment	1,067,943
Supplies	54,048
Other	90,086
 Total Assets	 <b>\$2,031,201</b>
 Accounts Payable and Accrued Expenses	\$ 933,812
Estimated Third Party Payor Settlements	196,000
Long Term Debt and Capital Lease Obligations	1,056,349
 Total Liabilities	 <b>\$2,186,161</b>
 Excess of Liabilities Over Assets Assumed by BCMS	 <b>\$ 154,960</b>

The excess of liabilities over assets assumed by BCMS at October 1, 1993 is being recognized as lease income ratably over the lease term by the Authority. This lease was amended and restated effective August 1, 1998. The unamortized excess of liabilities over assets at August 1, 1998 was recognized as unusual lease revenue.

The original lease was amended and restated in connection with the issuance of 1998 Revenue Bonds. These bonds are special limited obligations of the Authority, payable by the Authority solely from amounts received by the Authority pursuant to the amended and restated lease agreement. BCMS will make payments under the lease agreement directly to the Trustee. The obligation of the BCMS to make the lease payments are secured by a security interest in the revenues of BCMS, subject to permitted encumbrances, and a pledge of amounts on deposit in certain funds and accounts created by the Indenture.

The Authority issued \$11,650,000 Revenue Bonds dated August 15, 1998. Payments are due in annual installments ranging from \$270,000 beginning December 1, 2000, to \$815,000 through December 1, 2023. Interest rates range from 3.85% to 5.30%. These bonds were issued to provide resources to fund the construction of a new hospital and nursing home.

The annual principal and interest requirement to amortize 1998 Revenue Bonds outstanding at September 30, 2007 are as follows:

FISCAL YEAR ENDING	Principal	Interest	Total
<u>September 30</u>			
2008	365,000	484,211	849,211
2009	380,000	466,795	846,795
2010	400,000	448,265	848,265
2011	420,000	427,955	847,955
2012	440,000	406,025	846,025
2013-2024	7,485,000	2,620,915	10,105,915
Totals	\$9,490,000	\$4,854,166	\$14,344,166

**BAKER COUNTY HOSPITAL AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 3 - NET INVESTMENT IN CAPITAL LEASES**

The net investment in capital leases outstanding as of September 30, 2007 represents future lease payments to be received under the August 1, 1998 lease agreement with Baker County Medical Services, Inc., whereupon, tax exempt financing was provided by the Authority for the construction of a new hospital facility through their 1998 Bond issue. Interest will be earned at rates varying from 3.85% - 5.30% over the twenty-seven year life of the lease. Revenue Bonds Payable recorded under this renewable lease is \$9,490,000, which are payable solely from, and secured by lease payments from Baker County Medical Services, Inc. In addition, the lease payments correspond, in amounts and due dates, to the debt service requirements of the 1998 Bond issue.

Presented below is a summary of future minimum lease payments for the fiscal years ended September 30:

2008	849,211
2009	846,795
2010	848,265
2011	847,955
2012	846,025
2012-2024	<u>10,105,915</u>
Total Minimum Lease Payments to be Received	14,344,166
Less: Unearned Interest Income	<u>4,854,166</u>
Net Investment in Capital Lease at September 30, 2007	<u>\$9,490,000</u>

**NOTE 4 - CHANGES IN LONG TERM DEBT**

A summary of changes in long term debt follows:

Type of Debt	Balance October 1, 2006	Additions	Deductions	Balance September 30, 2007	Amounts Due Within One Year
Business-Type Activities					
Capital Lease Obligation	<u>\$9,840,000</u>	<u>\$ -</u>	<u>\$350,000</u>	<u>\$9,490,000</u>	<u>\$365,000</u>
Total Long-Term Debt	<u>\$9,840,000</u>	<u>\$ -</u>	<u>\$350,000</u>	<u>\$9,490,000</u>	<u>\$365,000</u>

**NOTE 5 - DEBT SERVICE RESERVE FUND**

Pursuant to the Lease Agreement, it is required that payments be made sufficient to provide funds to pay debt service on the Series 1998 Bonds. A separate sub account, the Series 1998 Account, was established within the Debt Service Reserve Fund pursuant to the Indenture and held by the Trustee. This Series 1998 Account was funded on the date the Series 1998 Bonds were issued. The amount of funding is equal to the Debt Service Reserve Fund Requirement. As per the Indenture, the Debt Service Reserve Fund Requirement, with respect to a particular series of Bonds, is defined as the amount which is equal to the lessor of (a) 10% of the proceeds of the Bonds, (b) the maximum principal and interest requirements on such Bonds, or (c) 125% of the average principal and interest requirements on such Bonds over the life of the repayment. The Baker County Hospital Authority has met this requirement for the 2006-2007 fiscal year.

**BAKER COUNTY HOSPITAL AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

**NOTE 6 - CONTINGENCIES**

As a governmental entity, the Authority's risk of loss due to medical malpractice claims is limited by State Statutes. This Statute provides that judgments against state agencies may not exceed \$100,000 per individual or \$200,000 per occurrence except upon further acts of the Legislature. For years prior to October 1, 1994, the Authority had obtained professional liability insurance coverage from a commercial carrier. The policy provided coverage on an occurrence basis of up to \$100,000 per occurrence (\$200,000 annual aggregate), with the first \$10,000 of each claim retained by the Authority. Effective October 1, 1994, BCMS obtained professional liability insurance coverage from a commercial carrier and, pursuant to its lease agreement with the Authority, has indemnified the Authority from any claims for professional liability occurring after September 30, 1994.

**ADDITIONAL ELEMENTS REQUIRED**

**BY THE**

**RULES OF THE AUDITOR GENERAL**

# LYONS AND LYONS

## CERTIFIED PUBLIC ACCOUNTANTS

106 West Boulevard North  
Macclenny, Florida 32063

Telephone (904) 259 4307  
Fax (904) 259 5102

### INDEPENDENT AUDITORS' MANAGEMENT LETTER

To the Honorable Board of Directors  
Baker County Hospital Authority  
Macclenny, Florida

We have audited the financial statements of the Baker County Hospital Authority as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated September 9, 2008. We have also issued our report on internal control over financial reporting and on compliance and other matters, dated September 9, 2008. That report should be considered in conjunction with this management letter.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapters 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

#### Prior Audit Findings

The Rules of the Auditor General require that we comment as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding audit. In that regard, prior audit finding 06-1 is repeated in the accompanying Schedule of Findings and Questioned Costs as item 07-1.

#### Investment of Public Funds

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. Our audit did not reveal noncompliance with the provisions of Section 218.415, Florida Statutes.

#### Legal Authority

The Rules of the Auditor General also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. There are no component units of the Hospital Authority. The Baker County Hospital Authority was established by a Special Act of the Legislature (Senate Bill Number 414 – Chapter 28887 Laws of Florida and House Bill Number 1348 – Chapter 25679 Laws of Florida) which became a law without the Governor's approval on June 13, 1949.

#### Financial Condition

As required by the Rules of the Auditor General, the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." In connection with our audit, we determined that the Authority is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes. Also, as required by the Rules of the Auditor General, we applied financial condition assessment procedures, as of the end of the fiscal year, pursuant to Rule 10.556(8). It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the

review of financial information provided by the management. The application of such procedures did not reveal evidence of "deteriorating financial condition" as that term is defined in Rule 10.554.

Annual Financial Report

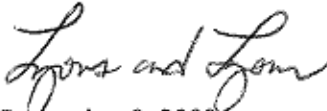
As required by the Rules of the Auditor General, we determined that the annual financial report for the Authority for the fiscal year ended September 30, 2007, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in substantial agreement with the audit report for the fiscal year ended September 30, 2007.

Other Matters

Our audit did not reveal any other matters that we are required to include in this management letter.

This management letter is intended solely for the information and use of the Baker County Hospital Authority and its management, and oversight agencies, and is not intended to be and should not be used by anyone other than those specified parties.

We wish to take this opportunity to express our appreciation for the courtesies, which have once again, been extended to our staff. We have sincerely enjoyed our association with the Authority and look forward to a continuing relationship. If you have any questions or comments concerning this letter, our accompanying reports, or any other matters, please do not hesitate to contact us.



September 9, 2008  
Macclenny, Florida

# LYONS AND LYONS

## CERTIFIED PUBLIC ACCOUNTANTS

106 West Boulevard North  
Macclenny, Florida 32063

Telephone (904) 259 4307  
Fax (904) 259 5102

### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

To the Honorable Board of Directors  
Baker County Hospital Authority  
Macclenny, Florida

We have audited the financial statements of the governmental activities and its' major fund of the Baker County Hospital Authority as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated September 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we considered to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that

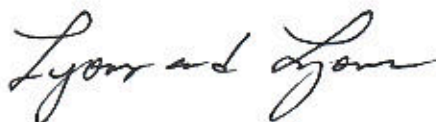
might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 07-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 indicated no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Managements response to the findings identified in our audit is described in a letter that accompanies this report. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Authority and its management, and oversight agencies and is not intended to be and should not be used by anyone other than these specified parties



September 9, 2008  
Macclenny, Florida

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**BAKER COUNTY HOSPITAL AUTHORITY**

Findings

07-1 **Condition** - Because of a limited number of personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be detected.

**Recommendation** - To the extent possible, given available personnel, steps should be taken to segregate employee duties so that no individual has access to both physical assets and the related accounting records, or all phases of a transaction. A similar finding was noted in our prior report. Our audit did not reveal any significant errors or irregularities resulting from this lack of separation of duties and responsibilities. However, we feel it is important that you are made aware of this condition.

# BAKER COUNTY HOSPITAL AUTHORITY

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September 9, 2008

Mr. David M Martin  
Office of the Auditor General  
Claude Denson Pepper Bldg.  
111 West Madison St.  
Tallahassee, FL 32399-1450

Dear Mr. Monroe:

The following is the response to the audit findings of the Baker County Hospital Authority's financial statements for the year ended September 30, 2007:

## Audit Finding 07-1

The Baker County Hospital Authority's administrative staff is limited to two individuals. Compensating controls have been implemented to the extent possible given the number of available staff. All checks require two signatures. An individual independent of the receipting process prepares bank reconciliations. Finally, the board reviews and approves all expense before checks are prepared.

If I can be of any further assistance, please do not hesitate to contact me.

Sincerely,



Darryl Register  
Administrative Officer