

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION  
GRACEVILLE, FLORIDA**

**AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION**

**For the years ended September 30, 2008 and September 30, 2007**

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Table of Contents**  
**September 30, 2008**

Independent Auditors' Report	Page(s)	3
Audited Financial Statements:		
Balance Sheet		6-7
Statement of Revenue, Expenses and Changes in Retained Earnings		8
Statement of Cash Flows		9
Notes to Financial Statements		10-21
Independent Auditor's Management Letter Comments		22
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards		24

**PETRO & ASSOCIATES, P.C.**  
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**Independent Auditors' Report**

Campbellton - Graceville Hospital Corporation  
Board of Directors  
Graceville, Florida

We have audited the accompanying general purpose financial statements of Campbellton-Graceville Hospital Corporation (the Hospital) as of and for the years ended September 30, 2008 and September 30, 2007. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our 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 general purpose 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hospital at September 30, 2008 and September 30, 2007, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The Hospital has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the Hospital's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Petro & Associates, P.C.*

Petro & Associates, P.C.  
Certified Public Accountants

Mobile, Alabama  
December 16, 2008

## **FINANCIAL STATEMENTS**

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**

**BALANCE SHEET**

**FOR THE YEARS ENDED SEPTEMBER 30, 2008 and SEPTEMBER 30, 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents--Notes 1	\$ 56,378	\$ 132,776
Accounts receivable, net of estimated uncollectibles and contractual adjustments of \$1,050,943 and \$749,620 in 2008 and 2007, respectfully -- Note 1 and 11	974,547	988,945
Other receivables	99,692	174,387
Prepaid expenses	12,832	-0-
Inventory--supplies--Note 1	<u>185,287</u>	<u>128,837</u>
Total Current Assets	1,328,736	1,424,945
 <b>PROPERTY, PLANT AND EQUIPMENT, NET -</b> Notes 1 and 3	 768,859	 424,131
 <b>OTHER ASSETS</b> Restricted Cash --Notes 1	 <u>36,907</u>	 <u>45,780</u>
 <b>TOTAL ASSETS</b>	 <u><b>\$ 2,134,502</b></u>	 <u><b>\$ 1,894,856</b></u>

	<u>2008</u>	<u>2007</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 283,063	\$ 149,500
Accrued salaries and wages	87,606	56,565
Accrued vacation and other compensated absences	186,003	144,985
Payroll taxes accrued and withheld	80,557	32,237
Other accrued liabilities	88,001	55,337
Due to third party payers - Medicare - Note 1	6,483	194,515
Note payable - Note 6	<u>375,220</u>	<u>281,726</u>
Total Current Liabilities	1,106,933	914,865
Other Liabilities		
Unearned Revenue - Note 1	<u>36,907</u>	<u>45,780</u>
Total Liabilities	1,143,840	960,645
<b>NET ASSETS</b>		
Donated Capital	113,493	113,493
Unrestricted	<u>877,169</u>	<u>820,718</u>
TOTAL NET ASSETS	<u>990,662</u>	<u>934,211</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$2,134,502</u>	<u>\$ 1,894,856</u>

See Auditors' Report and accompanying notes.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Unrestricted revenues and other support:		
Net patient service revenue - Note 1	\$5,112,796	\$ 4,851,896
Rural Financial Assistance Program	408,845	400,937
Other operating revenue	<u>35,185</u>	<u>14,415</u>
Total unrestricted revenues and other support	5,556,826	5,267,248
Expenses		
Professional care of patients	3,454,242	3,326,704
Dietary services	161,927	146,617
General services	522,766	481,130
Administrative services	665,871	529,647
Employee health and welfare	411,664	465,727
Depreciation--Note 1	134,198	104,112
Interest	13,168	25,113
Provision for bad debts	<u>610,718</u>	<u>572,537</u>
Total expenses	<u>5,974,554</u>	<u>5,651,587</u>
<b>LOSS FROM OPERATIONS</b>	(417,728)	(384,339)
Nonoperating revenues and expenses:		
Interest income	2,563	1,839
Tax revenues	253,473	232,696
Grant revenues	172,423	178,690
Other revenue	45,720	18,930
Contractual adjustment related to prior year - Note 13	<u>-0-</u>	<u>(125,888)</u>
Total Nonoperating revenue	<u>474,179</u>	<u>306,267</u>
<b>REVENUES AND GAINS IN EXCESS       OF EXPENSES AND LOSSES</b>	56,451	(78,072)
Net Assets, beginning of year	<u>820,718</u>	<u>898,790</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 877,169</u>	<u>\$ 820,718</u>

See Auditors' Report and accompanying notes.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES AND GAINS AND LOSSES:</b>		
Revenues and gains in excess of expenses and (losses):	\$ 56,451	\$ (78,072)
Adjustments to reconcile revenues and gains in excess of expenses and losses to net cash provided by operating activities and gains and losses:		
Depreciation	134,198	104,112
Decrease (increase) in accounts receivable - net	14,398	(396,244)
Decrease (increase) in other receivables	74,695	(110,589)
(Increase) decrease in inventory	(56,450)	22,926
(Increase) decrease in prepaid expenses	(12,832)	12,257
Decrease in due from Medicare	-0-	636,478
Decrease in restricted cash	8,873	44,415
Increase (decrease) in accounts payable	133,563	(97,149)
(Decrease) increase in accrued liabilities and other liabilities	(34,989)	67,503
(Decrease) in unearned revenue	<u>(8,873)</u>	<u>(44,418)</u>
Total adjustments	<u>252,583</u>	<u>239,291</u>
Net Cash Provided by Operating Activities	309,034	161,219
<b>CASH FLOWS PROVIDED (USED BY) INVESTING ACTIVITIES:</b>		
Funds used by investments	-0-	1,307
Capital outlays	<u>(478,926)</u>	<u>(120,805)</u>
Net Cash (Used) by Investing Activities	(478,926)	(119,498)
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Funds provided by notes payable	93,494	131,171
Repayment of notes payable	<u>-0-</u>	<u>(120,320)</u>
Net Cash Provided (Used) by Financing Activities	<u>93,494</u>	<u>10,851</u>
<b>NET (DECREASE) INCREASE IN CASH EQUIVALENTS</b>	(76,398)	52,572
Cash and cash equivalents, beginning of year	<u>132,776</u>	<u>80,204</u>
<b>CASH AND CASH EQUIVALENTS END OF YEAR</b>	<u>\$ 56,378</u>	<u>\$ 132,776</u>

**Supplemental Disclosure of Cash Flow Information:**

Interest paid was \$13,168 for 2008 and \$18,989 for 2007

See Auditors' Report and accompanying notes.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

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

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

**Operating and Nonoperating Activities**

The Hospital's primary mission is to provide health care services to the residents in the community it serves. Activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be nonoperating. Nonoperating gains and losses include investment earnings on investments other than trustee-held investments related to borrowed funds.

**Accounting Policies**

The accounting policies of the Hospital conform to generally accepted accounting principles. The following is a summary of the more significant policies:

**A. Basis of Accounting**

The accounting records of the Hospital use the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. The Hospital recognizes patient charges as revenue at the time services are performed for the patients. A provision is for charges to indigent patients and other patients whose accounts appear to be uncollectible.

**B. Tax Status**

The Hospital is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and state income taxes.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

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

C. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and certificates of deposit with original maturities of twelve months or less. All bank balances of cash deposits are federally insured in limited amounts. At September 30, 2008, the carrying amount of the Hospital's deposits was \$56,378 and the bank balance was \$147,861. The bank balance was covered by federal depository insurance and, for the amount in excess of such federal depository insurance, by the State of Florida's Public Deposit Act. Provisions of the Act require that public deposits be only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of federal depository insurance and proceeds from the sale of securities pledged by the defaulting depository are assessed against the other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis.

D. Net Patient Service Revenues and Receivables

Net patient service revenue and receivables are reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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.

The Hospital is a provider of services under the Medicare and Medicaid programs and is entitled to reimbursement from federal and state governments of charges to Medicare and Medicaid patients under provisions of cost reimbursement formulas. Amounts received under these programs are generally less than the Hospital's billing rates and the difference is accounted for as "contractual allowances". Final determination of amounts earned is subject to review by appropriate governmental authorities or their agents.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

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

Final settlements have been made on the Medicare cost reports for the fiscal year 2006 and prior years. Tentative settlement has been made for fiscal year 2007, which is still subject to audit. Fiscal year 2008 will be submitted by the required due date and is subject to audit for three years. A corresponding payable of \$6,483 has been booked for the fiscal year 2008 Medicare settlement.

Net patient service revenue is summarized below:

	<u>9/30/2008</u>	<u>9/30/2007</u>
Patient service charges	\$ 8,997,843	\$ 7,641,130
Less charges related to charity care	60,612	167,165
Less other contractual adjustments and deductions	<u>3,824,435</u>	<u>2,622,069</u>
Net patient service revenue	<u>\$ 5,112,796</u>	<u>\$ 4,851,896</u>

**E. Inventories**

Inventories are valued at the lower of cost (first-in, first-out method) or market.

**F. Restricted Cash**

Restricted cash at September 30, 2008 and 2007 consisted of amounts from the State of Florida to be used for capital improvements.

**G. Investments**

Investments in equity securities with readily determinable fair values and all debt securities are stated at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

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

H. Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Assets acquired by gift are recorded at their fair market value at the date of transfer. Depreciation of exhaustible fixed assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. Major asset classifications and useful lives are generally in accordance with those recommended by the American Hospital Association.

I. Charity Care

Quality medical care is provided to all persons requiring immediate treatment regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the most recently published Federal poverty income guidelines, but also includes certain cases where incurred charges are significant when compared to income. In addition, charity services include charges for services provided to Medicaid patients less payments actually received. These charges are not included in net patient service revenue.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

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

**K. Excess of Revenues Over Expenses**

The statement of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

**L. Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

**M. Unearned Revenue**

Unearned revenue is the result of funds received under a capital improvement grant received, but not yet spent.

**N. Accounting Standard**

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 Hospital has elected not to apply the provisions of pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

**NOTE 2 - TAX SHELTERED ANNUITY PLAN**

Substantially all employees of the Hospital are covered under a hospital-sponsored tax sheltered annuity, qualified under Internal Revenue Service Section 403(b). The Hospital's plan, effective October 1, 1997, required an employer contribution equal to 2% of compensation for eligible employees. This plan also mandated employer matching contributions equal to 50% of the elective deferrals of each eligible employee for deferrals less than or equal to 2% of the employees compensation. The Hospital amended their plan effective August 1, 2001. The amended plan mandates employer matching contributions dollar for dollar up to 3% of each eligible employee's compensation. Due to cash flow problems, the Board of Trustees voted to suspend employer match contributions in fiscal year 2005. According to Section 6.02 of the plan document, the plan administrator is allowed to vary the rate of the discretionary contribution. Therefore, no liability has been recognized. In April 2007, the Board of Trustees reinstated the plan. Total expense for the year ended September 30, 2008 was \$32,871.

**NOTE 3 - PROPERTY, PLANT AND EQUIPMENT**

The following is a summary of changes in property, plant and equipment:

	<u>Balance</u> <u>9/30/07</u>	<u>Additions/</u> <u>(Deductions)</u>	<u>Balance</u> <u>9/30/08</u>
Land	\$ 11,485	\$ -0-	\$ 11,485
Land Improvements	48,694	-0-	48,694
Buildings	1,221,413	-0-	1,221,413
Fixed equipment	485,469	-0-	485,469
Major moveable equipment	2,273,487	540,376	2,813,863
Construction in progress	61,450	(61,450)	-0-
Motor Vehicles	<u>13,227</u>	<u>-0-</u>	<u>13,227</u>
	4,115,225	478,926	4,594,151
Accumulated depreciation	<u>(3,691,094)</u>	<u>(134,198)</u>	<u>(3,825,292)</u>
Net property, plant and equipment	<u>\$ 424,131</u>	<u>\$ 344,728</u>	<u>\$ 768,859</u>

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

**NOTE 4 - NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows.

**Medicare**

For Medicare reimbursement purposes the Hospital is considered a Critical Access Hospital and reimbursed under reasonable cost reimbursement methods for both inpatient and outpatient services. The Hospital is paid at interim rates during the year and final settlement determined after the submission of annual cost reports by the Hospital and audits thereof by the Medicare intermediary. These settlements are estimated and recorded in the financial statements. Medicare cost reports for all years prior to 2007 have been reviewed by the intermediary and tentatively settled as of September 30, 2008.

**Medicaid**

Services rendered to Medicaid patients are paid on a per diem amount (for inpatient services) or a fee schedule (for outpatient services). The per diem or fee schedule payment amounts are based on filed cost reports. Retroactive adjustments are made to these payment amounts after the related cost report is audited by the intermediary. These settlements are estimated and recorded in the financial statements.

**Blue Cross**

Services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge for inpatients and at discounts from established charges for outpatients. The rates and discounts are prospectively determined and are not subject to retroactive settlement.

The Hospital also entered into payment agreements with certain other commercial insurance carriers and preferred provider organizations. The basis of payment to the Hospital under these agreements includes prospectively determined daily rates. The Hospital qualified to receive disproportionate share payments for the year ended September 30, 2008. Disproportionate share revenue is given to hospitals who serve a disproportionate number of indigent patients and is reported as a component of Net Patient Service Revenue.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

**NOTE 4 - NET PATIENT SERVICE REVENUE - continued**

Revenues from the Medicare and Medicaid programs accounted for approximately 80% of the Hospital's net patient service revenue for the year ended September 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The estimated Medicare and Medicaid settlements recorded as of September 30, 2008 could differ from actual settlements based upon the results of the cost report audits discussed above. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

**Other**

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

**NOTE 5 - INVESTMENTS**

Generally accepted accounting principles require that the credit risk of investments be classified into the following three categories:

- a. Insured or registered, or securities held by the District or its agent in the District's name.
- b. Uninsured and unregistered, with securities held by the counter party's trust department or agent in the District's name.
- c. Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent, but not in the District's name.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

**NOTE 5 - INVESTMENTS - continued**

Section 218.415(16), Florida Statutes, authorized the District to invest surplus public funds in the Local Government Surplus Funds Trust Fund, administered by the State Board of Administration (e.g., SBA Investment Pool), or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits savings accounts in qualified public depositories as defined in Section 280-02, Florida Statute; direct obligations of the United States Treasury; Federal agencies and instrumentalities; Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss.80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; and other investments authorized by resolution.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

**NOTE 6 - NOTES PAYABLE**

The Hospital's notes payable as of September 30, 2008 is as follows:

	<u>2008</u>	<u>2007</u>
Bank of Jackson County, interest accrues monthly at 5.00%, matures 2/22/2009, collateralized by tax revenues. No monthly payments are due, instead one payment due at maturity.	\$ <u>375,220</u>	\$ <u>281,726</u>
Total current Notes Payable	\$ <u>375,220</u>	\$ <u>281,726</u>

The amount collected on behalf of the Hospital for ad valorem tax varies from year to year. As the amount is collected, it is immediately remitted to the Bank to service the loans. Tax receipts for the coming year are anticipated to exceed the notes payable and therefore, debt has been classified as current.

**NOTE 7 - CAPITAL LEASE**

The Hospital did not have any capital leases in fiscal year 2008.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - Continued**

**NOTE 8 - 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 payer agreements. The mix of receivables from patients and third-party payers was as follows:

	<u>September 30, 2008</u>	<u>September 30, 2007</u>
Medicare	62%	50%
Medicaid	9	5
Other third-party payers	11	22
Patients - self responsible	<u>18</u>	<u>23</u>
	<u>100%</u>	<u>100%</u>

**NOTE 9 - LEGAL MATTERS**

The Hospital has settled a legal matter resulting in the agreement to pay \$100,000. As of September 30, 2008, \$100,000 is included in operating expenses, \$50,000 of this amount has been paid, and \$50,000 is included in accrued payables.

The Hospital is a party to legal actions arising in the course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the Hospital's financial statements.

**NOTE 10 - MALPRACTICE INSURANCE**

The Hospital was covered by medical malpractice insurance through May 22, 2003. The Hospital became self-insured after that date related to medical malpractice risks under the sovereign immunity provisions for the State of Florida, Statute Section 768.28. Those provisions limit the Hospital's liability to \$100,000 for any single claim or judgement, or \$200,000 when totaled with all other claims or judgements arising out of the same incident or occurrence. At September 30, 2007, no accruals have been made for any medical malpractice liabilities, at September 30, 2008, \$50,000 is accrued as described in Note 9.

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION**  
**Notes to Financial Statements - continued**

**NOTE 11 - PATIENT ACCOUNTS RECEIVABLE - NET**

The following is an analysis of patient accounts receivable:

	<u>2008</u>	<u>2007</u>
Accounts receivable - Patient	\$2,025,491	\$ 1,738,565
Allowance for Uncollectible accounts	(412,068)	( 290,641)
Allowance for contractals	<u>(638,876)</u>	<u>(458,979)</u>
Patient Accounts Receivable - Net	<u>\$ 974,547</u>	<u>\$ 988,945</u>

Most of the Hospital's patients are from Jackson County, Florida and the surrounding area. As of September 30, 2008, approximately 81 % of the Patient Accounts Receivable - Net are due from third party payors.

**NOTE 12 - NEW ACCOUNTING PRONOUNCEMENTS**

During the year ended September 30, 2005, the Hospital adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This statement changes the reporting model for governmental entities. The Hospital has also adopted the provisions of GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. GASB Statement No. 37 provided additional guidance to governmental entities when adopting GASB Statement No. 34, and GASB Statement No. 38 modified certain note disclosure requirements for governmental entities. There was no financial impact of adopting the provisions of these statements on the Hospital's financial statements.

**NOTE 13 - CONTRACTUAL ADJUSTMENT RELATED TO PRIOR YEARS**

A contractual adjustment of \$125,888 has been recognized as of September 30, 2007. This expense relates to a Medicare cost report receivable for the 2004 and 2005 year. Expenses related to ER physician standby time has been disallowed by the intermediary for those years. The Hospital received \$184,576 as settlement for prior cost reports, but also paid \$186,232 as prior year claims disallowed. The difference of \$1,656 is included in contractual allowances in the current year.

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**INDEPENDENT AUDITOR'S MANAGEMENT LETTER COMMENTS**

Board of Trustees  
Campbellton-Graceville Hospital Corporation  
Graceville, Florida

We have audited the general purpose financial statements of the Campbellton-Graceville Hospital Corporation as of and for the year ended September 30, 2008, and have issued our report thereon dated December 16, 2008.

We have issued our Independent Auditor's Report on Internal Control Structure and our Independent Auditor's Report on Compliance With Law and Regulations both dated December 16, 2008. Disclosures in those reports, if any, 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 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 Chapter 10.550, Rules of the Auditor General, which govern the conduct of local government entity audits performed in the State of Florida and require that certain items be addressed in this letter.

The Rules of the Auditor General (Section 10.554(1)(g)1.a.) require that we comment as to whether or not irregularities reported in the preceding annual financial audit report have been corrected. There were no irregularities reported in Campbellton-Graceville Hospital Corporation's preceding annual financial audit.

The Rules of the Auditor General (Section 10.554(1)(g)1.a.) require that we comment as to whether or not recommendations made in the preceding annual financial audit report have been followed. The recommendations made in the preceding annual financial audit and their status are disclosed in our Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting.

As required by the Rules of the Auditor General (Section 10.554(1)(g)1.a.), the scope of our audit included a review of the provision of Section 218.415., Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Campbellton-Graceville Hospital Corporation complied with Section 218.415, Florida Statutes.

Where applicable, our comments required by auditing standards generally accepted in the United States of America, generally accepted government auditing standards, and the Rules of the Auditor General are hereafter presented in our separate report on compliance and the internal control structure.

The Annual Financial Report filed pursuant with the Department of Banking and Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report.

As required by the Rules of the Auditor General (Sections 10.554(g)(6)c and 10.556), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of the financial information provided by same. In performing financial condition assessment procedures, it was noted that the Hospital has experienced declining conditions evidenced by operating losses incurred over the past several years, except for the year 2008. It has experienced continued cash flow problems both during and after year end. We recommend that the Hospital seek ways to maximize reimbursements and collections in order to increase Operating Revenues. We also recommend that the Hospital continue to seek alternative funding sources.

As required by the Rules of the Auditor General, the scope of our audit included a determination of Campbellton-Graceville's financial emergency status as defined in Section 218.503(1), Florida Statutes. In connection with our audit, we have determined that Campbellton-Graceville Hospital met conditions described in Section 218.503(1), Florida Statutes. The Hospital experienced continuing cash flow problems during the year resulting in failure to pay obligations within the required ninety day time period. .

Our report is intended for the information of the Campbellton-Graceville Hospital Corporation and the State of Florida and the Office of the Auditor General and should not be used for any other purpose. This restriction is not, however, intended to limit the distribution of this report, which upon acceptance, is a matter of public record.

If you have any questions or comments about the contents of this letter or the information accompanying this letter, please do not hesitate to contact us.

*Petro & Associates, P.C.*

Petro & Associates, P.C.  
December 16, 2008

**PETRO & ASSOCIATES, P.C.**  
*Certified Public Accountants*

Robert E. Petro, CPA  
Tina G. Woodham, CPA

Member  
American Institute of  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT  
AUDITING STANDARDS***

To the Board of Trustees of  
Campbellton-Graceville Hospital Corporation  
5429 College Drive  
Graceville, Florida 32440

We have audited the general purpose financial statements of Campbellton-Graceville Hospital Corporation, as of and for the year ended September 30, 2008, and have issued our report thereon dated December 16, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

**CURRENT YEAR COMMENTS**

There are no current year comments.

**PRIOR YEAR COMMENTS**

All prior year comments have been resolved in the 2008 fiscal year.

A material weakness is a condition in which the design or operation of one or more of internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

This report is intended for the information and use of management and the Board of trustees. However, this report is a matter of public record and its distribution is not limited.

*Petio & Associates, P.C.*

Mobile, Alabama  
December 16, 2008

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
SEPTEMBER 30, 2008**

The Corporation's management discussion and analysis presents an overview of the Corporation's financial activities for the year ended September 30, 2008.

The Corporation has implemented Governmental Accounting Standards Board (GASB) Statement 34, Basis Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. Among those guidelines are the components of this section dealing with management's discussion and analysis.

Its intent is to provide a brief, objective, and easily readable analysis of the Corporation's financial performance for the year and its financial position at fiscal year end September 30, 2008.

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

**Overview of the Financial Statements:**

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's financial statements consist of 1) balance sheets, 2) statements of revenues, expenses, and changes in net assets, 3) statement of cash flows, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Financial Condition:** The Hospital's financial condition improved slightly during the fiscal year. Net assets increased 6.04%. There were no outstanding commitments for capital expenditures at end of the year. A portion of this improvement was related to positive income reported from the settlement of final audited Medicare program cost report for fiscal year ending 2006.

**Balance Sheet Analysis:**

**(A comparison of condensed balance sheet information follows)**

	<u>9-30-2008</u>	<u>9-30-2007</u>	<u>Change</u>	<u>% Change</u>
Current and other assets	1,365,643	1,470,725	<105,082>	<7.14>
Capital Assets	768,859	424,131	344,728	81.28
Total Assets	2,134,502	1,894,856	239,646	12.65
Current and Other Liabilities	1,143,840	960,645	183,195	19.07
Long Term Liabilities	-0-	-0-	-0-	0.00
Total Liabilities	1,143,840	960,645	183,195	19.07
Net Assets	990,662	934,211	56,451	6.04

**Note \*** All debt was classified as current since pledged tax receipts were anticipated to be sufficient to retire that debt within the next 12 months. During the year, the Board of Directors approved a 1.5 advalorem tax rate that should generate approximately \$272,170 in property tax revenues during the coming year. Tax receipts for the current fiscal year were \$253,472.82.

Settlement of the Medicare Cost Report was recorded as follows:

2006 \$184,576

The positive adjustment for the 2006-year was partially the result of an intermediary adjustment allowing reimbursement of claimed "Physician Availability Cost".

**Results of Financial Operations:**

	9-30-2008	9-30-2007	Change	% Change
<b>Operating Revenues</b>				
Net Operating Revenues	5,112,796	4,851,896	260,900	5.38
Other Revenues	35,185	14,415	20,770	144.09
Rural Fin. Assist. Program	408,845	400,937	7,908	1.97
<b>Total Revenues</b>	<b>5,556,826</b>	<b>5,267,248</b>	<b>289,578</b>	<b>5.5</b>
<b>Operating Expenses</b>				
Operating Expenses	5,229,638	4,974,938	254,700	5.12
Bad Debts	610,718	572,537	38,181	6.67
Depreciation	134,198	104,112	30,086	28.90
<b>Total Expenses</b>	<b>5,974,554</b>	<b>5,651,587</b>	<b>322,967</b>	<b>5.71</b>
<b>Operating Income (Loss)</b>	<b>&lt;417,728&gt;</b>	<b>&lt;384,339&gt;</b>	<b>&lt;33,389&gt;</b>	<b>&lt;8.69&gt;</b>
<b>Non Operating Revenues</b>	<b>474,179</b>	<b>306,267</b>	<b>167,912</b>	<b>54.83</b>
<b>Net Income (Loss)</b>	<b>56,451</b>	<b>&lt; 78,072&gt;</b>	<b>134,523</b>	<b>172.31</b>

Net operating revenues were impacted by the recording of prior year contractual adjustments from the settlement of Medicare 2006 Cost Report and prior year recoveries due to the newly implemented Medicare RAC audit as well as an increase in facility utilization significantly. An average daily inpatient census of 5.85 patients per day was 9.35% above prior year levels. Increases were observed in both inpatient acute and swing bed utilization. There was a slight decrease in Emergency Room visits for the year, -1.58%, averaging 6.85 visits per day. There was a 14.15% increase in the State's Medicaid Disproportionate Share/Low Income Pool Payments, which is the primary cause for the increase in the Rural Financial Assistance Program revenues.

Overall expense increases of 5.15% were significantly impacted by a 30.27% increase in purchased services, which includes the balance due on lawsuit settlement. There was a 2.68% manpower increase, which includes salaries, benefits, and professional fees, which were in line with Board approved payroll and manpower increases.

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