

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION
GRACEVILLE, FLORIDA

FINANCIAL STATEMENTS

for the year ended September 30, 2009

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Campbellton-Graceville Hospital Corporation
Graceville, Florida

We have audited the accompanying balance sheet of Campbellton-Graceville Hospital Corporation ("the Hospital"), as of September 30, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial position of the Hospital as of September 30, 2009, and the results of its operations and changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Continued

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P.O. BOX 6
2617 GILLIONVILLE ROAD
ALBANY, GEORGIA 31702-0006
(229) 883-7878
FAX (229) 435-3152

PARTNERS:
DOUGLAS E. FAIRCLOTH, CPA
J. MILTON JORDAN, CPA
LINTON A. HARRIS, CPA
STEPHEN M. BEDSOLE, CPA
CYNTHIA R. DUPREE, CPA
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In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2010, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Hospital has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

DRAFFIN + TUCKER, LLP

Albany, Georgia
March 16, 2010

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Balance Sheet
September 30, 2009

Assets

Current assets:

Cash and cash equivalents	\$ 25,558
Patient accounts receivable, net of estimated uncollectibles of \$450,000	938,326
Estimated third-party payor settlements	330,591
Supplies, at lower of cost (first-in, first-out) or market	155,720
Prepaid expenses	15,219
Restricted by contributors and grantors for capital acquisitions	<u>9,722</u>

Total current assets 1,475,136

Capital assets:

Land	11,485
Depreciable capital assets, net of accumulated depreciation	<u>711,417</u>

Total capital assets, net of accumulated depreciation 722,902

Total assets \$ 2,198,038

Liabilities and Net Assets

Current liabilities:

Notes payable	\$ 107,866
Accounts payable	329,355
Accrued expenses	75,005
Accrued compensation	310,564
Estimated third-party payor settlements	126,781
Unearned revenue	<u>9,722</u>

Total current liabilities 959,293

Net assets:

Invested in capital assets, net of related debt	615,036
Unrestricted	<u>623,709</u>

Total net assets 1,238,745

Total liabilities and net assets \$ 2,198,038

See accompanying notes to financial statements.

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statement Of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2009

Operating revenues:	
Net patient service revenue (net of provision for bad debts of \$544,405)	\$ 5,259,036
Other	<u>689,640</u>
Total operating revenues	<u>5,948,676</u>
Operating expenses:	
Salaries and wages	3,242,948
Employee benefits	749,540
Supplies and drugs	575,742
Physician fees	571,692
Purchased services	199,502
Repairs and maintenance	126,897
Utilities and communications	126,473
Insurance	42,340
Depreciation	164,642
Other	<u>337,415</u>
Total operating expenses	<u>6,137,191</u>
Operating loss	(<u>188,515</u>)
Nonoperating revenues (expenses):	
Tax revenue	277,550
Investment income	1,886
Interest expense	(10,196)
Other nonoperating revenue	<u>6,691</u>
Total nonoperating revenues	<u>275,931</u>
Excess revenues over expenses before capital grants	87,416
Capital grants and contributions	160,667
Net assets, beginning of year	<u>990,662</u>
Net assets, end of year	<u>\$ 1,238,745</u>

See accompanying notes to financial statements.

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statement Of Cash Flows
Year Ended September 30, 2009

Cash flows from operating activities:	
Receipts from and on behalf of patients	\$ 5,874,296
Payments to suppliers and contractors	(1,897,098)
Payments to employees	<u>(4,076,271)</u>
Net cash used by operating activities	(99,073)
Cash flows from noncapital financing activities:	
Contributions	6,691
Unrestricted ad valorem tax receipts	<u>277,550</u>
Net cash provided by noncapital financing activities	<u>284,241</u>
Cash flows from capital and related financing activities:	
City and county contributions	160,667
Principal paid on long-term debt	(267,354)
Interest paid on long-term debt	(10,196)
Purchase of capital assets	<u>(128,176)</u>
Net cash used by capital and related financing activities	<u>(245,059)</u>
Cash flows from investing activities:	
Investment income	<u>1,886</u>
Net decrease in cash and cash equivalents	(58,005)
Cash and cash equivalents, beginning of year	<u>93,285</u>
Cash and cash equivalents, end of year	\$ <u><u>35,280</u></u>

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Statement Of Cash Flows, Continued
 Year Ended September 30, 2009

Reconciliation of cash and cash equivalents to the balance sheet:	
Cash and cash equivalents	\$ 25,558
Restricted by contributors and grantors for capital acquisitions	<u>9,722</u>
Total cash and cash equivalents	<u>\$ 35,280</u>
Reconciliation of operating loss to net cash flows from operating activities:	
Operating loss	\$(188,515)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	164,642
Write-off of minor equipment	9,491
Provision for bad debts	544,405
Changes in:	
Patient accounts receivable	(508,184)
Estimated third-party payor settlements	(110,601)
Supplies	29,567
Prepaid expenses	(2,387)
Accounts payable	46,292
Accrued compensation	<u>(83,783)</u>
Net cash used by operating activities	<u>\$(99,073)</u>

See accompanying notes to financial statements.

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

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

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

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

Enterprise fund accounting. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and cash equivalents. Cash and cash equivalents include certain investments in highly liquid debt instruments with an original maturity of three months or less.

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

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

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

Capital assets. The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 To 20 Years
Buildings and building improvements	20 To 40 Years
Equipment, computers and furniture	3 To 10 Years

Net assets. Net assets of the Hospital are classified in two components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt*.

Operating revenues and expenses. The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Tax Revenue. The Hospital receives the proceeds of a special 1.56 mill ad valorem tax levied on taxable property in Jackson County, Florida. In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Hospital recognizes revenue from these tax receipts over the period of time for which the taxes are levied. The funds may be used at the discretion of the Hospital. Tax revenue is reported as nonoperating revenue.

Tax funds were used as follows:

Used for debt service payments	\$ <u>277,550</u>
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Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

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

Net patient service revenue. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Unearned revenue. Unearned revenue is the result of unspent capital improvement grant funds.

Compensated absences. The Hospital's employees earn paid time off at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees who leave in good standing will be eligible for payment of paid time off upon their resignation.

Charity care. The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Grants and contributions. The Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Income taxes. 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.

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

2. Net Patient Service Revenue

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

- *Medicare.* The Hospital has been granted Critical Access Hospital (CAH) designation by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. 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 Medicare fiscal intermediary through September 30, 2008.
- *Medicaid.* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined per diem. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed on a fee schedule methodology. Retroactive adjustments are made to these prospective payment amounts after the related cost report is audited by the intermediary.

The Hospital qualified to receive disproportionate share payments for the year ended September 30, 2009. Disproportionate share payments are awarded to hospitals who serve a disproportionate number of indigent patients. This revenue is reported as a component of net patient service revenue.

Revenue from the Medicare and Medicaid programs accounted for approximately 76% and 8%, respectively of the Hospital's net patient revenue for the year ended 2009. 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 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.

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

3. Charity Care

Charges excluded from revenue under the Hospital's charity care policy were approximately \$67,897 in 2009.

4. Bank Deposits

Custodial credit risk. Custodial credit risk is the risk that the Hospital's deposits may not be returned in the event of bank failure. The Hospital has no custodial credit risk at year end.

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, 2009 consisted of these amounts:

Patient Accounts Receivable

Receivable from patients and their insurance carriers	\$ 991,244
Receivable from Medicare	933,301
Receivable from Medicaid	<u>79,987</u>
Total patient accounts receivable	2,004,532
Less allowance for uncollectibles and contractals	<u>1,066,206</u>
Patient accounts receivable, net	\$ <u><u>938,326</u></u>

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

5. Accounts Receivable and Payable, Continued

Accounts Payable and Accrued Expenses

Payable to employees (including payroll taxes)	\$ 310,564
Payable to suppliers	329,355
Other	<u>75,005</u>
 Total accounts payable and accrued expenses	 \$ <u>714,924</u>

6. Capital Assets

Capital asset additions, retirements, and balances for the year ended September 30, 2009 are as follows:

	<u>Balance</u> <u>September 30, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>September 30, 2009</u>
Land	\$ 11,485	\$ -	\$ -	\$ 11,485
Land improvements	48,694	-	-	48,694
Buildings	1,221,413	-	(9,197)	1,212,216
Fixed equipment	485,469	-	-	485,469
Major movable equipment	2,813,863	109,867	(294)	2,923,436
Vehicles	13,227	-	-	13,227
Construction in progress	<u>-</u>	<u>18,308</u>	<u>-</u>	<u>18,308</u>
 Totals at historical cost	 4,594,151	 128,175	 (9,491)	 4,712,835
 Less accumulated depreciation	 <u>3,825,292</u>	 <u>164,641</u>	 <u>-</u>	 <u>3,989,933</u>
 Capital assets, net	 \$ <u>768,859</u>	 \$(<u>36,466</u>)	 \$(<u>9,491</u>)	 \$ <u>722,902</u>

Depreciation expense, in the amount of \$164,642, was charged to operating expenses.

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

7. Notes Payable

The Hospital's note payable as of September 30, 2009 is as follows:

Bank of Jackson County, interest accrues monthly at 5.00%, matures 10/1/2009, collateralized by tax revenues. No monthly payments are due, instead one payment due at maturity.

\$ 107,866

Note was refinanced October 1, 2009. The interest rate remained 5% with a maturity date of June 30, 2010.

8. Commitments and Contingencies

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Health Care Reform

In recent years, there has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare on the national or at the state level. If legislation is enacted, the healthcare providers could be faced with significant reductions in reimbursement from the various governmental programs such as Medicare and Medicaid. There can be no assurance that legislation adverse to the business of the Hospital will not be enacted.

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2009 was as follows:

Medicare	55%
Medicaid	3%
Blue Cross	10%
Other third-party payors	17%
Patients	<u>15%</u>
	<u>100%</u>

10. Tax Sheltered Annuity Plan

Substantially all employees of the Hospital are covered under a hospital-sponsored tax sheltered annuity, qualified under Internal Revenue Service Section 403(b). The plan mandates employer matching contributions dollar for dollar up to 3% of each eligible employee's compensation. Total expense for the year ended September 30, 2009 was \$38,120.

11. Malpractice Insurance

The Hospital was covered by medical malpractice insurance through May 22, 2003. The Hospital became self-insured after that date under the sovereign immunity provisions for the State of Florida, Statute Section 768.28. Those provisions limit the Hospital's liability to \$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. After consultation with legal counsel, management estimates that these matters will be resolved without material effect on the Hospital's future financial position or results from operations.

Continued

CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION

Notes To Financial Statements

September 30, 2009

12. Regulatory Compliance

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. The Authority has implemented a compliance plan focusing on such issues. There can be no assurance that the Authority will not be subjected to future investigations with accompanying monetary damages.

13. Subsequent Event

On September 16, 2009 the Hospital entered into two construction loans for the construction of a new building with an estimated cost of approximately \$972,000. The building will be used to house a rural health clinic on the Hospital campus. The construction and related draws on the loans did not begin until after fiscal year end.



INDEPENDENT AUDITOR'S MANAGEMENT LETTER COMMENTS

Board of Directors
Campbellton-Graceville Hospital Corporation
Graceville, Florida

We have audited the financial statements of the Campbellton-Graceville Hospital Corporation as of and for the fiscal year ended September 30, 2009, and have issued our report thereon dated March 16, 2010.

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. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters. Disclosures in those reports, if any, which are dated March 16, 2010, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the Campbellton-Graceville Hospital Corporation complied with Section 218.415, Florida Statutes.

P.O. BOX 6
2617 GILLIONVILLE ROAD
ALBANY, GEORGIA 31702-0006
(229) 883-7878
FAX (229) 435-3152

PARTNERS:
DOUGLAS E. FAIRCLOTH, CPA
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- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have findings related to (1). We did have the following findings as they relate to (2):
 - Segregation of Duties
During our audit, we noted a general lack of segregation of duties resulting from limited staffing. The limited staffing results from various factors beyond the Hospital's control. We recommend the Hospital review and revise their internal policies and procedures in order to segregate custodial and record keeping responsibilities of current staff, where possible.
 - Establish Supervisory Review
While conducting our audit, we noted that there is no supervisory review of accounting transactions and month end reconciliations. We recommend that the Hospital establish a regular supervisory review of accounting transactions and reconciliations. This practice will strengthen internal control over financial reporting.
 - Maintenance of Manual Journal Entry Log
Currently a manual journal entry log is not being maintained. A listing of monthly recurring journal entries is currently being maintained by the Hospital. All manual journal entries should be approved for accuracy and propriety before being posted into the accounting records. We believe that the initials of the approving supervisor on the related documents should be used as evidence of review and approval. Maintenance of a manual journal entry log will facilitate this process. This practice will strengthen internal control over financial reporting.
 - Segregation of Duties – Cash Receipts
Employees responsible for handling cash receipts also post the cash receipts and maintain the accounts receivable subsidiary. Employees who have both custodial and record keeping responsibilities for the same asset create an internal control weakness. While we understand that a complete segregation of duties is impractical in a small office with limited personnel, we believe that some relatively minor changes could be made which would significantly improve controls. We recommend the Hospital investigate opportunities to segregate the collection and posting functions.

– Review of Adjustments Posted to Patient Accounts

In the event a reasonable solution cannot be reached regarding the segregation of duties between cash receipts and maintaining the accounts receivable subsidiary ledger, the Hospital should establish a second party review of adjustments posted to patient accounts to ensure the posted adjustments are appropriate.

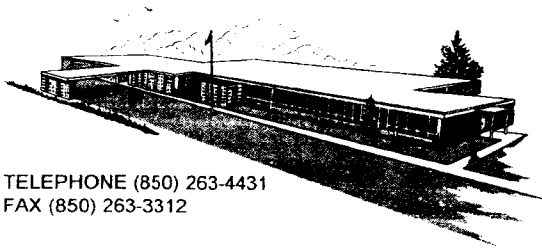
The Hospital's management response to the comments noted above is attached as Exhibit A.

- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the Campbellton-Graceville Hospital Corporation met conditions described in Section 218.503(1), Florida Statutes. The Hospital experienced continuing cash flow problems during the year resulting in failure to pay obligations within the 90 day period and failure to transfer payroll taxes at the appropriate time.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the Campbellton-Graceville Hospital Corporation for the fiscal year ended September 30, 2009, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2009. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the Campbellton-Graceville Hospital Corporation's financial condition, and our financial condition assessment was based in part on representations made by management, and the review of financial information provided by same. In performing financial condition assessment procedures, it was noted that the Hospital has experienced declining conditions evidenced by operating losses incurred over the past several years. It has experienced cash flow problems both during and after year end. We recommend that the Hospital seek ways to maximize reimbursements and collections in order to increase operating revenues. We also recommend that the Hospital continue to seek alternative funding sources.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

DRAFFIN + TUCKER, LLP

Albany, Georgia
March 16, 2010



TELEPHONE (850) 263-4431
FAX (850) 263-3312

CAMPBELLTON-GRACEVILLE HOSPITAL

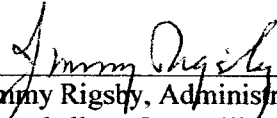
A Community Owned Hospital

5429 COLLEGE DRIVE
GRACEVILLE, FLORIDA 32440

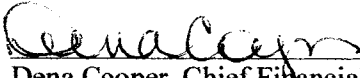
March 16, 2010

Draffin & Tucker, LLP
P.O. Box 6
2617 Gillionville Road
Albany, GA 31702-0006

We have reviewed the current year findings referenced under bulleted paragraph Section 10.554(1)(i)5. in the preceding Independent Auditor's Management Letter Comments report required by the Florida Auditor General. We will evaluate each comment independently and determine the most reasonable solution given our operating circumstances and staffing limitations.


Jimmy Rigsty, Administrator
Campbellton-Graceville Hospital

3/16/10
Date


Dena Cooper, Chief Financial Officer
Campbellton-Graceville Hospital

3/16/10
Date

Exhibit A



REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Campbellton-Graceville Hospital Corporation
Graceville, Florida

We have audited the financial statements of Campbellton-Graceville Hospital Corporation (“the Hospital”), as of and for the year ended September 30, 2009, and have issued our report thereon dated March 16, 2010. 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 Hospital’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital’s internal control over financial reporting.

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 combination of control deficiencies, that adversely affects the Hospital’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 Hospital’s financial statements that is more than inconsequential will not be prevented or detected by the Hospital’s internal control.

P.O. BOX 6
2617 GILLIONVILLE ROAD
ALBANY, GEORGIA 31702-0006
(229) 883-7878
FAX (229) 435-3152

PARTNERS:
DOUGLAS E. FAIRCLOTH, CPA
J. MILTON JORDAN, CPA
LINTON A. HARRIS, CPA
STEPHEN M. BEDSOLE, CPA
CYNTHIA R. DUPREE, CPA
JIM L. CREAMER, SR., CPA
JEFFREY S. WRIGHT, CPA
MILES V. ESPY, SR., CPA

MICHAEL L. REESE, CPA
SANDRA D. CANNON, CPA
WILSON E. JOINER, III, CPA
C. BERT BENNETT, CPA
CHARLES R. HORNE, CPA
JIMMIE D. RICHTER, JR., CPA
R. WES STERNENBERG, CPA

MEMBERS:
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

THE GEORGIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

A material weakness is a 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 Hospital'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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Hospital in a separate letter dated March 16, 2010.

This report is intended solely for the information and use of the Board of Directors and Management of the Hospital and other state officials and is not intended to be and should not be used by anyone other than these specified parties.

DRAFFIN + TUCKER, LLP

Albany, Georgia
March 16, 2010