

BAKER COUNTY HOSPITAL AUTHORITY

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

SEPTEMBER 30, 2010

LYONS AND LYONS

CERTIFIED PUBLIC ACCOUNTANTS

BAKER COUNTY HOSPITAL AUTHORITY
FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
SEPTEMBER 30, 2010
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BAKER COUNTY HOSPITAL AUTHORITY
BOARD OF DIRECTORS
SERVINGS AS OF SEPTEMBER 30, 2010

BOARD OF DIRECTORS

Melba Dedmon

Karen Dolan

V. Todd Ferreira

Debra Gnann

Glen McKendree

LYONS AND LYONS

CERTIFIED PUBLIC ACCOUNTANTS

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Macclenny, Florida 32063

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INDEPENDENT AUDITORS' REPORT

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

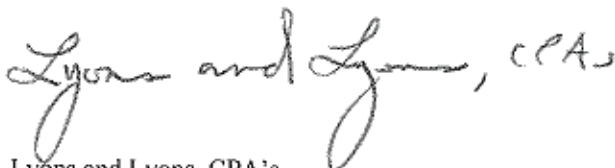
We have audited the accompanying financial statements of the governmental activities and its major fund, of the Baker County Hospital Authority (the Authority) as of and for the year ended September 30, 2010, which comprise the Authority's basic financial statements as listed in the table of contents. 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, 2010, 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 August 12, 2011 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 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 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 required supplementary information required by the Governmental Accounting Standards Board. 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
August 12, 2011

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, 2010. Please read it in conjunction with the Authority's financial statements, which follow this section.

The following are various financial highlights for fiscal year 2009-10.

- Total ending unrestricted net assets were approximately \$100,038.
- Total ending restricted net assets were approximately \$136,558.
- The Authority's note payable decreased by \$400,000.

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 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 – The 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 \$236,596 at the close of the fiscal year ended September 30, 2010.

	<u>Business-Type Activities</u>	
	<u>FY 2010</u>	<u>FY 2009</u>
Current and Other Assets	\$ 246,260	\$ 280,939
Non Current Assets	<u>8,481,558</u>	<u>8,795,263</u>
Total Assets	<u>\$8,727,818</u>	<u>\$9,076,202</u>
Current and Other Liabilities	566,222	552,622
Long Term Liabilities	<u>7,925,000</u>	<u>8,345,000</u>
Total Liabilities	<u>8,491,222</u>	<u>8,897,622</u>
Net Assets:		
Restricted	136,558	50,263
Unrestricted	<u>100,038</u>	<u>128,317</u>
Total Net Assets	<u>\$ 236,596</u>	<u>\$ 178,580</u>

Changes in Net Assets

	<u>FY 2010</u>	<u>FY 2009</u>
Revenues:		
Program Revenues:		
Charge for Lease	\$ 441,865	\$ 460,842
General Revenues:		
Property Taxes	885,704	866,849
Other Taxes	25,000	25,000
Interest	<u>1,629</u>	<u>1,364</u>
Total Revenues	<u>1,354,198</u>	<u>1,354,055</u>
Expenses:		
Health & Welfare	854,317	851,229
Lease on Long-Term Debt	<u>441,865</u>	<u>460,842</u>
Total Expenses	<u>1,296,182</u>	<u>1,312,071</u>
Changes in Net Assets	58,016	41,984
Net Assets-Beginning of Year	<u>178,580</u>	<u>136,596</u>
Net Assets-End of Year	<u>\$ 236,596</u>	<u>\$ 178,580</u>

Business-Type Activities

The Authority's activities are accounted for in a proprietary fund. The business-type activities generated \$1,354,198 in revenues and incurred \$1,296,182 of expenses. This resulted in a \$58,016 increase in net assets.

BUDGETARY HIGHLIGHTS

Revenues received were \$40,494 more than budgeted amounts. Expenses were \$4,682 less than budgeted amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Authority had no significant capital asset activity during the year.

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 \$400,000. Please refer to Note 4 of the Notes 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, 2010

ASSETS

Current Assets:

Cash and Equivalents	\$ 100,038
Lease Interest Receivable	<u>146,222</u>
Total Current Assets	<u>246,260</u>

Noncurrent Assets:

Restricted Assets:

Cash	136,558
Net Investment in Capital Leases	<u>8,345,000</u>
Total Non Current Assets	<u>8,481,558</u>

TOTAL ASSETS	<u>\$8,727,818</u>
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LIABILITIES

Current Liabilities:

Accrued Interest Payable	\$ 146,222
Total Current Liabilities	<u>146,222</u>

Non Current Liabilities:

Due Within One Year	420,000
Due in More Than One Year	<u>7,925,000</u>
Total Non Current Liabilities	<u>8,345,000</u>

TOTAL LIABILITIES	<u>8,491,222</u>
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NET ASSETS

Designated	136,558
Unrestricted	<u>100,038</u>

TOTAL NET ASSETS	<u>\$ 236,596</u>
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The accompanying "Notes to Financial Statements" form an integral part of this statement.

BAKER COUNTY HOSPITAL AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>		
Business-Type Activities					
Health and Welfare	\$ 854,317	\$ 441,865	\$ -	\$ -	\$ (412,452)
Interest on Long-Term Debt	441,865	-	-	-	(441,865)
Total Business-Type Activities	\$ 1,296,182	\$ 441,865	\$ -	\$ -	(854,317)
 General Revenues:					
Property Taxes					885,704
Shared Revenues					25,000
Interest Income					1,629
Total Business-Type Revenues					912,333
Change in Net Assets					58,016
Net Assets-October 1, 2009					178,580
Net Assets-September 30, 2010					\$ 236,596

The accompanying "Notes to Financial Statements" form an integral part of this statement.

BAKER COUNTY HOSPITAL AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

OPERATING REVENUES	
Lease Income	\$ 441,865
TOTAL OPERATING REVENUES	<u>441,865</u>
 OPERATING EXPENSES	
Hospital Operations	775,000
Administrative Services	<u>28,533</u>
TOTAL OPERATING EXPENSES	<u>803,533</u>
OPERATING INCOME (LOSS)	(361,668)
 NONOPERATING REVENUES	
(EXPENSES)	
Property Taxes	885,704
Special Revenue Act	25,000
Interest Revenue	1,629
Property Appraiser Expenses	(32,516)
Tax Collector Expenses	(18,268)
Interest Expense	<u>(441,865)</u>
TOTAL NONOPERATING REVENUES	
(EXPENSES)	<u>419,684</u>
INCREASE (DECREASE) IN NET ASSETS	58,016
NET ASSETS - October 1, 2009	<u>178,580</u>
NET ASSETS - September 30, 2010	<u>\$ 236,596</u>

The accompanying "Notes to Financial Statements" form an integral part of this statement.

BAKER COUNTY HOSPITAL AUTHORITY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Lease	\$ 441,865
Cash Payments For Services	(28,533)
Cash Payments For Hospital Operations	<u>(775,000)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(361,668)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash Received From Taxes	910,704
Cash Payments For Tax Collection & Assessment	(50,784)
Cash Payments For Bond Interest	<u>(441,865)</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>418,055</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on Cash and Equivalents	<u>1,629</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>1,629</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH AND CASH EQUIVALENTS, OCTOBER 1, 2009	<u>178,580</u>
CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2010	<u><u>\$ 236,596</u></u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Income (loss) from operations	\$ (361,668)
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in Lease Interest Receivable	6,400
Decrease in Lease Interest Payable	<u>(6,400)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (361,668)</u></u>

The accompanying "Notes to Financial Statements" form an integral part of this statement.

BAKER COUNTY HOSPITAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

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, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments, including restricted assets, are considered to be cash equivalents. Restricted cash represents cash that has been set aside for future medical needs of Baker County. The Authority voted to restrict funds for the "Future Medical Needs of Baker County." As of September 30, 2010, cash totaling \$136,558 was restricted for these purposes.

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 63 percent of its financial support from ad valorem taxes in fiscal year 2009-10. 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, 2010

NOTE 2 – INVESTMENTS

Section 166.261, Florida Statutes, authorizes the Authority to invest in the Local Government Surplus Funds Trust; direct obligations of the United States Government; obligations unconditionally guaranteed by the United States Government; time deposits and savings accounts of Florida Qualified Depositories; obligations of Federal Farm Credit Banks; obligations of the Federal National Mortgage Association and/or other instruments prescribed by the Authority Council.

The Authority's investments consist of money market accounts. These investments are entirely insured (Level 1 category of credit risk).

The Authority is exposed to the following risks associated with its investments:

Credit Risk – the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Interest Rate Risk – the risk that changes in interest rate will adversely affect the fair value of an investment.

The Authority does not have a formal investment policy relating to the aforementioned risks, other than Section 218.415 Florida Statutes, for investing public funds. That statute limits the Authority's exposure to credit risk and interest rate risk by limiting authorized investment option as previously described.

NOTE 3 - 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	<u>90,086</u>
Total Assets	<u>\$2,031,201</u>
Accounts Payable and Accrued Expenses	\$ 933,812
Estimated Third Party Payor Settlements	196,000
Long Term Debt and Capital Lease Obligations	<u>1,056,349</u>
Total Liabilities	<u>\$2,186,161</u>
Excess of Liabilities Over Assets Assumed by BCMS	<u>\$ 154,960</u>

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.

BAKER COUNTY HOSPITAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 3 - LONG TERM LIABILITIES AND CAPITAL LEASE OBLIGATIONS (concluded)

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 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, 2010 are as follows:

FISCAL YEAR ENDING			
<u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 420,000	\$ 427,955	\$ 847,955
2012	440,000	406,025	846,025
2013	465,000	382,948	847,948
2014	485,000	358,723	843,723
2015	510,000	332,830	842,830
2016-2024	<u>6,025,000</u>	<u>1,546,414</u>	<u>7,571,414</u>
Totals	<u>\$8,345,000</u>	<u>\$3,454,895</u>	<u>\$11,799,895</u>

NOTE 4 - NET INVESTMENT IN CAPITAL LEASES

The net investment in capital leases outstanding as of September 30, 2010 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 \$8,345,000, 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:

2011	\$ 847,955
2012	846,025
2013	847,948
2014	843,723
2015	842,830
2016-2024	<u>7,571,414</u>
Total Minimum Lease Payments to be Received	11,799,895
Less: Unearned Interest Income	<u>3,454,895</u>
Net Investment in Capital Lease at September 30, 2010	<u>\$8,345,000</u>

BAKER COUNTY HOSPITAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 5 - CHANGES IN LONG TERM DEBT

A summary of changes in long term debt follows:

Type of Debt	Balance October 1, 2009	Additions	Deductions	Balance September 30, 2010	Amounts Due Within One Year
Business-Type Activities					
Capital Lease Obligation	<u>\$8,745,000</u>	\$ -	\$400,000	<u>\$8,345,000</u>	<u>\$420,000</u>
Total Long-Term Debt	<u>\$8,745,000</u>	<u>\$ -</u>	<u>\$400,000</u>	<u>\$8,345,000</u>	<u>\$420,000</u>

NOTE 6 – 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(\$860,705). 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 2009-2010 fiscal year.

NOTE 7 – DESIGNATIONS OF FUND BALANCE

Designations of governmental fund balance are not legally required segregations but are segregated by the Authority’s management for specific purposes. As of September 30, 2010, the Authority designated unreserved fund balance as follows:

Unreserved fund balance	\$236,596
Less designations:	
Future Needs	<u>136,558</u>
Total designations	<u>136,558</u>
Undesignated fund balance	<u>\$100,038</u>

Descriptions of the Authority’s designations are as follows:

Future Needs—designated to be used for the future medical needs of Baker County residents.

NOTE 8 - 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

BAKER COUNTY HOSPITAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

NOTE 8 – CONTINGENCIES (concluded)

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.

NOTE 9 – SUBSEQUENT EVENTS

As of August 12, 2011 the only pending litigation is a Third-Party Complaint against the Authority by U.S. National Bank Association (the bank), who is a defendant in a case brought by Baker County Medical Services, Inc (BCMS). The bank has sought a declaratory judgment against the hospital seeking monetary judgment for attorneys' fees and costs. The progress of the case is in its early discovery phase and the Authority intends to defend the third party claim and to seek indemnity pursuant to the bond agreement from BCMS. The Authority's attorney indicated "Article 7 Section 7.11 of the lease agreement with BCMS requires the BCHA be held harmless in the event of legal action" in addition, he indicated currently there are no damages sought against the Authority, therefore, no settlement is being sought at this time. The Authority's attorney advised the Board, that should the Bank enter early mediation, the Board should appoint one member to represent BCHA during mediation. Board Member Glenn McKendree was elected to represent the BCHA Board should the case enter early mediation.

ADDITIONAL ELEMENTS REQUIRED
BY THE
RULES OF THE AUDITOR GENERAL

LYONS AND LYONS

CERTIFIED PUBLIC ACCOUNTANTS

106 West Boulevard
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, 2010, and have issued our report thereon dated August 12, 2011. We have also issued our report on internal control over financial reporting and on compliance and other matters, dated August 12, 2011. 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 09-1 is repeated in the accompanying Schedule of Findings and Questioned Costs as item 10-1.

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 has not met one or more of the conditions described in Section 218.503(1), Florida Statutes, that are indicative of a state of financial emergency.

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. 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 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, 2010, 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, 2010.

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 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.



August 12, 2011
Macclenny, Florida

LYONS AND LYONS

CERTIFIED PUBLIC ACCOUNTANTS

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Macclenny, Florida 32063

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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 (the "Authority") as of and for the fiscal year ended September 30, 2010, which comprise the Authority's basic financial statements and have issued our report thereon dated August 12, 2011. 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 10-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters, 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*.

Members of American and Florida Institutes of Certified Public Accountants

The Authority's 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.

Communication with Those Charged with Governance

Professional standards require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no particularly sensitive estimates significantly affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no particularly sensitive disclosures significantly affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of the audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 12, 2011.

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

Lyons and Lyons, CPAs

August 12, 2011
Macclenny, Florida

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2010
BAKER COUNTY HOSPITAL AUTHORITY

Findings

10-1 **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 exist 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 one 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

20 E. Macclenny Ave - Macclenny, FL 32063 – Ph. 904-259-6433

August 12, 2011

Mr. David W Martin, CPA
Office of the Auditor General
State of Florida
Claude Denson Pepper Building
111 West Madison St
Tallahassee, FL 32399-1450

Dear Mr. Martin:


The following is the response to the audit findings of the Baker County Hospital Authority's financial statements for the year ended September 30, 2010:

Audit Finding 10-1

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 the signatures of two board members; administrative staff is not authorized to sign checks. 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