

**CITRUS COUNTY HOSPITAL BOARD**

**ANNUAL FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
September 30, 2013**

**CITRUS COUNTY HOSPITAL BOARD**  
**ANNUAL FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended September 30, 2013**

**TABLE OF CONTENTS**

	<b>PAGE NO.</b>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report	3 - 4
Management's Discussion and Analysis	5 - 6
Basic Financial Statements	
Statement of Net Position	7
Statement of Activities	8
Governmental Fund	
Balance Sheet	9
Statement of Revenues, Expenditures, and Changes in Fund Balance	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to the Statement of Activities	11
Notes to Financial Statements	12 - 21
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual	23
<b>COMPLIANCE SECTION</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25 - 26
Management Letter	27 - 28

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Citrus County Hospital Board  
Inverness, Florida

We have audited the accompanying financial statements of the governmental activities of Citrus County Hospital Board, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Consortium's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Citrus County Hospital Board, as of September 30, 2013, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

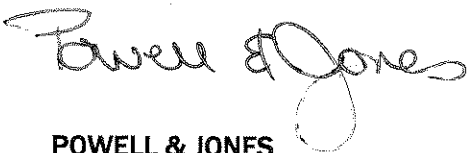
## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2014, on our consideration of the Citrus County Hospital Board'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Citrus County Hospital Board's internal control over financial reporting and compliance.



**POWELL & JONES**  
Certified Public Accountants  
May 1, 2014

**CITRUS COUNTY HOSPITAL BOARD  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended September 30, 2013**

The discussion and analysis of the financial performance of Citrus County Hospital Board (the Board) provides an overall review of the Board's financial activities for the fiscal year ended September 30, 2013. The intent of this discussion and analysis is to look at the Board's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Board's financial performance.

**FINANCIAL HIGHLIGHTS AND ANALYSIS**

The assets of the Board exceeded its liabilities at the close of the fiscal year ended September 30, 2013 by \$3,524,769, a decrease of \$1,531,549 in net position.

Ad valorem property taxes accounted for \$1,919,202 or 98% of total revenue. The remaining 2% of revenue was generated principally from investment income. Total general revenues decreased over the prior year by \$358,349, which was primarily related to the decrease in the property tax values.

The expenses of the Board consisted of \$1,852,599 for healthcare support to Citrus Memorial Health System under the terms of the Agreement for Hospital Care between the Citrus County Hospital Board and the Citrus Memorial Health Foundation, Inc. (the Foundation), and other community healthcare projects. Under the Agreement between the parties, the Board, at its sole and absolute discretion, will appropriate funds and pay funds to the Foundation based upon the Operating and Capital Budget of the Foundation and all applicable Florida laws, including Chapter 2011-256, *Laws of Florida*. The funds will assist in all purposes as delineated in Chapter 2011-256, *Laws of Florida*. Administrative expenditures are the costs incurred to operate the Board and fund the user fees for the Citrus County Property Appraiser and Citrus County Tax Collector offices. The Property Appraiser and Tax Collector user fees provide for the assessment of property and collection of taxes. The administrative expenditures decreased over the prior year by \$184,048 to \$1,637,038; and reflect a decrease in legal and consultant service fees primarily associated with ongoing litigation with the Foundation. The Foundation has sued the Citrus County Hospital Board forcing allocation and expenditure of money to defend these lawsuits. Further information about the hospital care agreement can be found in the Notes to the Financial Statements.

**OVERVIEW OF FINANCIAL STATEMENTS**

This annual report consists of a series of Financial Statements: the Statement of Net Position and Governmental Fund Balance Sheet; and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance. The General Fund column of each statement presents an "economic resources" measurement focus, while the Statement of Net Position and Statement of Activities columns report on the accrual basis, providing a longer-term view of the Board's finances.

The Financial Statements also includes Notes to Financial Statements that explain some of the information in the Financial Statements and provide more detailed data. These notes form an integral part of the Financial Statements and should be read as a part of the Financial Statements in order for the reader to have a clear understanding of activities and performance.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Board leases all land, buildings, improvements, equipment, furniture, and fixtures to the Citrus Memorial Health Foundation, Inc. (the Foundation) under a lease agreement for the operation of the Citrus Memorial Health System. The leased facilities are accounted for as a capital lease; therefore, no assets are shown in the financial statements of the Board. The lease agreement is further described in the Notes to Financial Statements. The Board and Foundation issued \$45,000,000 Hospital Revenue Bond Series 2002 to provide for the financing and refinancing of hospital improvements. The Board and Foundation issued \$10,000,000 Hospital Revenue Bond Series 2006 to provide for the financing of hospital improvements. The Board and Foundation issued \$10,000,000 Hospital Revenue Note Series 2008 to provide for the financing of hospital improvements.

As discussed in greater detail in Note 5 of the Notes to Financial Statements, all payments of principal and interest are payable solely by the Foundation and their gross revenues. There are balloon payments of \$8,025,000 due on October 1, 2016 on the 2006 bonds and \$5,667,367 due on October 1, 2018 on the 2008 notes. On April 1, 2013, the bond holder of the 2006 bonds notified the Foundation that it is exercising its right to be fully paid for the balance of the bonds on April 2, 2014. The Foundation paid this obligation in full at the conclusion of the current year. The Foundation has not escrowed or set aside any funds for debt service payments. The Board has no liability for any debt service payments to be made in future years.

## **OTHER**

For the 2012-13 fiscal year, the Board of Trustees approved a millage rate of 0.2450, which was a decrease of 4% from the rolled back rate of 0.2556 and remained the same as the previous year rate of 0.2450. For the 2013-14 fiscal year, the Board of Trustees adopted a millage rate of 0.2450 which was no change from the prior year rate.

Other than the contingencies discussed in Note 8 of the Notes to Financial Statements, the Board is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations for the 2013-2014 fiscal year.

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

This financial report is designed to provide readers with a general overview of the Board's finances and to reflect the Board's accountability for the revenues it receives. If you have questions about this report or need additional financial information, contact the Board Chairwoman, at the Citrus County Hospital Board, P.O. Box 1030, Inverness, Florida 34451.

**CITRUS COUNTY HOSPITAL BOARD**

**STATEMENT OF NET POSITION**

September 30, 2013

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 3,736,790
Accounts receivable	2,300
	<hr/>
Total assets	<u>\$ 3,739,090</u>
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 212,310
Accrued salaries	1,779
Accrued compensated absences	232
	<hr/>
Total liabilities	<u>214,321</u>
<b>NET POSITION</b>	
Unrestricted	3,524,769
	<hr/>
Total net position	<u>3,524,769</u>
Total liabilities and net position	<u>\$ 3,739,090</u>

**CITRUS COUNTY HOSPITAL BOARD**

**STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended September 30, 2013**

	<u>Expenses</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
		<u>Governmental Activities Total</u>
<b>Governmental activities:</b>		
General government	\$ (1,637,038)	\$ (1,637,038)
Healthcare services	(1,852,599)	(1,852,599)
<b>Total governmental activities</b>	<u>\$ (3,489,637)</u>	<u>(3,489,637)</u>
<b>General revenues:</b>		
Ad valorem taxes		1,919,202
Interest distribution		55
Investment income		38,081
Miscellaneous income		750
<b>Total general revenues</b>		<u>1,958,088</u>
<b>Change in net position</b>		<b>(1,531,549)</b>
<b>Net position, beginning of year</b>		<u>5,056,318</u>
<b>Net position, end of year</b>		<u>\$ 3,524,769</u>



**CITRUS COUNTY HOSPITAL BOARD  
GOVERNMENTAL FUND  
BALANCE SHEET**

September 30, 2013

	<u>General Fund</u>
<b>ASSETS</b>	
Cash	\$ 3,736,790
Accounts receivable	<u>2,300</u>
<b>Total assets</b>	<u><u>\$ 3,739,090</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 212,310
Accrued salaries	<u>1,779</u>
<b>Total liabilities</b>	<u>214,089</u>
 <b>FUND BALANCE</b>	
Unassigned	<u>3,525,001</u>
<b>Total fund balance</b>	<u><u>3,525,001</u></u>

Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities are not due in the current period and, therefore, are not reported in governmental funds

Compensated absences liability	<u>(232)</u>
<b>Net position</b>	<u><u>\$ 3,524,769</u></u>

**CITRUS COUNTY HOSPITAL BOARD**  
**GOVERNMENTAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
For the Fiscal Year Ended September 30, 2013

	General Fund
<b>REVENUES</b>	
Ad valorem taxes	\$ 1,919,202
Interest distribution	55
Investment income	38,081
Miscellaneous income	750
<b>Total revenues</b>	<b>1,958,088</b>
<b>EXPENDITURES</b>	
General government	
Personnel services:	
Salaries	67,546
Payroll taxes	5,649
Retirement	3,563
Health insurance	3,510
	<b>80,268</b>
Operating expenses:	
Tax Collector fees, net	29,482
Property Appraiser fees	50,081
Legal services	1,025,905
Auditing services	10,300
Conferences and travel	1,021
Rent	1,872
Office expenses	13,449
Advertising	13,280
Other professional services	405,313
Bank fees	40
Other	6,019
	<b>1,556,762</b>
<b>Total general government</b>	<b>1,637,030</b>
Health	
Indigent health services:	
Hospital indigent care	1,398,680
Community indigent care	60,178
Capital outlay reimbursement	393,741
<b>Total health</b>	<b>1,852,599</b>
<b>Total expenditures</b>	<b>3,489,629</b>
<b>Deficit of revenues (under) expenditures</b>	<b>(1,531,541)</b>
<b>Fund balances, at beginning of year</b>	<b>5,056,542</b>
<b>Fund balances, at end of year</b>	<b>\$ 3,525,001</b>

See notes to financial statements.

CITRUS COUNTY HOSPITAL BOARD

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2013

Net change in fund balance - total governmental fund \$ (1,531,541)

Amounts reported for governmental activities in the  
statement of activities are different because:

Some expenses reported in the statement of activities do not  
require the use of current financial resources and, therefore,  
are not reported as expenditures in governmental funds.

Increase in compensated absences (8)

Change in net position of governmental activities \$ (1,531,549)

**CITRUS COUNTY HOSPITAL BOARD  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2013**

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

The financial statements of the Citrus County Hospital Board (the Board) have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

**Reporting Entity**

The Citrus County Hospital Board is a special purpose independent special district of the State of Florida located in Citrus County, Florida. The Citrus County Hospital Board is organized and exists under the laws of the State of Florida pursuant to Chapter 99-442, *Laws of Florida* as amended, and as particularly amended by Chapter 2001-308, *Laws of Florida*. Effective July 1, 2011 the aforementioned laws were recodified into Chapter 2011-256, *Laws of Florida*, which expanded the role and responsibilities of the Citrus County Hospital Board countywide. The Citrus County Hospital Board's purpose is to operate in Citrus County, hospitals, medical nursing homes, and convalescent homes for the benefit of the citizens and residents of Citrus County, Florida.

The Citrus County Hospital Board has the power to, but not be limited to, acquire and dispose of real and personal property, to build, elect, expand, equip, maintain, operate, alter, change, lease, finance, and repair hospitals, medical nursing homes, convalescent homes, medical care facilities, and clinics in Citrus County, Florida; to establish a medical staff, to employ personnel, and issue bonds. The Citrus County Hospital Board also has the authority to levy property taxes.

The criteria used in determining the scope of the entity for financial reporting purposes is that of management oversight by the Board of Trustees of the Citrus County Hospital Board. There are no entities considered to be component units of the Citrus County Hospital Board; therefore, the financial statements include only the operations of the Board. Likewise, the Board is not includible as a component unit within another reporting entity.

**Basic Financial Statements – GASB Statement No. 34**

The government-wide statement of net position is reflected on a full accrual, economic resource basis. The government-wide statement of activities reflects both the gross and net costs of the Citrus County Hospital Board's functional categories of general government and healthcare which are primarily supported by general government revenues (property taxes). There are no program revenues directly associated with the Citrus County Hospital Board's functions. Historically, the previous financial reporting model did not summarize or present net cost by function or activity.

**Basis of Presentation**

The financial transactions of the Citrus County Hospital Board are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The purpose of each fund to separate financial information in a manner that will allow the Citrus County Hospital Board to comply with legal requirements and GAAP. All such activities are included in the following fund:

- **Governmental Fund Types**

Governmental funds are those through which most governmental functions typically are financed. They include general, special revenue, capital project and debts service funds. The measurement focus of governmental funds (presented as fund financial data in the basic financial statements) is upon determination of financial position and changes in financial position (the sources, uses, and balance of financial resources) rather than upon net income. The only current active fund and major fund within the Citrus County Hospital Board is described below:

- **General Fund** – The general fund is established to account for all financial transactions not properly accounted for in other funds.

### **Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied.

The combined government-wide and fund financial statements presents fund financial data on a modified accrual basis of accounting.

- **Modified Accrual**

Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available in they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The exception to this general rule is that debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

### **Budgetary Data**

- **Budgetary Policy**

An annual budget is prepared and submitted to the Board of Trustees. Public hearings are conducted with the appropriate meeting dates published in the newspaper. The adopted budget amounts are presented in the accompanying basic financial statements for the general fund. The Board of Trustees approves any budget amendments. The budget is prepared on a basis consistent with GAAP. Total budgeted appropriations within a governmental fund type may not be exceeded legally. Appropriations lapse at the end of the year. Budget data, when presented in the financial statements is prepared on the same basis of accounting as that prescribed for the fund.

- **Encumbrance Accounting**

The Citrus County Hospital Board does not employ an encumbrance system. However, in the event encumbrances are outstanding at year-end, open purchase orders will be reported as reservations of fund balance for subsequent year purchases and not treated as current fund expenditures, in accordance with GAAP

## Fund Balances – Governmental Funds

As of September 30, 2013, fund balances of the governmental funds are classified as follows:

Non-spendable – amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Governing Board. The Board is the highest level of decision making for the Board. Commitments may be established, modified, or rescinded only through resolutions approved by the Board of Trustees.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Board's general procedure, only the Board of Trustees may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

As of September 30, 2013, fund balances are composed of the following:

	<u>General Fund</u>
Unassigned	<u>\$ 3,524,769</u>
	<u><u>\$ 3,524,769</u></u>

As applicable year to year, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Board of Trustees considers restricted funds to have been spend first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Board considers amounts to have been spend first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

## Accrued Compensated Absences

The Board accrues accumulated unpaid vacation and sick leave when earned by the employee. The current portion is the amount estimated to be used in the following year. The non-current portion is the amount estimated to be used in subsequent fiscal years. Both the current and non-current estimated accrued compensated absences amounts for governmental fund are maintained separately and represent a reconciling item between the fund and government-wide presentation.

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position.**

“Total fund balances” of the Board’s governmental funds differs from “net position” of governmental activities reported in the statement of net position. This difference results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental funds balance sheet.

Long-term debt transactions

Long-term liabilities to the Board’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position. Balances at September 30, 2013 were:

Compensated absences	\$	232
	\$	232

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Differences Between Governmental Fund Balance Sheet and the Government-wide Statement of Net Position**

	Total Governmental Funds	Long-Term Debt Transactions/ Eliminations	Statement of Net Position
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,736,790	\$ -	\$ 3,736,790
Accounts receivable	2,300	-	2,300
<b>Total assets</b>	<b>\$ 3,739,090</b>	<b>\$ -</b>	<b>\$ 3,739,090</b>
<b>LIABILITIES AND FUND EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 212,310	\$ -	\$ 212,310
Accrued salaries	1,779	-	1,779
Accrued compensated absences	-	232	232
<b>Total liabilities</b>	<b>214,089</b>	<b>232</b>	<b>214,321</b>
Fund balance/net position	3,525,001	(232)	3,524,769
<b>Total liabilities and fund balances/net position</b>	<b>\$ 3,739,090</b>	<b>\$ -</b>	<b>\$ 3,739,090</b>

**B. Explanation of Differences Between Governmental Fund Operating Statements and the Statement of Activities**

The “net change in fund balances” for governmental funds \$1,531,541 differs from the “change in net position” for governmental activities \$1,531,549 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Some expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.

	\$	8
Net increase in compensated absences	<u>\$</u>	<u>8</u>

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**B. Explanation of Differences Between Government Fund Operating Statements and the Statement of Activities**

	Total Governmental Funds	Long-Term Debt Transactions	Statement of Activities
<b>REVENUES</b>			
Ad valorem taxes	\$ 1,919,202	\$ -	\$ 1,919,202
Interest distribution	55	-	55
Investment income	38,081	-	38,081
Miscellaneous income	750	-	750
Total revenues	<u>1,958,088</u>	<u>-</u>	<u>1,958,088</u>
<b>EXPENDITURES</b>			
Current expenditures			
General government	1,637,030	8	1,637,038
Health	1,852,599	-	1,852,599
Total expenditures	<u>3,489,629</u>	<u>8</u>	<u>3,489,637</u>
Net change in fund balance	(1,531,541)	(8)	(1,531,549)
Fund balance at beginning of year	5,056,542	(224)	5,056,318
Fund balance at end of year	<u>\$ 3,525,001</u>	<u>\$ (232)</u>	<u>\$ 3,524,769</u>



### **NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

#### **Compliance with Finance-related Legal and Contractual Provisions**

The Citrus County Hospital Board believes it has no material violations of finance-related legal and contractual provisions.

### **NOTE 4. CASH AND CASH INVESTMENTS**

The Citrus County Hospital Board's general fund cash is maintained in one bank account, with a bank statement balance of \$3,952,290. The Board's cash deposits are held by a bank that qualifies as a public depository under the Florida Security for Public Deposits Act as required by Chapter 280, *Florida Statutes*. The Citrus County Hospital Board's cash deposits are fully insured by the Public Deposits Trust Fund.

#### **Investment Policy**

The Citrus County Hospital Board follows the *Florida Statutes* which authorize the Board to invest and reinvest any surplus public funds in:

- The Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized by *Florida Statutes*.
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized agency.
- Interest-bearing time deposits or savings accounts in qualified public depositories, as defined by *Florida Statutes*.
- Direct obligations of U.S. Treasury.

#### **Custodial Credit Risk**

At September 30, 2013, there were no investment balances.

### **NOTE 5. CONDUIT DEBT OBLIGATIONS**

#### **Hospital Revenue and Revenue Refunding Bonds, Series 2002**

The Citrus County Hospital Board (the Board) issued Hospital Revenue and Revenue Refunding Bonds, Series 2002 (the Series 2002 Bonds). The Series 2002 Bonds were issued to refund the Hospital Revenue and Revenue Refunding Bonds, Series 1992A, and pay a portion of the costs to acquire, construct, and equip new medical facilities at Citrus Memorial Health System, including an open heart surgery and cardiac catheterization suite, additional observation beds, and associated nursing functions, diagnostic imaging, and laboratory functions, and additional operating rooms.

The bonds are a special obligation of the Citrus County Hospital Board and are payable solely from, and are secured by, payments to be made by Citrus Memorial Health Foundation, Inc. (the Foundation) (see Note 6) under a financing agreement between the Board and the Foundation, and

gross revenues of the Foundation. The bonds do not constitute a debt or pledge of faith and credit of the Citrus County Hospital Board, the State of Florida, Citrus County, Florida, or any political subdivision thereof and, accordingly, are not reported in the accompanying financial statements.

**Hospital Revenue Bond, Series 2006**

The Citrus County Hospital Board issued Hospital Revenue Bond, Series 2006 (the Series 2006 Bond), to provide funds for the financing and refinancing the acquisition, construction, and equipping of the hospital or improvements thereto.

The bond is also a special obligation of the Citrus County Hospital Board and is payable solely from, and is secured by, payments to be made by the Foundation (see Note 6) under a financing agreement between the Board and the Foundation, and the gross revenues of the Foundation. The bond does not constitute a debt or pledge of faith and credit of the Citrus County Hospital Board, the State of Florida, Citrus County, Florida, or any political subdivision thereof and, accordingly, has not been reported in the accompanying financial statements. The Foundation paid this bond in full during the current year.

**Hospital Revenue Note, Series 2008**

The Citrus County Hospital Board has issued Hospital Revenue Note, Series 2008 (the Series 2008 Note), to provide for the finance and refinance and acquisition, construction, and equipping of the hospital or improvements thereto.

The Series 2008 Note is a special obligation of the Citrus County Hospital Board and is payable solely from, and is secured by payments to be made by, the Foundation (see Note 6) under a financing agreement between the Citrus County Hospital Board, the Foundation, and the gross revenues of the Foundation. The note does not constitute a debt or pledge of faith and credit of the Citrus County Hospital Board, the State of Florida, Citrus County, Florida, or any political subdivision thereof and, accordingly, has not been reported in the accompanying financial statements.

At September 30, 2013, the outstanding balance of the bonds was:

Hospital Revenue and Revenue Refunding Bonds, Series 2002	\$ 37,460,000
Hospital Revenue Bond, Series 2006	-
Hospital Revenue Note, Series 2008	7,978,809
<b>Total Bonds Payable</b>	<u><u>\$ 45,438,809</u></u>

As discussed previously in greater detail in Note 5 of the Notes to Financial Statements, all payments of principal and interest are payable solely by the Foundation and their gross revenues. There are balloon payments of \$8,025,000 due on October 1, 2016 on the 2006 bonds and \$5,667,367 due on October 1, 2018 on the 2008 notes. On April 1, 2013, the bond holder of the 2006 bonds notified the Foundation that it is exercising its right to be fully paid for the balance of the bonds on April 2, 2014. The Foundation paid this obligation in full at the conclusion of the current year. The Foundation has not escrowed or set aside any funds for the balloon or demand payments. The Board has no liability for the balloon or demand payments or any other debt service payments to be made in future years.

**NOTE 6. LEASE AND MEDICAL SERVICES AGREEMENTS**

On March 1, 1990, the Citrus County Hospital Board (the Board) entered into a lease agreement with the Citrus Memorial Health Foundation (the Foundation), a Florida not-for-profit corporation for the purpose of operating the public hospital as the alter-ego of the Board. The Foundation leases from

rental payments equal to the principal and interest and any premium on the Hospital Revenue and Revenue Refunding Bonds (see Note 5). The initial term of the lease was amended to expire on June 15, 2033, unless sooner terminated in accordance with the provisions of the lease. The Foundation asserts that it has the right unconditionally to renew the lease for an additional forty-five-year term if the Foundation is not in default under the terms of the lease. In the event the lease is terminated, the Citrus County Hospital Board will take over the hospital facilities. The leased hospital facilities are being accounted for as capital lease; therefore, no assets are shown in the financial statements of the Citrus County Hospital Board. The Foundation made debt service payments on the Hospital Revenue and Revenue Refunding Bonds, Series 2002, Revenue Bonds, Series 2006, and Revenue Note, Series 2008, in the amount of \$13,110,961 for the fiscal year ended September 30, 2013. Future debt service payments to be made by the Foundation are as follows:

Year	Hospital Revenue and Revenue Refunding Bonds, Series 2002		Hospital Revenue Note, Series 2008	
	Principal	Interest	Principal	Interest
2014	\$ 1,080,000	\$ 2,370,094	\$ 439,794	\$ 214,068
2015	1,145,000	2,302,594	449,754	199,785
2016	1,220,000	2,231,031	461,975	189,083
2017	1,295,000	2,154,781	474,548	174,632
2018	1,375,000	2,073,844	486,466	161,280
Thereafter	31,345,000	16,925,555	5,666,272	-
Total	\$ 37,460,000	\$ 28,057,899	\$ 7,978,809	\$ 938,848

When the Citrus County Hospital Board executed the above lease, it simultaneously entered into an agreement for hospital care whereby the Board agreed to assist the Foundation pursuant to all applicable laws and in its sole and absolute discretion, with funding for operations and the acquisition, expansion, and maintenance of proposed and existing hospital and health facilities in exchange for medical services provided by the Foundation to residents of Citrus County, Florida. Under this agreement, the Citrus County Hospital Board provided funds to the Foundation in the amount of \$1,792,421 for the fiscal year ended September 30, 2013. The Foundation had asserted that an approximate \$11 million in additional funds was due them from the Board. Management of the Citrus County Hospital Board does not believe that the amount was due to the Foundation and did not intend to provide such funding and as such a liability has not been reported. This matter has been resolved in the Master Settlement Agreement dated February 6, 2014 with no additional amounts paid or payable. This agreement is more fully described in Note 10.

#### NOTE 7. PROPERTY TAXES

The Citrus County Hospital Board is permitted by Florida State law to levy taxes up to 3 mills of assessed value. The millage rate levied by the Board for the fiscal year ended September 30, 2013, was 0.2450 mill. Under Florida law, the assessment of all properties and the collection of all special districts, county, municipal, and school board property taxes are consolidated in the offices of the Citrus County Property Appraiser and Citrus County Tax Collector. The laws of the State of Florida regulating tax assessment are also designed to assure a consistent property valuation method state-wide. Property tax collections are governed by Chapter 197, *Florida Statutes*. Property taxes attach as an enforceable lien on the property as of January 1. Generally, taxes are levied on November 1 of each year and unpaid taxes become delinquent on April 1 of the

subsequent year. Discounts are allowed at the rate of 4% in November, 3% in December, 2% in January, and 1% in February. The taxes paid in March are without discount.

The Citrus County Tax Collector remits collected taxes at least monthly to the Citrus County Hospital Board. The Citrus County Hospital Board recognizes property tax revenues in the year for which they are levied. Any Citrus County Tax Collector remittances of delinquent taxes in October and November for the prior fiscal year taxes are not material.

The key dates in the property tax cycle are as follows:

- |                      |  |
|----------------------|--|
| January 1            | Property taxes are based on assessed value at this date as determined by the Citrus County Property Appraiser.   |
| July 1               | Property tax roll certified by the Citrus County Property Appraiser.   |
| By September 30      | Determination by the Citrus County Hospital Board of the amount required during the ensuing fiscal year to fulfill its purpose through the adoption of the millage resolution. |
| October 1            | Beginning of fiscal year for which taxes have been levied.   |
| November 1           | Property taxes due and payable.  |
| November 30          | Last day for 4% maximum discount.  |
| April 1              | Unpaid property taxes become delinquent.   |
| No later than June 1 | Tax certificates are sold by the Citrus County Tax Collector.  |

The millage rate levy proposed and established by the Citrus County Hospital Board for fiscal year 2013-2014 was approved at 0.2450 mills.

## **NOTE 8. CONTINGENCIES**

### **Governance Issues**

Governance issues have arisen between the Citrus County Hospital Board (The Hospital Board) and the Citrus Memorial Health Foundation (the Foundation), a related party as discussed in Note 6. As further discussed in Note 6, the assets of the Foundation are leased from the Citrus County Hospital Board and the Foundation operates the hospital under an agreement for hospital care. The five governor-appointed Citrus County Hospital Board Trustees also served on the thirteen-member Foundation Board of Directors, which is responsible for the oversight of the hospital's operations. In October 2009, the five Citrus County Hospital Board members resigned from the Foundation Board of Directors over disagreements regarding hospital operations, strategies, and governance. The Hospital Board and Foundation have substantially resolved these issues through enactment of the Master Settlement Agreement dated February 6, 2014, as more fully described in Note 10. As of May 1, 2014, subsequent to year end, the Citrus County Hospital Board and Foundation were involved in numerous lawsuits regarding hospital operations and governance issues. There is a possibility that additional lawsuits could be filed regarding matters related to these issues between the Hospital Board and Foundation. Certain of these lawsuits sought large monetary transfers while others did not include monetary claims, but could include reimbursement

for legal fees. All of the lawsuits involve significant legal fees and costs for the Hospital Board and Foundation.

A local legislative bill, Chapter 2011-256, *Laws of Florida*, was enacted by the Florida Legislature to be effective July 1, 2011. This special act codified and amended various prior legislation relating to the Citrus County Hospital Board. This legislative act included requirements that would substantially change the relationship between the Hospital Board and the Foundation, increasing governance authority by the Hospital Board on the Foundation's activities. Immediately upon the law becoming effective, the Foundation filed a lawsuit challenging the constitutionality of the new law and staying its effective date. The Hospital Board prevailed at the trial court level, and the Foundation prevailed at the First District Court of Appeals of Florida, and the trial court decision was reversed. The Board has subsequently appealed to the Florida Supreme Court and the case (the Constitutional Action) is now before that Court.

The ultimate resolution of these issues and the financial impact on the Citrus County Hospital Board is uncertain.

#### **NOTE 9. RISK MANAGEMENT**

The Citrus County Hospital Board is exposed to various risks of loss related to theft of, damage to and destruction of assets, and injury or death on the job of all employees. These risks are primarily covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial or workers' compensation insurance converges for the past three years. There has been no reduction in insurance coverage from the previous year.

#### **NOTE 10. SUBSEQUENT EVENTS**

##### **Master Settlement Agreement**

On February 6, 2014, the Citrus County Hospital Board (CCHB) and the Citrus Memorial Foundation, Inc. (the Foundation) entered into a Master Settlement Agreement that substantially resolved all legal actions between the parties through voluntary dismissal of the various claims. The "Constitutional Action" described in Note 8 above was not included in this agreement.

In consideration of the agreement, CCHB subsequently agreed to pay the Foundation the following amounts:

- A. \$2,000,000 – upon CCHB and the Foundation signing the Letter of Intent to lease the facilities to West Florida Division, Inc. (HCA), a subsidiary of Hospital Corporation of America. This payment was made on February 7, 2014.
- B. \$1,140,000 – upon CCHB and the Foundation signing the Definitive Agreement with HCA to lease the hospital facilities.

##### **Letter of Intent**

On January 10, 2014, the CCHB and Foundation signed a Letter of Intent with West Florida Division, Inc., (HCA) to lease the hospital facilities to HCA under a prepaid long-term lease. Due diligence procedure are now being conducted by HCA prior to entering into a Definitive Agreement for the contemplated leasing transaction.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITRUS COUNTY HOSPITAL BOARD**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
For the Fiscal Year Ended September 30, 2013

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Ad valorem taxes	\$ 2,099,624	\$ 1,859,624	\$ 1,919,202	\$ 59,578
Investment income	23,000	23,000	38,081	15,081
Interest distribution	1,000	1,000	55	(945)
Miscellaneous	200	200	750	550
Total revenues	<u>2,123,824</u>	<u>1,883,824</u>	<u>1,958,088</u>	<u>74,264</u>
<b>EXPENDITURES</b>				
General government				
Operating and administrative expenses:				
Tax Collector fees	41,992	46,992	29,482	17,510
Property Appraiser fees	51,343	52,343	50,081	2,262
Other general government	2,389,658	2,023,658	1,557,467	466,191
Total general government	<u>2,482,993</u>	<u>2,122,993</u>	<u>1,637,030</u>	<u>485,963</u>
Health				
Indigent health services:				
Hospital indigent care	1,000,000	1,400,000	1,398,680	1,320
Community indigent care	350,000	70,000	60,178	9,822
Capital outlay	1,000,000	1,000,000	393,741	606,259
Long-term debt	2,000,000	2,000,000	-	2,000,000
Total health	<u>4,350,000</u>	<u>4,470,000</u>	<u>1,852,599</u>	<u>2,617,401</u>
Total expenditures	<u>6,832,993</u>	<u>6,592,993</u>	<u>3,489,629</u>	<u>3,103,364</u>
Excess of revenues over (under) expenditures	(4,709,169)	(4,709,169)	(1,531,541)	3,177,628
Fund balances, at beginning of year	5,056,542	5,056,542	5,056,542	-
Fund balances, at end of year	<u>\$ 347,373</u>	<u>\$ 347,373</u>	<u>\$ 3,525,001</u>	<u>\$ 3,177,628</u>

## COMPLIANCE SECTION



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

To the Board of Trustees  
Citrus County Hospital Board  
Inverness, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Citrus County Hospital Board, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Citrus County Hospital Board's basic financial statements, and have issued our report thereon dated May 1, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Citrus County Hospital Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Citrus County Hospital Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Citrus County Hospital Board's internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

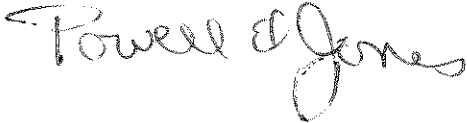
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Citrus County Hospital Board's financial statements are free from 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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Powell & Jones".

**POWELL & JONES**  
Certified Public Accountants  
Lake City, Florida  
May 1, 2014

## MANAGEMENT LETTER

To Board of Trustees  
Citrus County Hospital Board  
Inverness, Florida

We have audited the financial statements of the Citrus County Hospital Board (the Board) as of and for the fiscal year ended September 30, 2013, and have issued our report thereon dated May 1, 2014.

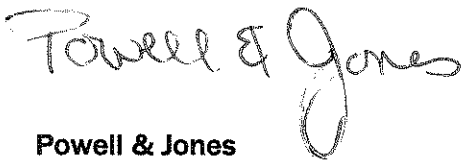
We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. We have issued our report on internal control over financial reporting and compliance and other matters dated May 1, 2014. Disclosures in the report, if any, should be considered in conjunction with this management letter.

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 governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls, this letter is required to include the following information:

- The *Rules of the Auditor General* [Section 10.554(1)(i)1.] requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no such items disclosed in the preceding audit report.
- The *Rules of the Auditor General* (Section 10.554(1)(i)2.) 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 Citrus County Hospital Board complied with Section 218.415, *Florida Statutes*.
- The *Rules of the Auditor General* [Section 10.544.(1)(i)3.] requires that we address in the management letter any findings and recommendations to improve the Citrus County Hospital Board's financial management, accounting procedures, and internal controls. In connection with our audit we did not have any such findings or recommendations.
- The *Rules of the Auditor General* [Section 10.544(1)(i)4.] requires that we address violations of laws, regulations, contracts and grant agreements or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- The *Rules of the Auditor General* [Section 10.544(1)(i)5.] provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both qualitative and quantitative factors: (1) violations of laws, rules, regulations, and contract provisions or abuse that have occurred or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies. In connection with our audit, we did not have any such finding.

- The *Rules of the Auditor General* [Section 10.554(1)(i)6.] requires that the name or official title and legal authority for the government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements (see Note 1 to the financial statements). There were no component units to the Citrus County Hospital Board.
- The *Rules of the Auditor General* [Section 10.554(1)(i)7.(a)] requires a statement to be included as to whether or not the local government 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 Citrus County Hospital Board is not in a state of financial emergency as a consequence of the conditions described by Section 218.503(1), *Florida Statutes*.
- The *Rules of the Auditor General* [Section 10.554(1)(i)7.(b)] requires that we determine whether the annual financial report for the Citrus County Hospital Board for the fiscal year ended September 30, 2013 filed with the 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, 2013. In connection with our audit, we determined that these reports were in agreement.
- The *Rules of the Auditor General* [Section 10.554(1)(i)7.(c) and 10.556(7.)] require that we apply financial assessment procedures. In connection with our audit, we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial assessment was based in part on representations made by management and the review of the financial information provided by same.

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



**Powell & Jones**  
Certified Public Accountants  
May 1, 2014