

CITRUS COUNTY HOSPITAL BOARD

ANNUAL FINANCIAL STATEMENTS

**For the Fiscal Year Ended
September 30, 2010**

CITRUS COUNTY HOSPITAL BOARD
ANNUAL FINANCIAL STATEMENTS
For the Fiscal Year Ended September 30, 2010

TABLE OF CONTENTS

	PAGE NO.
FINANCIAL SECTION	
Independent Auditor's Report	3 - 4
Management's Discussion and Analysis	5 - 6
Basic Financial Statements	
Statement of Net Assets	7
Statement of Activities	8
Governmental Fund	
Balance Sheet	9
Statement of Revenues, Expenditures, and Changes in Fund Balance	10
Notes to Financial Statements	11 - 17
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual	19
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 <i>Government Auditing Standards</i>	21 - 22
Management Letter	23 - 24

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, the major fund, and the aggregate remaining fund information of the Citrus County Hospital Board, as of and for the year ended September 30, 2010, which collectively comprise the basic financial statements of the Citrus County Hospital Board as listed in the table of contents. These financial statements are the responsibility of the Citrus County Hospital Board'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, and each major fund, and the aggregate remaining fund information of the Citrus County Hospital Board, as of September 30, 2010, and the respective changes in financial position, 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 20, 2011 on our consideration of the Citrus County Hospital Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 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.

The budgetary comparison information presented for the major governmental fund is not a required part of the basic financial statements of the Citrus County Hospital Board, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The management's discussion and analysis information on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

POWELL & JONES
August 20, 2011

**CITRUS COUNTY HOSPITAL BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended September 30, 2010**

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, 2010. 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, 2010 by \$8,586,101, an increase of \$6,792,974 in net assets.

Ad Valorem property taxes accounted for \$9,697,055 or 99% of total revenue. The remaining 1% of revenue was generated principally from investment income. Total general revenues decreased over the prior year by \$2,588,129, which was primarily related to the decrease in the property tax millage rate from the prior year.

The expenditures of the Board consisted of \$1,589,124 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). 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 needs in a given fiscal year pursuant to law. The funds will assist in, but not be limited to, "acquiring, building, constructing, maintaining, expanding, repairing, altering, equipping, operating, leasing, and generally otherwise providing (for) proposed and existing hospital and other health facilities." 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 increased over the prior year by \$669,694, and reflect an increase in legal and consultant service fees reflecting 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 Assets 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 Assets 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 Statement of the Board. The lease agreement is further described in the Notes to the Financial Statements. The Board issued \$45,000,000 Hospital Revenue Bond Series 2002 to provide for the financing and refinancing of hospital improvements. The Board issued \$10,000,000 Hospital Revenue Bond Series 2006 to provide for the financing of hospital improvements. The Board issued \$10,000,000 Hospital Revenue Note Series 2008 to provide for the financing of hospital improvements.

OTHER

For the 2009-10 fiscal year, the Board of Trustees approved a millage rate of 1.0000, which was a decrease of 22% under the rolled back rate of 1.2833 and a decrease of 14% below the previous year rate of 1.1689. For the 2010-11 fiscal year, the Board of Trustees adopted a millage rate of 0.2500, a decrease of 76% below the rolled back rate of 1.0520 and a 75% decrease from the prior year rate. For the 2011-12 fiscal year, the Board of Trustees adopted a millage rate of 0.2450 mills, a decrease of 5.08% below the rolled back rate pursuant to state law.

Other than the contingencies discussed in Note 7 of the 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 2010-2011 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 Finance Director, at the Citrus County Hospital Board, P.O. Box 1030, Inverness, Florida 34451.

CITRUS COUNTY HOSPITAL BOARD
STATEMENT OF NET ASSETS
September 30, 2010

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 8,661,125
Prepaid expenses	1,429
Total assets	\$ 8,662,554
LIABILITIES	
Current liabilities	
Accounts payable	\$ 65,725
Accrued salaries	10,728
Total current liabilities	76,453
NET ASSETS	
Unrestricted	8,586,101
Total net assets	8,586,101
Total liabilities and net assets	\$ 8,662,554

See notes to financial statements.

CITRUS COUNTY HOSPITAL BOARD
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2010

	Expenses	Net (Expense) Revenue and Change in Net Assets
		Governmental Activities Total
Governmental activities:		
General government	\$ (1,400,887)	\$ (1,400,887)
Health care services	(1,589,124)	(1,589,124)
Total governmental activities	\$ (2,990,011)	(2,990,011)
 General revenues:		
Ad valorem taxes		9,697,055
Investment income		85,389
Miscellaneous		541
Total general revenues		9,782,985
 Change in net assets		6,792,974
 Net assets, beginning of year		1,793,127
 Net assets, end of year		\$ 8,586,101

**CITRUS COUNTY HOSPITAL BOARD
BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2010**

	<u>General Fund</u>
ASSETS	
Cash	\$ 8,661,125
Prepaid expenses	<u>1,429</u>
Total assets	<u><u>\$ 8,662,554</u></u>
LIABILITIES	
Accounts payable	\$ 65,725
Accrued salaries	<u>10,728</u>
Total current liabilities	<u>76,453</u>
FUND BALANCE	
Unreserved, undesignated	<u>8,586,101</u>
Total fund balance	<u><u>8,586,101</u></u>
Total liabilities and fund balance	<u><u>\$ 8,662,554</u></u>

Total fund balance is the same as net assets in the Statement of Net Assets.

CITRUS COUNTY HOSPITAL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Fiscal Year Ended September 30, 2010

	General Fund
REVENUES	
Ad valorem taxes	\$ 9,697,055
Investment income	85,389
Miscellaneous	541
Total revenues	9,782,985
 EXPENDITURES	
General government	
Personal services:	
Salaries	146,978
Retirement	15,217
Payroll taxes and benefits	13,199
	175,394
Operating expenses:	
Tax Collector fees	122,253
Property Appraiser fees	252,026
Legal and accounting	728,375
Bank and investment fees	2,191
Conferences and travel	20,109
Rent	14,290
Other	86,249
	1,225,493
Total general government	1,400,887
Health care services	
Indigent health services:	
Patient care services	1,589,124
Total health care services	1,589,124
Total expenditures	2,990,011
Excess or revenues over expenditures	6,792,974
Fund balances, at beginning of year	1,793,127
Fund balances, at end of year	\$ 8,586,101

See notes to financial statements.

**CITRUS COUNTY HOSPITAL BOARD
NOTES TO FINANCIAL STATEMENTS
September 30, 2010**

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, primarily and chiefly 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 assets 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

NOTE 2. 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 3. 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 \$8,661,125. 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, 2010, there were no investment balances.

NOTE 4. 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 5) 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 5) 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.

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 5) 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, 2010, the outstanding balance of the bonds was:

Hospital Revenue and Revenue Refunding Bonds, Series 2002	\$ 40,330,000
Hospital Revenue Bond, Series 2006	9,200,000
Hospital Revenue Note, Series 2008	9,223,670
Total Bonds Payable	<u><u>\$ 58,753,670</u></u>

NOTE 5. 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 the Board all the land, buildings, improvements, equipment, furniture, and fixtures of and

pertaining to Citrus Memorial Health System. Under the lease, the Foundation agreed to make rental payments equal to the principal and interest and any premium on the Hospital Revenue and Revenue Refunding Bonds (see Note 4). 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 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 \$4,714,102 for the fiscal year ended September 30, 2010. Future debt service payments to be made by the Foundation are as follows:

Year	Hospital Revenue and Revenue Refunding Bonds, Series 2002		Hospital Revenue Bond, Series 2006		Hospital Revenue Note, Series 2008	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 900,000	\$ 2,547,281	\$ 220,000	\$ 402,141	\$ 403,927	\$ 247,318
2012	955,000	2,494,469	225,000	392,525	414,922	234,994
2013	1,015,000	2,433,219	235,000	382,690	426,195	221,826
2014	1,080,000	2,368,531	245,000	372,418	437,815	208,027
2015	1,145,000	2,305,094	250,000	361,709	449,733	184,485
Thereafter	35,235,000	23,386,255	8,025,000	350,781	7,091,078	524,821
Total	<u>\$ 40,330,000</u>	<u>\$ 35,534,849</u>	<u>\$ 9,200,000</u>	<u>\$ 2,262,264</u>	<u>\$ 9,223,670</u>	<u>\$ 1,621,471</u>

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 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 \$1,589,124 for the fiscal year ended September 30, 2010. The Foundation asserts that an additional \$11,100,000 is due them from the Board. Management of the Citrus County Hospital Board does not believe that the amount is due to the Foundation and does not intend to provide such funding and as such a liability has not been reported.

The Board of Directors of the Foundation consisted of up to thirteen members, including up to five members of the Citrus County Hospital Board. In October 2009, the five Citrus County Hospital Board Trustees resigned from the Board of Directors of the Foundation as discussed in Note 7.

NOTE 6. 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, 2010, was 1.000 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 2010 was approved at 1.000 mills.

NOTE 7. CONTINGENCIES

Governance Issues

Recent 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 5. As further discussed in Note 5, 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 Citrus County Hospital Board and the Foundation have unsuccessfully attempted to resolve these issues.

As of August 20, 2011, 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 likelihood that additional lawsuits will be filed regarding matters related to these issues between the Hospital Board and Foundation. Certain of these lawsuits seek large monetary transfers while other do 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. This lawsuit has not been resolved.

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

**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, 2010

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 10,074,922	\$ 10,074,922	\$ 9,697,055	\$ (377,867)
Investment income	71,500	71,500	85,389	13,889
Miscellaneous	-	-	541	541
Total revenues	10,146,422	10,146,422	9,782,985	(363,437)
EXPENDITURES				
General government				
Operating and administrative expenses:				
Tax Collector fees	201,498	201,498	122,253	79,245
Property Appraiser fees	262,718	262,718	252,026	10,692
Other general government	635,947	1,026,826	1,026,608	218
Total general government	1,100,163	1,491,042	1,400,887	90,155
Health care services				
Indigent health services:				
Patient care	4,500,000	4,500,000	1,589,124	2,910,876
Capital outlay	1,500,000	1,500,000	-	1,500,000
Other	-	1,200,000	-	1,200,000
Total health care services	6,000,000	7,200,000	1,589,124	5,610,876
Total expenditures	7,100,163	8,691,042	2,990,011	5,701,031
Excess or revenues over expenditures	3,046,259	1,455,380	6,792,974	5,337,594
Fund balances, at beginning of year	724,514	1,793,127	1,793,127	-
Fund balances, at end of year	\$ 3,770,773	\$ 3,248,507	\$ 8,586,101	\$ 5,337,594

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 the basic financial statements of the Citrus County Hospital Board (the Board), as of and for the year ended September 30, 2010, and have issued our report thereon dated August 20, 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 Citrus County Hospital Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Citrus County Hospital Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of management, the Citrus County Hospital Board, federal and state awarding agencies and pass-through entities, and the Auditor General of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

POWELL & JONES
Certified Public Accountants
August 20, 2011

MANAGEMENT LETTER

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

We have audited the financial statements of the Citrus County Hospital Board as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated August 20, 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 *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 August 20, 2011. 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 recommendation.
- 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, 2010 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, 2010. 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, CPAs
August 20, 2011