

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital**

SPECIAL-PURPOSE FINANCIAL STATEMENTS

For the Years Ended September 30, 2019 and 2018



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Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
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September 30, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Directors
George E. Weems Memorial Hospital
Franklin County, Florida
Apalachicola, Florida

Report on the Financial Statements

We have audited the accompanying special-purpose financial statements of the Hospital Fund of Franklin County, Florida d/b/a George E. Weems Memorial Hospital (the "Hospital"), an enterprise fund of Franklin County, Florida, as of and for the years ended September 30, 2019 and 2018, and the related notes to special-purpose financial statements, which collectively comprise the Hospital'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits 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 auditors' 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 special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Hospital, as of September 30, 2019 and 2018, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Basis of Accounting

As discussed in Note 1 to the financial statements, the financial statements present only the financial information of the Hospital and do not purport to, and do not, present fairly the financial position of Franklin County, Florida as of September 30, 2019 and 2018, and the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Prior Period Restatement

As discussed in Note 1 to the financial statements, beginning net position of the Hospital as of October 1, 2017 was restated to reflect the correction of errors. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 20, 2020 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama
March 20, 2020

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Special-Purpose Statements of Net Position**

<i>September 30,</i>	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 271,385	\$ 756,801
Patient accounts receivable, net of estimated uncollectibles of approximately \$2,264,000 (2019) and \$1,178,000 (2018)	747,888	724,190
Due from other funds	367,187	316,834
Other receivables	294,880	294,293
Prepaid expenses	90,436	17,052
Supplies	74,140	48,039
Total current assets	1,845,916	2,157,209
Noncurrent assets		
Capital assets		
Land	13,400	13,400
Buildings	1,641,286	1,590,309
Equipment and furniture	2,011,364	1,970,706
Construction in progress	2,575,437	1,025,270
Total capital assets	6,241,487	4,599,685
Less accumulated depreciation	(1,891,833)	(1,767,785)
Capital assets, net of accumulated depreciation	4,349,654	2,831,900
Total assets	\$ 6,195,570	\$ 4,989,109
Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 908,377	\$ 836,589
Accrued compensation and payroll taxes	21,310	231,164
Other accrued liabilities (Note 6, 11)	175,000	-
Due to other funds	-	691,215
Estimated third party settlements	33,056	24,120
Compensated absences	121,680	109,791
Total liabilities	1,259,423	1,892,879
Net position		
Net investment in capital assets	4,145,705	2,831,900
Unrestricted	790,442	264,330
Total net position	4,936,147	3,096,230
Total liabilities and net position	\$ 6,195,570	\$ 4,989,109

The accompanying "Notes to Special-Purpose Financial Statements" form an integral part of these special-purpose financial statements.

Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Special-Purpose Statements of Revenues, Expenses and Changes in Net Position

<i>Years ended September 30,</i>	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of \$2,024,000 in 2019 and \$1,619,000 in 2018	\$ 6,146,249	\$ 6,392,538
Other operating revenue	80,489	24,820
Total operating revenues	6,226,738	6,417,358
Operating Expenses		
Employee leasing, benefits and other expense	4,998,996	4,780,131
Professional services	919,817	831,358
Other contract services	806,530	710,810
Clinical supplies	653,397	481,662
Insurance	325,066	157,124
Utilities	221,931	180,220
Depreciation and amortization	211,824	196,139
Other current charges	162,386	159,102
Minor equipment	152,636	135,269
Other patient care related costs	122,618	118,068
Repairs and maintenance	94,233	71,407
Licenses, permits and fees	83,496	86,221
Communications	66,077	61,004
Supplies	32,401	39,227
Total operating expenses	8,851,408	8,007,742
Operating loss	(2,624,670)	(1,590,384)
Nonoperating Revenues (Expenses)		
Interest income	2,507	1,998
Noncapital grants and contributions	10,656	1,372
Other income (Note 6)	1,447,508	9,710
Gain (loss) on disposal of capital assets	16,110	(27,552)
Interest expense	(237)	(25)
Total nonoperating revenues (expenses)	1,476,544	(14,497)
Loss before transfers	(1,148,126)	(1,604,881)
Transfers		
Transfers in	3,013,393	2,146,156
Transfers out	(25,350)	-
Total transfers	2,988,043	2,146,156
Change in net position	1,839,917	541,275
Net Position - beginning of year, as originally stated	3,096,230	3,704,972
Prior period restatement (Note 1)	-	(1,150,017)
Net Position - beginning of year, as restated	3,096,230	2,554,955
Net Position - end of year	\$ 4,936,147	\$ 3,096,230

The accompanying "Notes to Special-Purpose Financial Statements" form an integral part of these special-purpose financial statements.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Special-Purpose Statements of Cash Flows**

<i>Years ended September 30,</i>	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 6,115,972	\$ 6,395,717
Payments to suppliers and others	(3,558,335)	(3,279,763)
Payments to and on behalf of leased employees	(5,170,932)	(4,711,376)
Receipt of Electronic Health Records incentives	39,847	-
Other receipts (payments), net	36,925	34,530
Net cash used in operating activities	(2,536,523)	(1,560,892)
Noncapital Financing Activities		
Receipt of noncapital grants and contributions	10,656	1,372
Net change in due from other funds	(1,215)	1,215
Interest paid	(237)	(25)
Non-capital related transfers in	1,984,401	1,806,236
Net cash provided by noncapital financing activities	1,993,605	1,808,798
Capital and Related Financing Activities		
Purchase of capital assets	(233,644)	(236,946)
Receipt of insurance proceeds	25,350	-
Capital related transfers in	288,639	189,723
Capital related transfers out	(25,350)	-
Net cash provided by (used in) capital and related financing activities	54,995	(47,223)
Investing Activities		
Interest received	2,507	1,998
Net change in cash and cash equivalents	(485,416)	202,681
Cash and Cash Equivalents - beginning of year	756,801	554,120
Cash and Cash Equivalents - end of year	\$ 271,385	\$ 756,801

-Continued-

The accompanying "Notes to Special-Purpose Financial Statements" form an integral part of these special-purpose financial statements.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Special-Purpose Statements of Cash Flows (Continued)**

<i>Years ended September 30,</i>	2019	2018
Reconciliation of Operating Loss to Net Cash Provided		
by (Used In) Operating Activities:		
Operating loss	\$ (2,624,670)	\$ (1,590,384)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	211,824	196,139
Provision for bad debts	2,024,280	1,619,158
Other nonoperating (expense) income	(3,717)	9,710
Changes in:		
Patient accounts receivable	(2,047,978)	(1,548,392)
Supplies	(26,101)	(24,259)
Prepaid expenses	(73,384)	1,235
Other receivables	(587)	125,498
Accounts payable	17,839	(229,932)
Accrued compensation and payroll taxes	(209,854)	79,781
Other accrued liabilities	175,000	-
Compensated absences	11,889	(6,441)
Estimated third-party settlements	8,936	(193,005)
Net cash used in operating activities	\$ (2,536,523)	\$ (1,560,892)
Noncash Investing, Capital and Financing Activities:		
Purchase of equipment through accounts payable	\$ 53,949	\$ -
Purchase of capital assets by insurer	1,451,225	-
Accrual of property insurance deductible	150,000	-
Forgiveness of interfund debt by Hospital Trust Fund	690,000	-

The accompanying "Notes to Special-Purpose Financial Statements" form an integral part of these special-purpose financial statements.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

The Hospital Fund of Franklin County, Florida, operating as George E. Weems Memorial Hospital (the "Hospital"), is administered by a nine-member board of directors appointed by Franklin County, Florida Board of County Commissioners. The Hospital operates a 25-bed critical access hospital in Apalachicola, Florida providing inpatient and outpatient services, as well as ambulance services and two physician clinics in Franklin County.

Activity and financial position of the Hospital make up the Hospital Fund which is an enterprise fund of Franklin County, Florida.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Hospital operates as a proprietary fund and applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. A proprietary type fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The Hospital exercises oversight responsibility through designation of management, budgetary review and approval, and financial management.

In accordance with GASB standards, the accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. There were no entities that required inclusion as component units within the Hospital's Special Purpose Financial Statements.

Prior Period Restatement

Beginning net position of the Hospital as of October 1, 2017 was restated to correct for various errors resulting from accounting and reporting oversight related to cash, accounts receivables and related allowances, other receivables, capital assets, accounts payable and accrued liabilities, payroll and related liabilities, estimated third party payer settlements, and expenses and income classification. Net position as of October 1, 2017 was restated from \$3,704,972 to \$2,554,955. The effect of the restatement on the change in net position for the year ended September 30, 2017 was a decrease of \$2,972, from \$(50,541) to \$(47,569).

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Use of Estimates

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

Significant items subject to such estimates include the determination of the allowances for uncollectible accounts and contractual adjustments and estimated third-party payer settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Except as discussed in Note 11, settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital purchases medical malpractice under claims-made policies. Under these policies, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred.

Fair Value Measurements

The Hospital categorizes its fair value measurements, if any, within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the following valuation inputs and techniques used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets. Quoted price data is generally obtained from exchange or dealer markets.
- Level 2 inputs are significant other observable inputs. Inputs are obtained from various sources, including market participants, dealers, and brokers.
- Level 3 inputs are significant unobservable inputs as they trade infrequently or not at all.

The Hospital did not have any significant assets measured at fair value on a recurring basis requiring disclosure of fair value inputs at September 30, 2019 or 2018.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2019 and 2018, cash equivalents consisted primarily of demand deposits.

Patient Accounts Receivable, Net

Patient accounts receivable are reduced by estimated contractual and other adjustments and estimated uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowances for third-party contractual and other adjustments and bad debt. Management reviews data about these major payer sources of revenue on a monthly basis in evaluating the sufficiency of the allowances. On a continuing basis, management analyzes delinquent receivables and writes them off against the allowance when deemed uncollectible. No interest is charged on patient accounts receivable balances.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for contractual adjustments and, if necessary, a provision for bad debts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with uninsured patients (also known as 'self-pay'), which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many uninsured patients are often either unable or unwilling to pay the full portion of their bill for which they are financially responsible. The difference between standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital has not materially altered its accounts receivable and revenue recognition policies during fiscal year 2019 or 2018 and did not have significant write-offs from third-party payers related to collectability in fiscal year 2019 or 2018.

Supplies

Supply inventories, which consist of medical supplies and pharmaceuticals, are stated at the lower of cost or market, determined using the first-in, first-out method. Pharmaceutical inventories are subject to a capitalization threshold, resulting in the expensing of insignificant drugs during the year.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

Capital Assets

It is the Hospital's policy to capitalize property and equipment over \$5,000. Lesser amounts are expensed. Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Buildings	20 to 50 years
Equipment and furniture	3 to 10 years

Upon sale or retirement of capital assets, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss, if any, is included in the statement of revenues, expenses and changes in net position.

Expenditures that materially increase values, change capacities, or extend useful lives of the respective assets are capitalized. Routine maintenance and repairs are charged to expense when incurred.

Cost of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the obtaining of financing are deferred and amortized over the period the obligation is outstanding using the interest method. Premiums or discounts incurred in connection with the issuance of bonds and indentures are amortized over the life of the obligations on the interest method, and the unamortized amount is included in the balance of the outstanding debt.

Impairment of Long-Lived Assets

The Hospital evaluates, on an ongoing basis, the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Impairment of Long-Lived Assets (Continued)

using an appropriate interest rate. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. Based on management's evaluations, no long-lived assets impairments were recognized during the years ended September 30, 2019 and 2018.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The Hospital's estimated accrual for accumulated vacation and sick related leave is recorded as a current liability on the accompanying balance sheets.

Net Position

Net position of the Hospital is classified in three components, as follows:

Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

Restricted net position – made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. There were no items meeting this criteria at September 30, 2019 or 2018.

Unrestricted net position – the remaining net position that does not meet the definitions of net investment in capital assets or restricted net position described above.

It is generally the practice of the Hospital to utilize restricted net position before unrestricted net position when possible.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange revenues, including investment income, grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenues

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to such audits, reviews, and investigations.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potentially significant wrongdoing. However, compliance with such laws and regulations is subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid program, and in recent years there has been an increase in regulatory initiatives at the state and federal levels including the Recovery Audit Contractor ("RAC") and Medicaid Integrity Contractor ("MIC") programs, among others. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue 'improper' (in their judgment) payments with a three year look back from the date the claim was paid.

Charity Care

The Hospital provides care without charge, or at a reduced charge, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify pursuant to this policy, these charges are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy was approximately \$794,000 and \$683,000 for the years ended September 30, 2019 and 2018, respectively, and estimated costs and expenses incurred to provide charity care totaled approximately \$424,000 and \$419,000, respectively. The estimated costs and expenses incurred to provide charity care were determined by applying the Hospital's cost to charge ratio from its latest filed Medicare cost report to its charges foregone for charity care, at established rates.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Grants and Contributions

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended September 30, 2019 and 2018 was \$12,804 and \$19,725, respectively.

Electronic Health Records Incentive Program

The Electronic Health Records (EHR) Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrative Contractor.

During fiscal year 2019, the Hospital received and recognized EHR incentive payments of \$39,847 related to a reopening of the fiscal year 2015 cost report. No such incentive payments were received or recognized in fiscal year 2018. Management believes it is unlikely that any additional significant meaningful use incentives will be received in the future, as the terms of the program are coming to a close. However, prior incentive payments remain subject to future audits and recoupments.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Income Taxes

As a fund of Franklin County, Florida, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

New Accounting Standards

During the year ended September 30, 2019, the Hospital adopted two new statements of financial accounting standards issued by GASB, as follows:

- GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83)
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88)

GASB 83 establishes standards of accounting and financial reporting requirements for legally enforceable liabilities associated with the retirement of certain tangible capital assets. State and local governments that have legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the regulation of GASB 83. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018. GASB 83 had no impact on the Hospital's financial statements.

GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant subjective acceleration clauses. GASB 88 also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of GASB 88 are effective for reporting periods beginning after June 15, 2018. GASB 88 had no impact on the Hospital's financial statements.

Pronouncements Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the Hospital upon implementation. Management has not yet evaluated the effect of implementation of these standards.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Pronouncements Issued But Not Yet Effective (Continued)

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
84	<i>Fiduciary Activities</i>	2020
87	<i>Leases</i>	2021
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>	2021
90	<i>Majority Equity Interest an amendment of GASB Statements No. 14 and No. 61</i>	2020
91	<i>Conduit Debt Obligations</i>	2022

Reclassifications

Certain amounts in the September 30, 2018 special-purpose financial statements have been reclassified, with no effect on the previously reported net position or change in net position, to conform to the September 30, 2019 special-purpose financial statement presentation.

Current Healthcare Environment

The Hospital monitors economic conditions closely, both with respect to potential impacts on the healthcare industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact the Hospital in a number of ways, including, but not limited to, uncertainties associated with the United States and state political landscape and rising uninsured patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the ongoing impacts of the federal healthcare reform legislation. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant capital investment in healthcare information technology
- Continuing volatility in state and federal government reimbursement programs
- Effective management of multiple major regulatory mandates, including the previously mentioned audit activity
- Significant potential business model changes throughout the healthcare system, including within the healthcare commercial payer industry

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

**NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Current Healthcare Environment (Continued)

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Hospital's financial position and operating results.

Subsequent Events

The Hospital has evaluated subsequent events through March 20, 2020, the date these financial statements were issued.

On January 7, 2020, the Florida Department of Emergency Management allocated \$266,578 to the Hospital for loss of revenue claims during Hurricane Michael, which made landfall in October 2018 as the strongest hurricane on record to hit the Florida Panhandle and the fourth strongest hurricane to ever hit the contiguous United States. The Hospital incurred structural damage (see Note 6) and its operations were impacted directly for a period of time and will be indirectly impacted for years to come while Franklin County and the surrounding areas continue their recovery efforts. Management is not able to accurately estimate the potential financial impact of Hurricane Michael on the Hospital for the upcoming fiscal years, and any such impacts could be significant.

NOTE 2: NET PATIENT SERVICE REVENUE

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

Medicare – Inpatient and substantially all outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

The Hospital's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2015. Retroactive adjustments for cost reports and other settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

During fiscal years 2019 and 2018, net patient service revenue increased by approximately \$160,000 and \$85,000, respectively, due to changes in estimates related to prior Medicare cost reporting periods and removals of allowances previously estimated that are no longer considered necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 2: NET PATIENT SERVICE REVENUE (Continued)

Medicaid – Outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to regulatory reductions. Reimbursable cost is determined in accordance with the principles of reimbursement established by the Florida Title XIX Hospital Reimbursement Plan, supplemented by the Medicare Principles of Reimbursement. Interim rates are tentatively established on an individual per diem basis for each hospital based on unaudited cost reports with exceptions.

Effective with admissions on or after July 1, 2013, Medicaid changed the reimbursement for inpatient stays to an APR-DRG-based methodology. Effective July 1, 2017, Medicaid changed the reimbursement for inpatient services to an EAPG-based methodology.

Final settlement is determined when the prospectively determined rate is adjusted after the intermediary audit of the Medicaid cost report that was used to determine the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis in the period when final settlements are determined. The Hospital's outpatient Medicaid rates are based on the Medicaid cost report periods ended through September 30, 2018, which have been audited by the fiscal intermediary through September 30, 2014.

Effective May 1, 2014, the Florida Medicaid program implemented a new system through which Medicaid enrollees receive services. The program is called the Statewide Medicaid Managed Care Medical Assistance Program. The new program is comprised of several types of managed care plans including Health Maintenance Organizations, Provider Service Networks, and a Children's Services Network. The new program is designed to emphasize patient centered care, personal responsibility and active patient participation, provide for fully integrated care through alternative delivery models with access to providers and services through a uniform statewide program, and implement innovations in reimbursement methodologies, plan quality and plan accountability. Most Medicaid recipients must enroll in the program. Providers and the managed care plans negotiate mutually agreed-upon rates and terms of payment for the provision of services as part of the contract between the provider and the managed care plan. Unless stated in the law, managed care plans do not have to pay in the same way that providers are paid under the fee-for-service Medicaid program.

During fiscal year 2018, net patient revenues decreased by approximately \$82,000 as a result of Medicaid retroactive rate adjustments from audits of prior fiscal years and reprocessing of claims based on the audit results.

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

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 2: NET PATIENT SERVICE REVENUE (Continued)

A summary of gross revenue from patient services provided under contracts with third-party payers follows:

<i>For the years ended September 30,</i>	2019	2018
Medicare	38%	40%
Medicaid	15%	12%
Blue Cross	13%	11%
Commercial/HMO/PPO	16%	20%

The composition of net patient service revenue was as follows:

<i>For the years ended September 30,</i>	2019	2018
Gross patient service revenue	\$ 14,340,681	\$ 12,206,511
Less provision for contractual adjustments under third-party reimbursement programs and other adjustments	(6,170,152)	(4,194,815)
Bad debts	(2,024,280)	(1,619,158)
Net patient service revenue	\$ 6,146,249	\$ 6,392,538

NOTE 3: MEDICAID SUBSIDIES AND ASSESSMENTS

The Agency for Health Care Administration (“AHCA”) is the entity designated by the State of Florida to administer its Medicaid program. AHCA and the State of Florida have established various programs that provide additional payments from the state to qualifying Florida hospitals that service a disproportionate share of Medicaid, underinsured, uninsured and low-income patients. Notably, these programs include Medicaid disproportionate share (“DSH”) and the low income pool (“LIP”). The Hospital generally qualifies as a DSH and LIP provider and receives payments based on formulas established by AHCA. The possibility exists that the formulas may continue to change, pending federal and/or state legislation.

The net amount of DSH and LIP payments recognized in net patient service revenue was approximately \$1,133,000 and \$1,494,000 for fiscal years 2019 and 2018, respectively. DSH and LIP payments receivable of \$294,768 and \$279,293 at September 30, 2019 and 2018, respectively, are included in other receivables on the accompanying statements of net position.

These program payments, in connection with other payments received from the State of Florida for providing health services to Medicaid, uninsured and underinsured people of the State of Florida, are subject to audit, and payments received in excess of costs may be required to be refunded to the State of Florida. It is reasonably possible that these estimates could further materially change in the near term.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 3: MEDICAID SUBSIDIES AND ASSESSMENTS (Continued)

Section 395.701 of the Florida Statutes imposes an annual assessment on all hospitals operating in the State of Florida. The assessment is currently calculated as 1.5% of annual net operating revenues for inpatient services; 1% of annual net operating revenues for outpatient services; and .4% of annual gross operating expenses (per AHCA’s definition).

The assessments are due on a quarterly basis to AHCA and are used, among other purposes, to obtain federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients, which serve to increase payments to Medicaid provider hospitals throughout the state. Approximately \$71,000 and \$67,000 of expenses related to these assessments are included in operating expenses on the accompanying statements of revenues, expenses and changes in net position for fiscal years 2019 and 2018, respectively. Estimated assessments payable totaling \$139,000 and \$183,000 at September 30, 2019 and 2018, respectively, are included in estimated third-party payer settlements on the accompanying balances sheet.

NOTE 4: CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

As of September 30, 2019 and 2018, cash and cash equivalents consisted of the following:

<u>September 30,</u>	<u>2019</u>	<u>2018</u>
Petty cash and undeposited cash	\$ 900	\$ 900
Cash deposits with financial institutions	270,485	755,901
Total deposits	\$ 271,385	\$ 756,801

Custodial credit risk is the risk that in the event of a bank failure, a government’s deposits may not be returned to it. The Hospital’s deposit policy for custodial credit risk requires compliance with the provisions of state law.

The State of Florida’s Public Deposit Act requires that public deposits may only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of FDIC limits and proceeds from the sale of securities pledged by the defaulting depository are assessed against other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis. The Hospital had no bank balances exposed to custodial credit risk at September 30, 2019 or 2018. The Hospital’s deposits at September 30, 2019 and 2018 were covered under the FDIC and State of Florida’s Public Deposit Act.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 4: CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investments

The Hospital is authorized by statute to invest public funds in the Local Government Surplus Funds Trust Fund; direct obligations of the United States government, its agencies and instrumentalities; Securities and Exchange Commission registered money market funds with the highest quality rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts in qualified public depositories; commercial paper; and certain registered open-end or closed-end management investment companies.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from changing interest rates.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

The Hospital held no investments at September 30, 2019 or 2018.

NOTE 5: PATIENT ACCOUNTS RECEIVABLE

The Hospital is located in Apalachicola, Florida. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2019 and 2018 was:

<i>September 30,</i>	2019	2018
Medicare	\$ 994,039	\$ 903,986
Medicaid	294,965	322,824
Other third-party payers	765,273	817,929
Patients	2,386,933	1,231,984
Total patient accounts receivable	4,441,210	3,276,723
Less allowance for contractual and other adjustments	(1,429,183)	(1,374,558)
Less allowance for uncollectible accounts	(2,264,139)	(1,177,975)
Patient accounts receivable, net	\$ 747,888	\$ 724,190

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 6: CAPITAL ASSETS

Capital asset activity and balances for the year ended September 30, 2019 was as follows:

	Balance 10/1/2018	Additions	Reductions	Transfers	Balance 9/30/2019
Nondepreciable capital assets					
Land	\$ 13,400	\$ -	\$ -	\$ -	\$ 13,400
Construction in progress	1,025,270	1,550,167	-	-	2,575,437
Total nondepreciable	1,038,670	1,550,167	-	-	2,588,837
Depreciable capital assets					
Buildings	1,590,309	50,977	-	-	1,641,286
Equipment and furniture	1,970,706	137,674	(97,016)	-	2,011,364
Total depreciable, at cost	3,561,015	188,651	(97,016)	-	3,652,650
Less accumulated depreciator	(1,767,785)	(211,824)	87,776	-	(1,891,833)
Depreciable, net	1,793,230	(23,173)	(9,240)	-	1,760,817
Total capital assets, net	\$ 2,831,900	\$ 1,526,994	\$ (9,240)	\$ -	\$ 4,349,654

Capital asset activity and balances for the year ended September 30, 2018 was as follows:

	Restated Balance 10/1/2017	Additions	Reductions	Transfers	Balance 9/30/2018
Nondepreciable capital assets					
Land	\$ 13,400	\$ -	\$ -	\$ -	\$ 13,400
Construction in progress	1,025,270	-	-	-	1,025,270
Total nondepreciable	1,038,670	-	-	-	1,038,670
Depreciable capital assets					
Buildings	1,565,030	25,279	-	-	1,590,309
Equipment and furniture	1,910,196	211,667	(151,157)	-	1,970,706
Total depreciable, at cost	3,475,226	236,946	(151,157)	-	3,561,015
Less accumulated depreciator	(1,695,251)	(196,139)	123,605	-	(1,767,785)
Depreciable, net	1,779,975	40,807	(27,552)	-	1,793,230
Total capital assets, net	\$ 2,818,645	\$ 40,807	\$ (27,552)	\$ -	\$ 2,831,900

Depreciation expense for the years ended September 30, 2019 and 2018 totaled \$211,824 and \$196,139, respectively. No interest was capitalized during the years ended September 30, 2019 and 2018.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 6: CAPITAL ASSETS (Continued)

Construction in progress includes cumulative costs of projects not yet placed in service.

At September 30, 2019, \$1,451,225 of this balance related to in-progress repairs and roof replacement resulting from Hurricane Michael damage. Such capital activity was paid for directly by the County's property insurer. Consequently, insurance proceeds of this amount are included in nonoperating other income on the accompanying statement of revenues, expenses and changes in net position for the year ended September 30, 2019. A related property insurance deductible of \$150,000 is included in other accrued liabilities on the accompanying statement of net position as of September 30, 2019. The remainder of the construction in progress balance primarily included a project, which is still ongoing, related to planning for new hospital facilities. No depreciation was taken on these capitalized costs.

NOTE 7: INTERFUND RECEIVABLE, PAYABLES, AND TRANSFERS

Interfund balances at September 30, 2019 and 2018, consisted of the following:

<i>September 30,</i>	2019	2018
Due from Hospital Trust Fund	\$ 367,187	\$ 316,834
Due to Hospital Trust Fund	\$ -	\$ 690,000
Due to General Fund	-	1,215
	\$ -	\$ 691,215

Interfund transfers for the years ended September 30, 2019 and 2018 consisted of the following:

<i>For the years ended September 30,</i>	2019	2018
Transfers in from:		
Hospital Trust Fund Transfer of ½ cent sales tax	\$ 1,142,502	\$ 1,069,698
Hospital Trust Fund Purchase of equipment	288,639	189,723
Hospital Trust Fund Forgiveness of interfund debt	690,000	-
General Fund Operation of hospital	8,000	2,483
General Fund Operation of clinic	120,000	120,000
General Fund Operation of ambulance services	764,252	764,252
	\$ 3,013,393	\$ 2,146,156
Transfers out to:		
Hospital Trust Fund Transfer of insurance proceeds	\$ 25,350	\$ -

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 8: NET INVESTMENT IN CAPITAL ASSETS

The Hospital's net investment in capital assets, as presented on the accompanying statements of net position, is calculated as follows:

<i>September 30,</i>	2019	2018
Capital assets, net	\$ 4,349,654	\$ 2,831,900
Less outstanding accounts payable related to capital assets	(53,949)	-
Less debt related to capital assets	(150,000)	-
Net investment in capital assets	\$ 4,145,705	\$ 2,831,900

NOTE 9: EMPLOYEE LEASING

On July 20, 2010, the Hospital entered into an agreement with Fortune Business Solutions, which subsequently became HR Outsourcing, Inc., to provide employees for the Hospital. Under the agreement, HR Outsourcing, Inc. was the employer of all persons working at the Hospital during the year ended September 30, 2018 and through February 25, 2019, and was reimbursed by the Hospital for all wages and management fees associated with the lease. On April 16, 2019, the Hospital entered into a similar employee leasing agreement with Paychex Business Solutions which remains in effect. Employee leasing costs totaled \$4,010,738 and \$3,928,362 for the years ended September 30, 2019 and 2018, respectively.

NOTE 10: MEDICAL MALPRACTICE INSURANCE

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance, if any. It is reasonably possible that this estimate could change materially in the near term.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 11: COMMITMENTS AND CONTINGENCIES

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Provision for Workers Compensation Claim

During the transition between the two employee leasing contracts discussed in Note 9, the Hospital's workers compensation insurance policy lapsed, and, during this lapse, an employee was injured. At September 30, 2019, the Hospital has provisioned \$25,000, included in other accrued liabilities, for future expenses related to this claim.

Operating Leases

The Hospital leases various pieces of equipment under operating leases expiring at various dates through 2023. Total rental expense for the years ended September 30, 2019 and 2018 for all operating leases was approximately \$123,000 and \$122,000, respectively.

The following is a schedule by year of expiration of approximate future minimum lease payments under non-cancelable operating leases as of September 30, 2019 that have initial or remaining lease terms in excess of one year:

<i>Year ending September 30,</i>	Amount
2020	\$ 41,379
2021	22,425
2022	5,646
2023	1,882
	\$ 71,332

Healthcare Reform

In March of 2010, the Patient Protection and Affordable Care Act ("PPACA") was signed into law. This Act represents a comprehensive reform of the United States healthcare system and institutes, among other things, many provisions that change payments from Medicare, Medicaid and other insurance companies. The legislation required the establishment of health insurance exchanges which provide individuals without employer-provided healthcare coverage the opportunity to purchase insurance. Reimbursement rates paid by insurers participating in the insurance exchanges are often substantially different than rates paid under previously existing health insurance products.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Notes to Special-Purpose Financial Statements**

NOTE 11: COMMITMENTS AND CONTINGENCIES (Continued)

Healthcare Reform (Continued)

Another significant component of the PPACA is the extension of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs are being substantially decreased. Each state's participation in an expanded Medicaid program is optional, and the State of Florida has currently opted not to expand its Medicaid program.

The PPACA is extremely lengthy and complex and has been difficult for the federal government and each state to implement. While the overall, continuing impact of the PPACA cannot currently be estimated, it is likely that it will have a negative impact on the Hospital's net patient service revenue for years to come.



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**INDEPENDENT ACCOUNTANTS’ REPORT ON AN EXAMINATION
CONDUCTED IN ACCORDANCE WITH AICPA PROFESSIONAL STANDARDS,
AT-C SECTION 315, REGARDING COMPLIANCE REQUIREMENTS IN
ACCORDANCE WITH CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

Board of Directors
George E. Weems Memorial Hospital
Franklin County, Florida
Apalachicola, Florida

We have examined the Hospital Fund of Franklin County, Florida d/b/a George E. Weems Memorial Hospital (the “Hospital”) compliance with the requirements of Section 218.415, Florida Statutes, *Local Government investment Policies*, during the year ended September 30, 2019. Management of the Hospital is responsible for the Hospital’s compliance with the specified requirements. Our responsibility is to express an opinion on the Hospital’s compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Hospital complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Hospital complied with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Hospital’s compliance with specified requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements of Section 218.415, Florida Statutes, *Local Government investment Policies*, for the year ended September 30, 2019.

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

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama
March 20, 2020

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

Board of Directors
George E. Weems Memorial Hospital
Franklin County, Florida
Apalachicola, 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 Hospital Fund of Franklin County, Florida d/b/a George E. Weems Memorial Hospital (the "Hospital") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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*.

Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

March 20, 2020

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Schedule of Findings and Responses
For the Year Ended September 30, 2019**

2018 – 001 Accrual Basis Accounting (Repeat)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and presenting financial statements in accordance with generally accepted accounting principles.

Condition: Multiple accounts and financial statement line items required adjustment or reclassification in order for the financial statements to be presented in accordance with generally accepted accounting principles. Such adjustments included proper presentation of cash, accounts receivable and related reserves, prepaid expenses, other assets, accounts payable, other liabilities, estimated third-party payer settlements, property, plant and equipment, and related party accounts, among others. Further, various accounts were not reconciled (or not reconciled timely) to the subsidiary ledgers at fiscal year-end, resulting in some of these adjustments.

Cause: Internal processes and controls were not sufficient (either non-existent or ineffective) to detect material misstatements of the financial statements. The high level of management and accounting staff turnover during and just before fiscal 2019 was a contributing factor.

Effect: Material misstatement of the financial statements (before auditor adjustments).

Recommendation: Management should focus on strengthening internal controls surrounding financial reporting and the proper presentation of financial statements in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions: The Chief Financial Officer (CFO) will reconcile balance sheet accounts monthly. This was due to a lack of training and experience with the current Electronic Medical Records Provider. Staff turnover was a factor.

2018 – 002 Inventory (Repeat)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and presenting financial statements in accordance with generally accepted accounting principles. Additionally, management is responsible for ensuring that inventory and supplies are properly controlled, counted, monitored and safeguarded on an ongoing basis.

Condition: Though physical inventory counts were conducted at fiscal year-end, various valuation issues were noted. These included instances of items valued by the unit when they should have been valued by the box as well as instances in which the pricing used for valuation did not reflect the lower of cost or market.

Cause: Pricing and unit measure information within the Hospital's inventory tracking system is not being updated or is being updated incorrectly.

Effect: Additional audit work and adjustments were required to properly state the accounts.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
Schedule of Findings and Responses
For the Year Ended September 30, 2019**

Recommendation: Management should implement new processes and controls surrounding inventory ordering, receiving and tracking such that item costs within the Hospital's inventory tracking software are updated regularly, as items are ordered, using the appropriate unit measures.

Views of Responsible Officials and Planned Corrective Actions: The CFO will meet with purchasing director on a monthly basis to examine inventory quantity reports and review the hospital inventory system.

2018 – 003 Accounting & Finance Staffing (Repeat)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and presenting financial statements in accordance with generally accepted accounting principles. Such responsibility includes hiring and retaining effective and experienced staff to conduct such activities.

Condition and Cause: Processes and controls in place in fiscal 2019 were not sufficient to maintain effective internal control over financial reporting which resulted in the other findings described within this schedule.

Effect: The effect of this finding is reflected in the effects of findings 2018 – 001, 2018 – 002 and 2019 – 001 through 2019 – 004.

Recommendation: The Hospital should invest in the hiring of accounting staff and focus on retention of existing staff to ensure that existing control activities can be properly conducted and new policies and controls, necessary to address the findings noted herein, can be established and followed.

Views of Responsible Officials and Planned Corrective Actions: Management will identify options to enhance separations of duties by finance staff.

2019 – 001 Reconciliation of Cash and Posting of Receipts and Payroll Expense

Criteria: Internal controls should be in place to ensure that all cash transactions are properly and timely recorded by the Hospital.

Condition, Cause and Effect: Audit entries were required to adjust accounts, most notably cash and payroll expense. In addition, we noted significant balances of unmatched cash receipts, primarily related to patient accounts receivable. Such amounts generally result when a cash payment is received from a third party insurer on a patient's behalf but has not yet been posted to the patient's balance on the accounts receivable subledger – often due to insufficient or pending remittance information accompanying the payment.

**Hospital Fund of Franklin County, Florida
d/b/a George E. Weems Memorial Hospital
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Recommendation: Bank reconciliations should be prepared and reviewed on a regular basis for all accounts, regardless of significance, and any identified variances or differences should be investigated and resolved in a timely manner. Cash receipts related to patient accounts should be matched and posted to the appropriate accounts receivable subledger upon receipt, or, if remittance information is not sufficient to enable account identification, investigated and resolved in as timely a manner as possible.

Views of Responsible Officials and Planned Corrective Actions: The CFO has identified the proper payroll reports to reconcile bank statements on a monthly basis.

2019 – 002 Accounts Receivable, Revenue and Reserves for Uncollectible Accounts

Criteria: Generally accepted accounting principles require a provision for uncollectible accounts receivables based on management's assessment of collectability.

Condition and Effect: Accounts receivable on the unadjusted ledger was overstated. In addition, large balances of unmatched AR receipts were noted, as discussed in finding 2019 – 001 above. Audit entries were required to adjust accounts receivable and increase the reserves, reducing net AR by a material amount. In addition, other audit adjustments were required to adjust the components of net revenue - gross revenue, contractual and other allowances and the provision for bad debt.

Recommendation: The Hospital should prepare reconciliations of all gross accounts receivable to underlying details as part of each month-end close, and as previously noted in 2019 – 004, cash receipts related to patient accounts should be matched and posted to the appropriate accounts receivable subledger upon receipt, or, if remittance information is not sufficient to enable account identification, investigated and resolved in as timely a manner as possible. The Hospital should routinely monitor its collections percentages through the use of a “lookback analysis” or comparable information using a sufficiently long (yet current) look back period to determine an appropriate reserving methodology that addresses the constantly evolving nature of the payer mix and adequately reserves receivables to their estimated net realizable value. Manual entries to accounts receivable, reserves, and/or net patient revenue, once prepared, should be reviewed by management for appropriateness and proper posting.

Views of Responsible Officials and Planned Corrective Actions: The CFO will coordinate with auditors to fine tune or completely revamp the current lookback analysis tool.

2019 – 003 Capital Assets and Depreciation

Criteria: Generally accepted accounting principles require the Hospital to report the cost of capital assets and accumulated depreciation by asset class and annual depreciation by function.

**Hospital Fund of Franklin County, Florida
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Condition and Effect: We noted variances between the Hospital's capital asset registers and general ledger, and various capital assets that were not recorded, or incorrectly recorded. As a result, adjusting entries were required to record certain capital asset additions, remove assets no longer capitalized, and adjust yearly depreciation expense totals.

Recommendation: We recommend the Hospital implement appropriate measures to ensure that all capital assets are captured and appropriately classified, maintained, and depreciated on the capital asset register, and that the capital asset register is reconciled to the general ledger on a regular basis and any differences that are identified are followed up on and resolved.

Views of Responsible Officials and Planned Corrective Actions: The CFO will set up a structure for Account Payables. The CFO and Franklin County Finance Department will communicate asset dispositions.

2019 – 004 Recording of Audit Adjustments/Reconciliation of Net Position

Criteria: Audit adjustments should be recorded by the Hospital to the general ledger in the relevant accounting period such that net position, post-close, at the end of each period reconciles to the net position per audited financial statements.

Condition, Cause and Effect: We noted that certain fiscal year 2018 audit entries were not appropriately recorded in fiscal 2018 and/or reflected in the opening equity balance of fiscal year 2019. As a result, the unadjusted balance of net position at September 30, 2019 was misstated by the net effect of these entries.

Recommendation: The Hospital should implement a process to ensure that all audit entries are properly posted to the general ledger in the correct period and that net position balances for each year, post-close, reconcile to the audited financial statements.

Views of Responsible Officials and Planned Corrective Actions: The CFO will present post audit adjustments financial statements to CEO for approval.



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MANAGEMENT LETTER

Board of Directors
George E. Weems Memorial Hospital
Franklin County, Florida
Apalachicola, Florida

Report on the Financial Statements

We have audited the financial statements of the Hospital Fund of Franklin County, Florida d/b/a George E. Weems Memorial Hospital (the "Hospital") as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated March 20, 2020.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, *AT-C Section 315*, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated March 20, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. In connection with our audit, we determined that findings 2018 – 001 through 2018 – 003 of the preceding annual financial audit report were repeated, as shown in the accompanying schedule of findings and responses.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires us to apply appropriate procedures and communicate the results of our determination as to whether or not the Hospital has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific conditions(s) met. In connection with our audit, we determined that the Hospital did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the Hospital. It is management's responsibility to monitor the Hospital's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we included recommendations in the accompanying schedule of findings and responses.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the Hospital for the fiscal year ended September 30, 2019, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2019. In connection with our audit, we determined that these two reports were in agreement.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama
March 20, 2020