

HIGHLANDS COUNTY HOSPITAL DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2017

**HIGHLANDS COUNTY HOSPITAL DISTRICT
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YEAR ENDED SEPTEMBER 30, 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Highlands County Hospital District
Sebring, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Highlands County Hospital District (District) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's 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 District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Sebring, Florida
May 24, 2018

**HIGHLANDS COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017**

The management of Highlands County Hospital District (District) offers this narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2017.

FINANCIAL HIGHLIGHTS

The following are key financial highlights for the fiscal year:

- The District's assets exceeded its liabilities at September 30, 2017 by \$2,030,029 (net position). Of this amount, \$987,904 was invested in capital assets. As a result, \$1,042,125 (unrestricted net position) may be used to meet the District's ongoing obligations.
- The District's total net position decreased by \$49,493 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District is a stand-alone enterprise fund and, as such, engages in only business-type activities. The District's basic financial statements are described below:

The *statement of net position* presents information on all assets, liabilities and net position. Over time, increases or decreases in net position may serve as an indicator of whether the financial condition of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the event occurs regardless of the timing of related cash flows.

The *cash flow statement* presents all increases and decreases in cash and cash equivalents during the fiscal year. This statement also includes a reconciliation of operating income (or loss) to net cash provided (or used) by operating activities.

The *notes to the financial statements* provide additional information that is essential for a full understanding of the data provided in the financial statements.

**HIGHLANDS COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017**

FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$2,030,029 as of September 30, 2017.

<u>Business - Type Activities</u>	<u>2016</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Current and Other Assets	\$ 4,821,217	\$ 4,728,331	\$ (92,886)
Capital Assets	1,105,530	987,904	(117,626)
Total Assets	<u>\$ 5,926,747</u>	<u>\$ 5,716,235</u>	<u>\$ (210,512)</u>
Current Liabilities	\$ 434,037	\$ 436,888	\$ 2,851
Long-Term Liabilities	3,413,188	3,249,318	(163,870)
Total Liabilities	<u>\$ 3,847,225</u>	<u>\$ 3,686,206</u>	<u>\$ (161,019)</u>
Net Position:			
Investment in Capital Assets	\$ 1,105,530	\$ 987,904	\$ (117,626)
Unrestricted	973,992	1,042,125	68,133
Total Net Position	<u>\$ 2,079,522</u>	<u>\$ 2,030,029</u>	<u>\$ (49,493)</u>

Total net position for the year ended September 30, 2017 decreased by \$49,493 during the current year. Overall, net position is more than sufficient to accomplish the District's mission. The following table details changes in net position during 2017 and 2016:

	<u>2016</u>	<u>2017</u>	<u>Increase (Decrease)</u>
REVENUES			
Operating:			
Lease Revenue	\$ 483,870	\$ 483,870	\$ -
Nonoperating:			
Investment Income (Loss) - Net of Expenses	16,528	(14,298)	(30,826)
Total Revenues	<u>500,398</u>	<u>469,572</u>	<u>(30,826)</u>
EXPENSES			
Operating:			
Administrative and Fiscal Services	19,802	195,079	175,277
Insurance	4,932	6,360	1,428
Depreciation	118,145	117,626	(519)
Contributions	360,000	200,000	(160,000)
Total Expenses	<u>502,879</u>	<u>519,065</u>	<u>16,186</u>
DECREASE IN NET POSITION	(2,481)	(49,493)	(47,012)
Net Position - Beginning of Year	<u>2,082,003</u>	<u>2,079,522</u>	<u>(2,481)</u>
NET POSITION - END OF YEAR	<u>\$ 2,079,522</u>	<u>\$ 2,030,029</u>	<u>\$ (49,493)</u>

**HIGHLANDS COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2017**

FINANCIAL ANALYSIS (CONTINUED)

Total revenues decreased from the prior year by \$30,826. Total expenses increased from the prior year by \$16,186. Key elements of these decreases are as follows:

- Administrative and fiscal services increased \$175,277 due to costs of an evaluation of the hospital facility. Surplus funds granted to other entities decreased \$160,000 compared to the prior year.
- In the current year there was an investment loss, net of related expenses of \$14,298, a decrease of \$30,826 from the prior year investment income.

The only long-term liability of the District is unearned revenue. This primarily relates to debt assumed by the lessee as part of the original lease agreement and is being amortized over the life of the lease. There is a more detailed description of debt activity in the notes to the financial statements.

There were no increases in capital assets. The only activity was current year depreciation. There is a more detailed description of capital asset activity in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District does not expect any significant changes in operations in the coming year. The District's 2018 budget was adopted on August 27, 2017.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning budgets, long-term financial planning, or questions related to the management of the District's operations should be addressed to the District Clerk:

Highlands County Hospital District
PO Box 1926
Sebring, FL 33871-1926

**HIGHLANDS COUNTY HOSPITAL DISTRICT
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 628,749
Investments, at Fair Value	4,074,745
Interest Receivable	20,203
Prepaid Insurance	4,634
Total Current Assets	4,728,331

CAPITAL ASSETS

Capital Assets Not Being Depreciated	132,079
Capital Assets Net of Accumulated Depreciation	855,825
Total Capital Assets	987,904

Total Assets	5,716,235
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts Payable	6,351
Current Portion of Unearned Lease Revenue	430,537
Total Current Liabilities	436,888

LONG-TERM LIABILITIES

Unearned Lease Revenue - Less Current Portion	3,249,318
Total Liabilities	3,686,206

NET POSITION

Investment in Capital Assets	987,904
Unrestricted	1,042,125
Total Net Position	\$ 2,030,029

See accompanying Notes to Financial Statements.

**HIGHLANDS COUNTY HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2017**

OPERATING REVENUES	
Lease Revenue	\$ 483,870
OPERATING EXPENSES	
Administrative and Fiscal Services	195,079
Insurance	6,360
Depreciation	117,626
Contributions	200,000
Total Operating Expenses	<u>519,065</u>
OPERATING LOSS	(35,195)
NONOPERATING REVENUES	
Investment Income (Loss), Net of Investment Fees of \$24,409	<u>(14,298)</u>
CHANGE IN NET POSITION	(49,493)
Net Position - October 1, 2016	<u>2,079,522</u>
NET POSITION - SEPTEMBER 30, 2017	<u><u>\$ 2,030,029</u></u>

See accompanying Notes to Financial Statements.

**HIGHLANDS COUNTY HOSPITAL DISTRICT
STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Lessee	\$ 320,000
Cash Payments to Suppliers for Goods and Services	(198,693)
Cash Payments for Contributions	(200,000)
Net Cash Used by Operating Activities	(78,693)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Investment Securities	(1,471,044)
Proceeds from Sale and Maturities of Investment Securities	1,260,000
Earnings on Investments	84,503
Fees for Investments	(24,409)
Net Cash Used by Investing Activities	(150,950)

NET DECREASE IN CASH AND CASH EQUIVALENTS

(229,643)

Cash and Cash Equivalents - Beginning of Year

858,392

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 628,749

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (35,195)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Lease Revenue Amortization	(163,870)
Depreciation	117,626
Increase in Prepaid Insurance	(105)
Increase in Accounts Payable	2,851
Net Cash Used by Operating Activities	\$ (78,693)

NONCASH INVESTING CAPITAL AND FINANCING ACTIVITIES

Decrease in Fair Value of Investments	\$ (75,064)
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See accompanying Notes to Financial Statements.

**HIGHLANDS COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Board of Commissioners of the Highlands County Hospital District (District) was established pursuant to House Bill No. 77, Chapter 61-2232, enacted by the Legislature of the State of Florida. This Bill created and incorporated a special district to be known as the Highlands County Hospital District, which includes all of Highlands County. Prior to October 1, 1990, the District was an independent special district. Effective October 1, 1990, the District (as a result of changes in Florida Statutes) became a dependent special district with respect to Highlands County. The District is not subject to federal and state income taxes. The Highlands County Hospital District is governed by the District's Board of Commissioners. Although the Commissioners are appointed by the Board of County Commissioners of Highlands County, the District is not a component unit of the County because the County is not financially accountable for the District. No potential component units exist which would require consideration for inclusion in the District's financial statements.

The reporting entity of the District includes the oversight responsibilities of the Hospital lease described in Note 4.

Budgets and Budgetary Accounting

The District follows the procedures provided by Sections 129, 189, and 195, Florida Statutes in establishing final budget balances reported on the financial statements.

The annual budgets serve as the legal authorization for expenditures. Expenditures cannot legally exceed the total amount budgeted for each fund. All budget amendments, which change the legally adopted total appropriation for a fund, are approved by the Board. Appropriations lapse at year-end.

Budgets are adopted on a basis that does not differ materially from accounting principles generally accepted in the United States of America.

The District's expenditures exceeded the final adopted budget by \$1,265.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents consist of highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

**HIGHLANDS COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Quoted prices in active markets for identical assets;
- Level 2: Significant other observable inputs;
- Level 3: Significant unobservable inputs.

Realized and unrealized gains and losses are reflected in the statement of revenues, expenses, and changes in net position.

Money market investments are reported as cash equivalents at amortized cost.

Capital Assets

Capital assets are recorded at historical cost or acquisition value at date of donation. Depreciation is computed using the straight-line method over estimated useful lives ranging from 5 to 50 years.

Basis of Accounting

The District is accounted for as a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, utilizing the flow of economic resources measurement focus. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as needed.

The accrual basis of accounting is followed. Accordingly, revenue is recorded when earned and expenses recorded when incurred.

The operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from non-exchange transactions or ancillary activities.

The basic financial statements required for enterprise funds by GASB 34 are a statement of net position, a statement of revenues, expenses, and changes in net position and a statement of cash flows.

Use of Estimates

The financial statements and related disclosures are prepared in conformity with accounting principles generally accepted in the United States. Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

**HIGHLANDS COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

At September 30, 2017, the carrying amount of the District's deposits was \$552,629.

A reconciliation to the amount shown as cash and cash equivalents on the statement of net position is as follows:

Demand deposits	\$ 552,629
Money market	76,120
	<u>\$ 628,749</u>

Investments

The District's investment policy authorizes the District to invest in the Local Government Surplus Funds Trust Fund (administered by the State of Florida), money market funds with the highest credit quality rating from a nationally recognized rating agency, time deposits or savings accounts in Florida qualified public depositories, and direct obligations of the U.S. Treasury.

Investments consist of the following at September 30, 2017:

Investments	Fair Value	Fair Value Measurement Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt Securities:				
U.S. Treasury Notes	<u>\$ 4,074,745</u>	<u>\$ 4,074,745</u>	<u>\$ -</u>	<u>\$ -</u>

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Custodial Risk

Custodial credit risk is the risk that in the event of a failure of the counterparty, the District may not be able to recover the value of its deposits and securities that are in the possession of an outside party. The District's interest bearing bank balance is collateralized pursuant to Chapter 280, Florida Statutes. Under this Chapter, in the event of default by a participating financial institution, a qualified public depository, all participating institutions are obligated to reimburse the governmental entity for the loss. Cash equivalents were held in money market accounts by two brokerage firms in the amount of \$76,120. These money market funds are either insured by the brokerage firm, SIPC or are collateralized by government securities.

**HIGHLANDS COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. The District limits interest rate risk by maintaining an investment portfolio with maturities as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>Over 5 Years</u>
U.S. Treasury Notes	\$ 4,074,745	\$ 1,239,127	\$ 2,835,618	\$ -

Credit Risk

Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligations to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	<u>Balance October 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance September 30, 2017</u>
Capital Assets Not Being Depreciated:				
Land	\$ 132,079	\$ -	\$ -	\$ 132,079
Capital Assets Being Depreciated:				
Buildings	12,978,789	-	-	12,978,789
Improvements	506,216	-	-	506,216
Total Capital Assets Being Depreciated	13,485,005	-	-	13,485,005
Less: Accumulated Depreciation:				
Buildings	(12,005,338)	(117,626)	-	(12,122,964)
Improvements	(506,216)	-	-	(506,216)
Total Accumulated Depreciation	(12,511,554)	(117,626)	-	(12,629,180)
Total Capital Assets, Net of Accumulated Depreciation	973,451	(117,626)	-	855,825
Business Type Capital Assets, Net	\$ 1,105,530	\$ (117,626)	\$ -	\$ 987,904

**HIGHLANDS COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4 LEASE OF HOSPITAL

Effective August 1, 1985, the District (Lessor) entered into an agreement with Health Management Associates, Inc. (HMA) (Lessee) to lease the Hospital premises (including all real property, improvements, furniture, equipment, and all government licenses and permits) for a period of 20 years.

HMA purchased the remaining assets, except for accumulated tax revenues, and assumed all obligations of the District.

Unearned lease revenue (credit) has been recorded for the prepaid rent received from HMA in the form of their assumption and the liquidation of District liabilities. Lease revenue will be recognized in equal annual amounts during the lease term as unearned lease revenue is amortized. Under the 1985 lease, additions could occur to the unearned lease revenue for District-approved capital expenditures made by HMA.

Amounts recorded at September 30, 2017 in the accompanying financial statements as property and plant represent the District's investment in real property leased to HMA and its successors.

On December 22, 1994 and effective January 1, 1995, the 1985 lease was amended and restated (the Restated Lease). Among other things, the Restated Lease extended the term of the 1985 lease to July 31, 2025, provided for annual lease payments of \$320,000 to the Lessor and set aside the Lessor's obligations to repay prepaid rent in the event of early termination of the lease.

On September 23, 2011, the restated lease was amended to include an additional \$420,000 per quarter. Such payments shall be discontinued after the June 15, 2013 payment.

On September 23, 2013, the restated lease was amended a second time to include an additional \$420,000 per quarter. Such payments shall be discontinued after the June 30, 2014 payment.

On October 1, 2014, the restated lease was amended a third time to extend the term of the lease for an additional two years, making the new termination date July 31, 2027. In this third amendment, the Lessee agreed to pay the Lessor prepaid rent in the amount of \$2,129,540 on or before October 15, 2014 ("Extension Term Prepaid Rent").

**HIGHLANDS COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE 4 LEASE OF HOSPITAL (CONTINUED)

The future minimum rentals under the noncancellable (except for events of default) operating lease as of September 30, 2017 are as follows (including amounts provided in the Restated Lease and amendments):

<u>Year Ending September 30,</u>	<u>Lease Payment</u>	<u>Unearned Revenue Amortization</u>	<u>Total Lease Revenue</u>
2018	\$ 320,000	\$ 163,870	\$ 483,870
2019	320,000	163,870	483,870
2020	320,000	163,870	483,870
2021	320,000	163,870	483,870
2022	320,000	163,870	483,870
Thereafter	640,000	2,593,838	3,233,838
Total	<u>\$ 2,240,000</u>	<u>\$ 3,413,188</u>	<u>\$ 5,653,188</u>

The annual lease term is August 1 to July 31. As of September 30, 2017, current unearned lease revenue includes an additional \$266,667 for the remaining 10 months of the annual \$320,000 lease payment that is still unearned.

NOTE 5 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District purchases commercial insurance coverage relating to property, general liability and public officials. The District is liable for deductibles on certain coverage. Insurance settlements have not exceeded the District's insurance coverage in any of the most recent three fiscal periods.

**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 Commissioners
Highlands County Hospital District
Sebring, 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 Highlands County Hospital District (District), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 24, 2018.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Sebring, Florida
May 24, 2018

MANAGEMENT LETTER

Board of Commissioners
Highlands County Hospital District
Sebring, Florida

Report on the Financial Statements

We have audited the financial statements of the Highlands County Hospital District (District), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated May 24, 2018.

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 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 Financial Statements Performed in Accordance with *Government Auditing Standards* and 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. Disclosures in those reports and schedule, which are dated May 24, 2018, 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. There were no findings in the preceding audit report.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The reporting entity contains no component units. See Note 1 in the notes to the financial statements.

Financial Condition and Management

Section 10.554(1)(i)5.a. 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 or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the District 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 District. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by the same.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. Our recommendations are included in the accompanying schedule of findings and responses as 2017-001.

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 District for the fiscal year ended September 30, 2017, 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, 2017. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

Section 10.554(1)(i)5.d., Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. The District contains no special district component units.

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 which 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 District's Commissioners and applicable management and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Sebring, Florida
May 24, 2018

**HIGHLANDS COUNTY HOSPITAL DISTRICT
MANAGEMENT LETTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2017**

2017-006 – Budgets

Condition: Expenditures exceed the final adopted budget by \$1,265.

Criteria or specific requirement: Section 189.016(3), Florida Statutes, states that a special district may not expend or contract for expenditures in any fiscal year except pursuant to the adopted budget. Section 189.016(6), Florida Statutes allows the budget to be amended within 60 days of the end of the year.

Context: Review of final budget and actual amounts identified the condition.

Effect: The District incurred expenditures in excess of the final budget for fiscal year 2017.

Cause: An invoice received subsequent to year end was not considered when the final budget amendment was prepared.

Recommendation: Invoices received subsequent to year end should be monitored so that any necessary budget amendments can be prepared within the period authorized by statute.

Views of responsible officials: Procedures have been modified to ensure the Clerk provides bills pertaining to September to the accounting firm before the accounting firm proposes the final budget amendment to the Board.

INDEPENDENT ACCOUNTANTS' REPORT

Board of Commissioners
Highlands County Hospital District
Sebring, Florida

We have examined the Highlands County Hospital District's (District) compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2017. Management of the District is responsible for the District's compliance with the specified requirements based on our examination. Our responsibility is to express an opinion on the District'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 District complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, 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 District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2017.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Sebring, Florida
May 24, 2018