

**LEE COUNTY HOSPITAL AUTHORITY  
A COMPONENT UNIT OF  
LEE COUNTY, VIRGINIA  
AUDITED FINANCIAL REPORT  
June 30, 2018 and June 30, 2017**

LEE COUNTY HOSPITAL AUTHORITY  
A COMPONENT UNIT OF LEE COUNTY, VIRGINIA  
AUDITED FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2018 AND JUNE 30, 2017

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LIST OF AUTHORITY MEMBERS

H. Ronald Montgomery, Vice-Chairman

Diana Pope, Treasurer

Tom Clark, Member

George F. Cridlin, Member

Howard Elliott, Member

Dr. John Scott Litton, Jr., Member

Malcom Perdue, Member

Patton Speak, Member

Benny Sergeant, Member

Dr. Jill Couch, Member

## INDEPENDENT AUDITOR'S REPORT

To the Board  
Lee County Hospital Authority

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Lee County Hospital Authority, which comprise the statement of net position as of June 30, 2018 and June 30, 2017 and the related statement of revenues, expenditures and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express 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 Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lee County Hospital Authority as of June 30, 2018 and June 30, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter Regarding Going Concern***

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern. As discussed in Note 7 to the financial statements, the Authority has suffered funding cuts that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding this matter is also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplemental Information***

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 November 30, 2018 on our consideration of Lee County Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 Lee County Hospital Authority's internal control over financial reporting and compliance.



HICOK, BROWN & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
November 30, 2018

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

To the Board  
Lee County Hospital Authority

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 business-type activities of The Lee County Hospital Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Lee County Hospital Authority's basic financial statements, and have issued our report thereon dated November 30, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lee County Hospital Authority'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 Lee County Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Lee County Hospital Authority'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 Lee County Hospital Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Hicok, Brown & Company". The script is cursive and fluid, with the company name written in a single line.

HICOK, BROWN & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS  
November 30, 2018

Lee County Hospital Authority  
A Component Unit of Lee County, Virginia  
Statement of Net Position  
At June 30, 2018 and June 30, 2017

Exhibit 1

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 37,442	\$ 1,183
Accounts receivable	-	699
Total Current Assets	<u>37,442</u>	<u>1,882</u>
Other Assets		
Building and land	-	1,624,298
Other Assets	-	1,624,298
Total Assets	<u>\$ 37,442</u>	<u>\$ 1,626,180</u>
<u>Liabilities and Net Position</u>		
Current Liabilities		
Accounts payable	\$ 10,357	\$ 74,987
Accrued interest	-	7,990
Current portion of debt	-	1,775,000
Total Current Liabilities	10,357	1,857,977
Long Term Liabilities		
Notes payable	-	122,206
Total Liabilities	10,357	1,980,183
Net Position		
Invested in capital assets, net of related debt	-	(75,702)
Unrestricted	<u>27,085</u>	<u>(278,301)</u>
Total Net Position	<u>27,085</u>	<u>(354,003)</u>
Total Liabilities and Net Position	<u>\$ 37,442</u>	<u>\$ 1,626,180</u>

The Notes to Financial Statements are an integral part of this statement.



Lee County Hospital Authority  
A Component Unit of Lee County, Virginia  
Statement of Revenues, Expenditures,  
And Changes in Net Position  
For the Year Ended June 30, 2018 and June 30, 2017

Exhibit 2

	2018	2017
Operating Revenues:		
Grants and donations	\$ -	\$ 5,000
Other income	-	5,058
Total Operating Revenues	-	10,058
Operating Expenses		
Insurance	10,791	22,636
Other expenses	152	15
Professional and other fees	335,540	62,300
Property upkeep	4,200	94,154
Utilities	70,667	126,965
Total Operating Expenses	421,350	246,070
Net Income (Loss) Before Non-Operating Revenues (Expenses) and Capital Contributions	(421,350)	(236,012)
Non-Operating Revenues (Expenses)		
Forgiveness of debt	282,990	-
Gain from sale of property	519,448	-
Interest expense	-	(6,800)
Total Non-Operating Revenues (Expenses)	802,438	(6,800)
Change in net position	381,088	(242,812)
Net position at beginning of year	(354,003)	(111,191)
Net position at end of year	\$ 27,085	\$ (354,003)

The Notes to Financial Statements are an integral part of this statement.

Lee County Hospital Authority  
A Component Unit of Lee County, Virginia  
Statement of Cash Flows  
For the Year Ended June 30, 2018 and June 30, 2017

Exhibit 3

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Cash received from grants and donations	\$ 571	\$ 34,381
Cash payments to suppliers for goods and services	<u>(148,446)</u>	<u>(232,510)</u>
Net Cash Flows Provided By Operating Activities	(147,875)	(198,129)
Cash Flows From Capital and Related Financing Activities		
Proceeds from debt	149,020	197,206
Interest paid on debt	-	-
Proceeds from sale of property	<u>35,114</u>	<u>-</u>
Net Cash Flows Provided By Capital And Related Financing Activities	<u>184,134</u>	<u>197,206</u>
Increase In Cash and Cash Equivalents	36,259	(923)
Cash and Cash Equivalents At Beginning of Year	<u>1,183</u>	<u>2,106</u>
Cash and Cash Equivalents At End of Year	<u><u>\$ 37,442</u></u>	<u><u>\$ 1,183</u></u>
Reconciliation Of Operating Income to Net Cash Provided By Operating Activities		
Net income (loss) from operations	\$ (421,350)	\$ (236,012)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Noncash expenses	337,534	-
Changes in operating assets and liabilities		
Accounts receivable	571	24,323
Accounts payable	<u>(64,630)</u>	<u>13,560</u>
Net Cash Provided By Operating Activities	<u><u>\$ (147,875)</u></u>	<u><u>\$ (198,129)</u></u>

The Notes to Financial Statements are an integral part of this statement.

LEE COUNTY HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

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

Proprietary Fund Type

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The proprietary fund measurement focus is upon determination of net income, financial position, and cash flows. The proprietary fund of the Authority is an Enterprise Fund which includes all of the Authority's operations.

Enterprise Fund

The Enterprise Fund accounts for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services.

Reporting Entity

The Authority has been included in the general purpose financial statements of Lee County, Virginia as a component unit, in accordance with Statement 61 of the Governmental Accounting Standards Board.

Basis of Accounting

The Enterprise Fund uses the accrual basis of accounting. Under this method revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

Cash and Cash Equivalent

Lee County Hospital Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

LEE COUNTY HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant, and Equipment

Property, plant, and equipment purchased are stated at cost or estimated cost. Donated property is recorded at market value prevailing at date of donation. Depreciation for fixed assets has been provided over the following estimated useful lives using the straight-line method:

Buildings.....	30-40 years
Improvements other than buildings .....	15-25 years
Equipment.....	5-20 years

Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

NOTE 2 - CASH AND INVESTMENTS

Deposits

All cash of the Authority is covered by federal depository insurance. The Authority has no investments as of or for the year ended June 30, 2018.

NOTE 3 – OTHER ASSETS

On April 28, 2015 the Authority purchased the Lee County hospital property. The purchase amount was \$1,624,298. In December 2017 the Hospital was sold.

NOTE 4 – NOTES PAYABLE

On April 28, 2015 the Authority entered into a loan with Lee County Virginia to purchase the hospital property. The loan amount was \$1,700,000 and provides for interest at .40%. The loan maturity is April 28, 2018. In July 2016, an additional \$75,000 was loaned to the Authority with a 0.00% interest rate and a due date of July 20, 2017. When the Hospital was sold in December 2017, as part of the sale agreement this loan was reduced to \$1,500,000 and was transferred to Lee County. The difference between the face amount of the loan and the amount transferred was recorded as forgiveness of debt income in the amount of \$275,000. The interest accrued as of June 30, 2017 in the amount of \$7,990 was also forgiven and recorded as forgiveness of debt income.

LEE COUNTY HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

NOTE 4 – NOTES PAYABLE (CONTINUED)

On November 10, 2016, the Authority entered into a loan with Americore Health LLC. The loan amount was not to exceed \$131,424. Loan advances may be made in the amounts of \$25,000 payable upon request by the Authority. Interest is to accrue beginning January 1, 2018 at a rate of 5% a year. The loan and any accrued and/or unpaid interest is due November 7, 2018. The loan is secured by a Deed of Trust on property owned by the Authority. Advances received total \$131,424. This loan was paid at the closing for the sale of the Hospital property.

On August 9, 2017, the Authority entered into a loan with Merida Natural Resources, LLC. The loan was in the amount of \$139,802, the interest rate was 0.00% and was due August 9, 2018. The loan was paid at the closing for the sale of the Hospital property.

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 30, 2018, the date which the financial statements were available to be issued.

NOTE 6 – CONTINGENCIES

The Lee County Hospital Authority reached an agreement with a consultant that provided services to the Authority before it was created. The Authority had agreed to compensate the consultant for \$25,000 plus out-of-pocket expenses of \$11,608 for a total of \$36,608. In July 2016, the Authority paid the consultant \$12,000. The Authority paid the consultant at the closing of the Hospital sale.

NOTE 7 – GOING CONCERN

The Authority has suffered funding cuts and currently has no source of revenue. As noted in the above footnotes, the Hospital property has been sold. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Authority be unable to continue as a going concern.