

LAKE SHORE HOSPITAL AUTHORITY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2016

LAKE SHORE HOSPITAL AUTHORITY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2016

TABLE OF CONTENTS

	PAGE NO.
INTRODUCTORY SECTION	
List of Principal Officials	5
FINANCIAL SECTION	
Independent Auditor's Report	7 - 8
Management's Discussion and Analysis	9 - 12
Basic Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Governmental Funds - Balance Sheet	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17 - 18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Notes to Financial Statements	20 - 37
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	39
Hospital Services Fund	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	40
Clinical Services Fund	
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual	41

LAKE SHORE HOSPITAL AUTHORITY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2016

TABLE OF CONTENTS

	PAGE NO.
Required Supplementary Information (continued)	
Capital Improvements Fund Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	42
Notes to Required Supplementary Information	43
Schedule of Proportionate Share of Net Pension Liability - Health Insurance Subsidy Program	44
Schedule of Lake Shore Hospital Authority's Contributions - Florida Retirement System	45
Notes to Required Supplementary Information - Proportionate Share of the Net Pension Liability and Required Contributions Florida Retirement System and Health Insurance Subsidy Program	46 - 47
COMPLIANCE SECTION	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	49 - 50
Management Letter	51 - 52
Independent Accountant's Report	53
Communication with Those Charged with Governance	54 - 55
Response to Audit Findings	56

INTRODUCTORY SECTION

LAKE SHORE HOSPITAL AUTHORITY

LIST OF PRINCIPAL OFFICIALS

September 30, 2016

BOARD OF TRUSTEES

CHAIRMAN	DeKoven (Koby) Adams
VICE-CHAIR	Brandon Bell
SECRETARY/TREASURER	Janet Creel
BOARD MEMBERS	Loretta (Lory) Chancy
	Dr. Ronald Foreman
	Dr. Waseem Khan, M.D.
	Tim Murphy
ATTORNEY	Fred Koberlein

FINANCIAL SECTION



Powell & Jones
Certified Public Accountants

Richard C. Powell, Jr., CPA
Marian Jones Powell, CPA

1359 S.W. Main Blvd.
Lake City, Florida 32025
386 / 755-4200
Fax: 386 / 719-5504
admin@powellandjonescpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Lake Shore Hospital Authority
Lake City, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Lake Shore Hospital Authority, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Lake Shore Hospital Authority, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

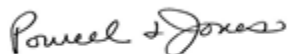
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and pension schedules as listed in the table of contents 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 March 2, 2017, on our consideration of the Lake Shore Hospital Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Shore Hospital Authority's internal control over financial reporting and compliance.



POWELL & JONES

Certified Public Accounts

March 2, 2017

LAKE SHORE HOSPITAL AUTHORITY

Management's Discussion and Analysis

This discussion and analysis is intended to be an easily readable analysis of the Lake Shore Hospital Authority's (the Authority) financial activities based on currently known facts, decisions or conditions. This analysis focuses on current year activities and should be read in conjunction with the financial statements that follow.

Report Layout

The Authority has implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. This statement requires governmental entities to report finances in accordance with specific guidelines. Among those guidelines are the components of this section dealing with management's discussion and analysis. Besides this Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, and the notes to the financial statements. The first two statements are condensed and present a government-wide view of the Authority's finances. Within this view, all Authority operations are categorized as applicable, and reported as either governmental or business-type activities. Governmental activities include basic planning related services and general administration. The Authority had no business-type activities in this fiscal year. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the Authority.

Basic Financial Statements

- The Statement of Net Position focuses on resources available for future operations. In simple terms, this statement presents a snap-shot view of the assets the Authority owns the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. Governmental activities are reported on the accrual basis of accounting.
- The Statement of Activities focuses on gross and net costs of the Authority's programs and the extent to which such programs rely upon general revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.
- Fund financial statements focus separately on governmental and proprietary funds, as applicable. Governmental fund statements follow the more traditional presentation of financial statements. As stated above, the Authority has no proprietary funds and business-type activities.
- The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Authority's financial condition.
- The MD&A is intended to serve as an introduction to the Authority's basic financial statements and to explain the significant changes in financial position and differences in operations between the current and prior years.

Reporting the Authority's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the Authority as a whole. Some funds are required to be established by state law and by contractual agreements. However, the Authority establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain grants and other money.

- **Governmental funds** - All of the Authority's services are reported in governmental funds. Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short term view of the Authority's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long term effect of the government's near term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund balance statements.

The Authority maintains the following governmental funds that it classifies as major funds:

General Fund - Used to account for the receipt of lease payments received from HMA Lake Shore, Inc., and the expenditure of these funds by the Authority.

Special Revenue Funds - Special Revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Hospital Services Fund - Used to account for the receipt of ad valorem taxes and the payment of eligible indigent patient care and capital purchases, as provided in the lease with HMA Lake Shore, Inc.

Clinical Service Fund - Used to account for receipt of ad valorem taxes and payment of eligible clinic indigent patient care and prescription drug assistance.

Capital Projects Fund - Capital Projects funds are used to account for the acquisition and construction of major governmental capital facilities. The Authority maintains the Capital Improvements Fund to account for the capital improvements made by the Authority.

Authority as a Whole

Government-wide Financial Statements

A condensed version of the Statement of Net Position at September 30, 2016, follows:

Net Position at September 30, 2016 and 2015

	Governmental Activities/ Total Government	
	2016	2015
Assets		
Cash and investments	\$ 9,013,864	\$ 6,914,909
Receivables	5,311	11,275
Prepaid expenses	1,190,477	1,986,143
Capital assets, net of accumulated depreciation	3,619,674	3,668,369
Net investment in capital lease	5,993,944	5,997,654
Total assets	<u>19,823,270</u>	<u>18,578,350</u>
Deferred Outflows of Resources	<u>166,249</u>	<u>31,337</u>
Liabilities		
Current liabilities	79,525	147,058
Long-term liabilities	263,908	96,980
Total liabilities	<u>343,433</u>	<u>244,038</u>
Deferred Inflows of Resources	41,361	-
Net position		
Invested in capital assets	3,619,674	3,668,369
Invested in capital lease	5,993,944	5,997,654
Restricted	7,358,454	5,748,945
Unrestricted	2,632,653	2,950,681
Total net position	<u>\$19,604,725</u>	<u>\$18,365,649</u>

During the year ended September 30, 2016, there was a reduction in Net Position, based upon the adopted budget.

A condensed version of the Statement of Activities follows:

Governmental Activities For the Fiscal Years Ended September 30, 2016 and 2015

	Governmental Activities/ Total Government	
	2016	2015
Revenues:		
General revenues		
Ad valorem taxes	\$ 2,247,489	\$ 2,179,127
Interest	65,088	37,588
Lease income	511,548	519,715
Other	8,884	5,263
Total revenues	<u>2,833,009</u>	<u>2,741,693</u>
Expenses:		
General government	614,756	982,568
Human services	979,177	1,085,547
Total expenses	<u>1,593,933</u>	<u>2,068,115</u>
Change in net position	1,239,076	673,578
Beginning net position	18,365,649	17,692,071
Ending net position	<u>\$19,604,725</u>	<u>\$ 18,365,649</u>

Governmental activities

Health care program expenditures decreased \$106,370 from \$1,085,547 in the prior year to \$979,177 in the current year.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2016, the Authority has \$3,619,674 invested in capital assets, consisting primarily of land and buildings.

Capital Assets at September 30, 2016 and 2015

	2016	2015
Land	\$ 2,249,092	\$ 2,249,092
Building	1,703,237	1,703,237
Office equipment	108,573	101,289
	4,060,902	4,053,618
Accumulated depreciation	(441,228)	(385,249)
Capital assets, net	<u>\$ 3,619,674</u>	<u>\$ 3,668,369</u>

Financial Contact

The Authority's financial statements are designed to present users (citizens, taxpayers, customers, and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have questions about the report or need additional financial information, please contact the Authority's Executive Director at 259 N.E. Franklin Street, Lake City, Florida 32055.

Basic Financial Statements

LAKE SHORE HOSPITAL AUTHORITY

STATEMENT OF NET POSITION

September 30, 2016

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 2,976,332
Accrued interest receivable	5,311
Investments	6,037,532
Prepaid expenses	1,190,477
Total current assets	<u>10,209,652</u>
Capital assets, net of accumulated depreciation	3,619,674
Other assets	
Net investment in capital lease	5,993,944
Total assets	<u>19,823,270</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>166,249</u>
LIABILITIES	
Accounts payable	25,846
Accrued liabilities	6,837
Prepaid lease	44,842
Deposits	2,000
Compensated absences	27,022
Net pension liability	236,886
Total liabilities	<u>343,433</u>
DEFERRED INFLOWS OF RESOURCES	<u>41,361</u>
NET POSITION	
Invested in capital assets	3,619,674
Invested in capital lease	5,993,944
Restricted	7,358,454
Unrestricted	2,632,653
Total net position	<u><u>\$ 19,604,725</u></u>

LAKE SHORE HOSPITAL AUTHORITY

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2016

	Expenses	Net (Expenses) Revenue and Change in Net Position Governmental Activities Total
Governmental activities:		
General government	\$ (614,756)	\$ (614,756)
Human services - healthcare	(979,177)	(979,177)
Total governmental activities	<u>\$ (1,593,933)</u>	<u>(1,593,933)</u>
General revenues:		
Ad valorem taxes		2,247,489
Interest		65,088
Lease income		511,548
Miscellaneous		8,884
Total general revenues		<u>2,833,009</u>
Change in net position		1,239,076
Net position, beginning of the year		<u>18,365,649</u>
Net position, end of year		<u>\$ 19,604,725</u>

LAKE SHORE HOSPITAL AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET
September 30, 2016

	Special Revenue Funds				Total Governmental Funds
	General Fund	Hospital Services	Clinical Services	Capital Improvements Fund	
ASSETS					
Cash	\$ 916,322	\$ 1,191,152	\$ 418,060	\$ 450,798	\$ 2,976,332
Investments	3,019,434	1,007,024	1,004,050	1,007,024	6,037,532
Due from other funds	-	686,389	12,829	10,200	709,418
Prepaid expenses	7,236	1,183,241	-	-	1,190,477
Accrued interest receivable	2,626	993	699	993	5,311
Net investment in capital lease	5,993,944	-	-	-	5,993,944
Total assets	\$ 9,939,562	\$ 4,068,799	\$ 1,435,638	\$ 1,469,015	\$ 16,913,014

LIABILITIES AND FUND BALANCES

Liabilities:					
Accounts payable	\$ 7,971	\$ 7,191	\$ 10,684	\$ -	\$ 25,846
Accrued liabilities	6,837	-	-	-	6,837
Prepaid lease	44,842	-	-	-	44,842
Deposit	2,000	-	-	-	2,000
Due to other funds	686,389	23,029	-	-	709,418
Total liabilities	748,039	30,220	10,684	-	788,943

Fund balances:

Nonspendable, long-term assets	5,993,944	-	-	-	5,993,944
Assigned	400,000	4,038,579	1,424,954	1,469,015	7,332,548
Unassigned	2,797,579	-	-	-	2,797,579
Total fund balances	9,191,523	4,038,579	1,424,954	1,469,015	16,124,071
Total liabilities and fund balances	\$ 9,939,562	\$ 4,068,799	\$ 1,435,638	\$ 1,469,015	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	3,619,674
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(139,020)
Net position of governmental activities	\$ 19,604,725

LAKE SHORE HOSPITAL AUTHORITY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
For the Fiscal Year Ended September 30, 2016

	Special Revenue Funds				Total
	General Fund	Hospital Services	Clinical Services	Capital Improvements Fund	Governmental Funds
REVENUES					
Taxes - ad valorem	\$ -	\$ 2,237,289	\$ -	\$ 10,200	\$ 2,247,489
Lease income	511,548	-	-	-	511,548
Interest	31,150	13,095	9,579	11,264	65,088
Other	8,884	-	-	-	8,884
Total revenues	551,582	2,250,384	9,579	21,464	2,833,009
EXPENDITURES					
General government					
Personnel services:					
Salaries	189,252	-	-	-	189,252
Retirement	27,262	-	-	-	27,262
Payroll taxes	15,280	-	-	-	15,280
	231,794	-	-	-	231,794
Operating expenses:					
Tax Collector fees	-	39,424	-	-	39,424
Property Appraiser fees	-	70,099	-	-	70,099
Legal and accounting	23,244	-	-	-	23,244
Utilities	18,747	-	-	-	18,747
Insurance	12,597	-	-	-	12,597
Repairs and maintenance	47,297	-	-	3,424	50,721
(continued)					

See notes to financial statements.

LAKE SHORE HOSPITAL AUTHORITY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES
For the Fiscal Year Ended September 30, 2016

	Special Revenue Funds				Total
	General Fund	Hospital Services	Clinical Services	Capital Improvements Fund	Governmental Funds
Operating expenses (continued)					
Other	39,889	-	-	16,430	56,319
	<u>141,774</u>	<u>109,523</u>	<u>-</u>	<u>19,854</u>	<u>271,151</u>
Capital outlay					
Capital outlay	7,284	-	-	-	7,284
	<u>7,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,284</u>
Total general government	<u>380,852</u>	<u>109,523</u>	<u>-</u>	<u>19,854</u>	<u>510,229</u>
Health					
Indigent health services					
Patient care	-	789,190	57,225	-	846,415
On-call coverage	-	108,644	-	-	108,644
Pharmacy	-	-	12,680	-	12,680
Public education	10,730	-	-	-	10,730
	-	708	-	-	708
	<u>10,730</u>	<u>898,542</u>	<u>69,905</u>	<u>-</u>	<u>979,177</u>
Total expenditures	<u>391,582</u>	<u>1,008,065</u>	<u>69,905</u>	<u>19,854</u>	<u>1,489,406</u>
Net change in fund balance	160,000	1,242,319	(60,326)	1,610	1,343,603
Fund balances, at beginning of year	9,031,523	2,796,260	1,485,280	1,467,405	14,780,468
Fund balances, at end of year	<u>\$ 9,191,523</u>	<u>\$ 4,038,579</u>	<u>\$ 1,424,954</u>	<u>\$ 1,469,015</u>	<u>\$ 16,124,071</u>

See notes to financial statements.

LAKE SHORE HOSPITAL AUTHORITY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended September 30, 2016**

Net change in fund balances - Governmental Funds	\$ 1,343,603
--	--------------

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

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense.

Capital outlay	7,284	
Less current year depreciation	(55,979)	
Difference		(48,695)

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

Net increase in compensated absences	(9,477)
Net increase in net pension liability	(139,906)
Net increase in deferred outflows	134,912
Net increase in deferred inflows	(41,361)

Change in net position of governmental activities	\$ 1,239,076
---	--------------

LAKE SHORE HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS September 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lake Shore Hospital Authority is a special purpose, independent special district of the State of Florida. The Authority was established on July 10, 1963, by a special act of Florida Legislature, Chapter 63-1247 of the *Laws of Florida*. Accordingly, it is controlled by the Florida Constitution and various Florida Statutes as well as its enacting legislation and Authority policies. It is governed by a seven member board who are appointed by the Governor.

In June 1999, the GASB approved Statement 34 Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. This statement provides for significant changes in financial reporting and is scheduled for phased implementation over a three year period of time based on the size of the government. The Authority implemented these provisions in the 2004 fiscal year as required by the statement.

The financial statements of the Lake Shore Hospital Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below:

A. Reporting entity - The Authority's financial statements include all funds over which the Board of Trustees exercises oversight responsibility. Oversight responsibility includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations, and accountability for fiscal matters. Based upon the application of these criteria, management determined that no potential component units existed which should be included within the reporting entity. Likewise the Authority is not includible as a component unit within another reporting entity.

B. Fund Accounting - The Authority uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The various funds are grouped in the financial statements in this report into one fund type and three fund categories as follows:

Governmental Funds

General Fund – The General Fund is used to account for and report all financial resources not accounted for and reported in another fund. The Authority maintains the General Fund to account for revenues from its lease payment receipts.

Special Revenue Funds - Special Revenue funds are used to account for specific revenues that are legally or contractually restricted to expenditures for particular purposes. The Authority maintains separate special revenue funds to account for revenues from its lease payment receipts and ad valorem tax levies.

Capital Projects Fund - Capital Projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds. The Authority maintains the Capital Improvements Fund to account for the capital improvements associated with the on-going renovations of the leased hospital facilities.

C. Basic Financial Statements - Basic financial statements are presented at both the government-wide and fund financial level. Both levels of statements categorize primary activities as either governmental or business-type.

Government-wide financial statements report information about the reporting unit as a whole. For the most part, the effect of any interfund activity has been removed from these statements. These statements focus on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the year. These aggregated statements consist of the Statement of Net Position and the Statement of Activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Other items not reported as program revenues are reported instead as general revenues.

Fund financial statements report information at the individual fund level. Each fund is considered to be a separate accounting entity. The Authority reports the General Fund, special revenue funds, and a capital projects fund, and a debt service fund which are governmental funds.

D. Measurement focus, basis of accounting - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund financial statements are reported as using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net position.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Authority considers most revenues as available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when amounts have been accumulated for payments to be made early in the following year.

E. Cash and cash equivalents

Deposits with Financial Institutions - The Authority's cash at September 30, 2016, consists of legally authorized deposits in institutions which are certified as Qualified Public Depositories under the Florida Public Deposits Act. Therefore, the Authority's cash at September 30, 2016, is insured through the Bureau of Collateral Securities, Division of Treasury, State Department of Insurance.

Investments - Section 218.415, *Florida Statutes*, authorizes the Authority to invest in the Local Government Surplus Funds Trust, direct obligations of the United States Government, obligations unconditionally guaranteed by the United States, time deposits and savings accounts of Florida Qualified Depositories, and Securities and Exchange Commission restricted money market funds with the highest credit quality rating from a nationally recognized rating agency.

GASB Standard No. 3, "Deposits with Financial Institutions, Investment (including Repurchase Agreements), and Reverse Repurchase Agreements," stipulates that investments should be classified in credit risk categories to give an indication of the level of risk assumed at year end. Category 1 includes deposits that are insured or registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered deposits for which the securities are held by the counterparty's trust department or agent in the Authority's name. At year end, Authority investments consisted of certificates of deposit at qualified depositories which are insured. The investments are stated at the lower of cost or fair market value as prescribed by generally accepted accounting principles.

Description	Category		Cost	Market Value
	1	2		
Certificates of Deposit	\$6,035,237	\$ -	\$ 6,035,237	\$6,035,237
Tax Certificates	-	2,295	2,295	2,295
	<u>\$6,035,237</u>	<u>\$ 2,295</u>	<u>\$ 6,037,532</u>	<u>\$6,037,532</u>

F. Budgets - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the Authority's governmental funds. All annual appropriations lapse at fiscal year end. Budgeted amounts are as originally adopted or as amended by the Board of Trustees.

G. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Fund Balances – Governmental Funds – As of September 30, 2016, fund balances of the governmental funds are classified as follows:

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

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

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board. The Board is the highest level of decision making authority for the

Authority. Commitments may be established, modified, or rescinded only through resolutions approved by the Board.

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

Unassigned – all other spendable amounts.

As of September 30, 2016, fund balances are composed of the following:

	General Fund	Hospital Services Fund	Clinical Services Fund	Capital Improvements Fund	Total Governmental Funds
Nonspendable, long-term assets	\$ 5,993,944	\$ -	\$ -	\$ -	\$ 5,993,944
Assigned:					
Hospital services	-	4,038,579	-	-	4,038,579
Clinical services	-	-	1,424,954	-	1,424,954
Capital outlay	-	-	-	1,469,015	1,469,015
Legal expenses	400,000	-	-	-	400,000
Unassigned funds	2,797,579	-	-	-	2,797,579
Total fund balances	<u>\$ 9,191,523</u>	<u>\$ 4,038,579</u>	<u>\$ 1,424,954</u>	<u>\$ 1,469,015</u>	<u>\$ 16,124,071</u>

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

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

"Total fund balances" of the Authority's Governmental Funds \$16,124,071 differs from "Net Position" of governmental activities \$19,604,725 reported in the statement of net position. This difference results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet.

Capital related items

When capital assets (property, plant, equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net position included those capital assets among the capital assets of the Authority as a whole.

Property, plant and equipment of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	10 - 50
Machinery and equipment	5 - 14

Cost of capital assets	\$4,060,902
Accumulated depreciation	(441,228)
Total	<u>\$3,619,674</u>

Eliminations of interfund receivables/payable

Interfund receivables and payables in the amount of \$709,418 between governmental funds must be eliminated for the Statement of Net Position.

Long-term debt transactions

Long-term liabilities to the Authority's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statement of net position. Balances at September 30, 2016 were:

Compensated absences	\$ 27,022
Net pension liability	236,886
Deferred inflows of resources	41,361
Deferred outflows of resources	(166,249)
	<u>\$ 139,020</u>

LAKE SHORE HOSPITAL AUTHORITY

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

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

	Total Governmental Funds	Capital Related Items	Long-term Debt	Eliminations	Statement of Net Assets
ASSETS					
Cash and cash equivalents	\$ 9,013,864	\$ -	-	\$ -	\$ 9,013,864
Due from other funds	709,418	-	-	(709,418)	-
Accrued interest receivable	5,311	-	-	-	5,311
Prepaid expenses	1,190,477	-	-	-	1,190,477
Net investment in capital lease	5,993,944	-	-	-	5,993,944
Capital assets - net	-	3,619,674	-	-	3,619,674
Total assets	\$ 16,913,014	\$ 3,619,674	\$ -	\$ (709,418)	\$ 19,823,270
DEFERRED OUTFLOWS OF RESOURCES	-	-	166,249	-	166,249
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 25,846	\$ -	-	\$ -	\$ 25,846
Accrued liabilities	6,837	-	-	-	6,837
Prepaid lease	44,842	-	-	-	44,842
Deposit	2,000	-	-	-	2,000
Compensated absences	-	-	27,022	-	27,022
Due to other funds	709,418	-	-	(709,418)	-
Net pension liability	-	-	236,886	-	236,886
Total liabilities	788,943	-	263,908	(709,418)	343,433
DEFERRED INFLOWS OF RESOURCES	-	-	41,361	-	41,361
Fund balances/net position					
Invested in capital assets	-	3,619,674	-	-	3,619,674
Nonspendable, long-term assets	5,993,944	-	-	-	5,993,944
Assigned	7,332,548	-	-	-	7,332,548
Unassigned	2,797,579	-	(139,020)	-	2,658,559
Total net position	16,124,071	3,619,674	(139,020)	-	19,604,725
Total liabilities and fund balances/ net position	\$ 16,913,014	\$ 3,619,674	\$ 124,888	\$ (709,418)	\$ 19,948,158

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

The “net change in fund balances” for the Governmental Funds \$1,343,603 differs from the “change in net position” for governmental activities \$1,239,076 reported in the statement of activities. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Capital related items

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charges for the year.

Expenditures for capital assets	
Depreciation expense	<u><u>\$ 48,695</u></u>

Long-term debt transactions

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

Net increase in compensated absences	\$ 9,477
Net increase in net pension liability	139,906
Net increase in deferred outflows of resources	(134,912)
Net increase in deferred inflows of resources	<u>41,361</u>
	<u><u>\$ 55,832</u></u>

LAKE SHORE HOSPITAL AUTHORITY

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

B. Explanation of Differences Between Government Fund Operating Statements and the Statement of Activities				
	Total Governmental Funds	Capital Related Items	Long-term Debt	Statement of Activities
REVENUES				
Taxes	\$ 2,247,489	\$ -	\$ -	\$ 2,247,489
Interest	65,088	-	-	65,088
Lease income	511,548	-	-	511,548
Other	8,884	-	-	8,884
Total revenues	<u>2,833,009</u>	<u>-</u>	<u>-</u>	<u>2,833,009</u>
EXPENDITURES				
Current expenditures				
General government	510,229	48,695	55,832	614,756
Human services	979,177	-	-	979,177
Total expenditures	<u>1,489,406</u>	<u>48,695</u>	<u>55,832</u>	<u>1,593,933</u>
Excess (deficiency) of revenues over expenditures	1,343,603	(48,695)	(55,832)	1,239,076
Fund balances at October 1, 2015	14,780,468	3,668,369	(83,188)	18,365,649
Fund balances at September 30, 2016	<u>\$ 16,124,071</u>	<u>\$ 3,619,674</u>	<u>\$ (139,020)</u>	<u>\$ 19,604,725</u>

NOTE 3. PROPERTY TAX

As provided in the "Indigent Care Agreement" between the Authority and Lake Shore Hospital, Inc., and as allowed by its enacting laws, the Authority annually levies ad valorem property taxes in Columbia County to fund emergency indigent health care to eligible residents of the County.

Procedures for collecting delinquent taxes, including applicable tax certificate sales, tax deed sales and tangible personal property seizure and sales are provided for by the laws of Florida. Collections of Authority taxes and remittances, including delinquent taxes, are accounted for in the County Tax Collector's office in accordance with applicable Florida laws. Due to these collection procedures, no material amounts of unpaid taxes were outstanding at year end.

NOTE 4. COST-SHARING MULTIPLE EMPLOYER DEFINED BENEFIT PENSION PLANS - FLORIDA RETIREMENT SYSTEM PLAN AND THE RETIREE HEALTH INSURANCE SUBSIDY PROGRAM

Florida Retirement System:

General Information - All of the Authority's employees participate in the Florida Retirement System (FRS). As provided by Chapters 121 and 112, Florida Statutes, the FRS provides two cost sharing, multiple employer defined benefit plans administered by the Florida Department of Management Services, Division of Retirement, including the FRS Pension Plan ("Pension Plan") and the Retiree Health Insurance Subsidy ("HIS Plan"). Under Section 121.4501, Florida Statutes, the FRS also provides a defined contribution plan ("Investment Plan") alternative to the FRS Pension Plan, which is administered by the State Board of Administration ("SBA"). As a general rule, membership in the FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. The FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 121, Florida Statutes, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida State Legislature.

The State of Florida annually issues a publicly available financial report that includes financial statements and required supplementary information for the FRS. The latest available report may be obtained by writing to the State of Florida Division of Retirement, Department of Management Services, P.O. Box 9000, Tallahassee, Florida 32315-9000, or from the Web site: www.dms.myflorida.com/workforce_operations/retirement/publications.

Pension Plan

Plan Description - The Pension Plan is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program ("DROP") for eligible employees.

Benefits Provided - Benefits under the Pension Plan are computed on the basis of age, average final compensation, and service credit. For Pension Plan members enrolled before July 1, 2011, Regular class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Vested members with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special Risk Administrative Support class members who retire at or after age 55 with at least six years of credited service or 25 years of

service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 1.6% of their final average compensation based on the five highest years of salary, for each year of credited service. Special Risk class members (sworn law enforcement officers, firefighters, and correctional officers) who retire at or after age 55 with at least six years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation based on the five highest years of salary for each year of credited service. Senior Management Service class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 2.0% of their final average compensation based on the five highest years of salary for each year of credited service. Elected Officers' class members who retire at or after age 62 with at least six years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life, equal to 3.0% (3.33% for judges and justices) of their final average compensation based on the five highest years of salary for each year of credited service.

For Plan members enrolled on or after July 1, 2011, the vesting requirement is extended to eight years of credited service for all these members and increasing normal retirement to age 65 or 33 years of service regardless of age for Regular, Senior Management Service, and Elected Officers' class members, and to age 60 or 30 years of service regardless of age for Special Risk and Special Risk Administrative Support class members. Also, the final average compensation for all these members will be based on the eight highest years of salary.

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is three percent per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of three percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by three percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

In addition to the above benefits, the DROP program allows eligible members to defer receipt of monthly retirement benefit payments while continuing employment with a FRS employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the FRS Trust Fund and accrue interest. There are no required contributions by DROP participants.

Contributions – Effective July 1, 2011, all enrolled members of the FRS, other than DROP participants, are required to contribute three percent of their salary to the FRS. In addition to member contributions, governmental employers are required to make contributions to the FRS based on state-wide contribution rates established by the Florida Legislature. These rates are updated as of July 1 of each year. The employer contribution rates by job class for the periods from October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively, were as follows: Regular—7.26% and 7.52%; Special Risk Administrative Support—32.95% and 28.06%; Special Risk—22.04% and 22.57%; Senior Management Service—21.43% and 21.77%; Elected Officers'—42.27% and 42.47%; and DROP participants—12.88% and 12.99%. These employer contribution rates include 1.66% and 1.66% HIS Plan subsidy for the periods October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016, respectively.

The Authority's contributions, including employee contributions, to the Pension Plan totaled \$27,915 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At September 30, 2016, the Authority reported a liability of \$166,378 for its proportionate share of the Pension Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Authority's proportionate share of the net pension liability was based on the Authority's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the Authority's proportionate share was 0.000658922 percent, which was an increase of 5.48 percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended September 30, 2016, the Authority recognized pension expense of \$43,198. In addition the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 12,739	\$ 1,549
Changes in assumptions	10,065	-
Net difference between projected and actual earnings on Pension Plan investments	76,540	33,533
Changes in proportion and differences between Authority Pension Plan contributions and proportionate share of contributions	44,229	1,138
Authority Pension Plan contributions subsequent to the measurement date	5,942	-
Total	<u>\$ 149,515</u>	<u>\$ 36,220</u>

The deferred outflows of resources related to the Pension Plan, totaling \$5,942 resulting from Authority contributions to the Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Pension Plan will be recognized in pension expense as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2017	\$ 14,787
2018	14,787
2019	42,797
2020	29,290
2021	4,308
Thereafter	1,384
	<u>\$ 107,353</u>

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumption, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Investment rate of return	7.60%, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

The long-term expected rate of return on Pension Plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation (1)	Annual Arithmetic Return	Compound Annual (Geometric) Return	Standard Deviation
Cash	1.0%	3.0%	3.0%	1.7%
Fixed Income	18.0%	4.7%	4.6%	4.6%
Global Equity	53.0%	8.1%	6.8%	17.2%
Real Estate	10.0%	6.4%	5.8%	12.0%
Private Equity	6.0%	11.5%	7.8%	30.0%
Strategic Investments	12.0%	6.1%	5.6%	11.1%
Total	100.0%			
Assumed Inflation - Mean		2.6%		1.9%

(1) As outlined in the Pension Plan's investment policy

Discount Rate - The discount rate used to measure the total pension liability was 7.60%. The Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculation the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the Authority's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.60%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.60%) or one percentage point higher (8.6%) than the current rate:

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
Authority's proportionate share of the net pension liability	<u>\$ 306,313</u>	<u>\$ 166,378</u>	<u>\$ 49,900</u>

Pension Plan Fiduciary Net Position - Detailed information regarding the Pension Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2016, the Authority had \$2,659 in payables to report for outstanding contributions to the Pension Plan required for the fiscal year ended September 30, 2016.

HIS Plan

Plan Description - The HIS Plan is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida legislature at any time. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided - For the fiscal year ended September 30, 2016, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement, with a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month. To be eligible to receive these benefits, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which may include medicare.

Contributions - The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September 30, 2016, the HIS contribution for the period October 1, 2015 through June 30, 2016 and from July 1, 2016 through September 30, 2016 was 1.66% and 1.66%, respectively. The Authority contributed 100% of its statutorily required contributions for the current and preceding three years. HIS Plan contribution are deposited in a separate trust fund from which payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or cancelled.

The Authority's contributions, including employee contributions to the HIS Plan, totaled \$4,905 for the fiscal year ended September 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At September 30, 2016, the Authority reported a liability of \$70,508 for its proportionate share of the HIS Plan's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The Authority's proportionate share of the net pension liability was based on the Authority's 2015-16 fiscal year contributions relative to the 2014-15 fiscal year contributions of all participating members. At June 30, 2016, the Authority's proportionate share was 0.000604983 percent, which was an increase (decrease) of (3.90) percent from its proportionate share measured as of June 30, 2014.

For the fiscal year ended September 30, 2016, the Authority recognized pension expense of \$3,157. In addition the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 161
Changes in assumptions	11,065	-
Net difference between projected and actual earnings on HIS Plan investments	36	-
Changes in proportion and differences between Authority HIS Plan contributions and proportionate share of contributions	4,866	4,980
Authority HIS Plan contributions subsequent to the measurement date	767	-
Total	<u>\$ 16,734</u>	<u>\$ 5,141</u>

The deferred outflows of resources related to the HIS Plan, totaling \$767 resulting from Authority contributions to the HIS Plan subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIS Plan will be recognized in pension expense as follows:

Fiscal Year Ending September 30	Amount
2017	\$ 1,939
2018	1,939
2019	1,932
2020	1,929
2021	1,668
Thereafter	1,419
	<u>\$ 10,826</u>

Actuarial Assumptions – The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 %
Salary increases	3.25%, average, including inflation
Municipal bond rate	2.85 %

Mortality rates were based on the Generational RP-2000 with Projection Scale BB tables.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008 through June 30, 2013.

Discount Rate - The discount rate used to measure the total pension liability was 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the HIS Plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the Authority's Proportionate Share of the Net Position Liability to Changes in the Discount Rate - The following represents the Authority's proportionate share of the net pension liability calculated using the discount rate of 2.85%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (1.85%) or one percentage point higher (3.85%) than the current rate:

	1% Decrease (1.85%)	Current Discount Rate (2.85%)	1% Increase (3.85%)
Authority's proportionate share of the net pension liability	\$ 80,889	\$ 70,508	\$ 61,893

Pension Plan Fiduciary Net Position - Detailed information regarding the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan - At September 30, 2016, the Authority did not have any payables to report for outstanding contributions to the HIS Plan required for the fiscal year ended September 30, 2016.

NOTE 5. DEPOSITS

The bank balances of the Authority's deposits were fully insured by federal depository insurance or pledged collateral under state law.

NOTE 6. LONG TERM CAPITAL LEASE

On April 1, 1987, Lake Shore Hospital Authority of Columbia County, Florida (lessor), acting through its Board of Trustees entered into a lease agreement with Lake Shore Hospital, Inc., (lessee), a Florida not-for-profit corporation, a wholly owned subsidiary of Santa Fe Health Care, Inc., and a charitable corporation, as described in section 501(c)(3) of the Internal Revenue Code of 1954, as amended.

Terms of lease are in part as follows:

- A. **Property Leased:** All hospital property, plant and equipment.
- B. **Duration of Term:** April 1, 1987 through March 31, 2022.

- C. Lease Payment: The lessee shall pay as lease payments to lessor the sum of \$600,000 annually in equal monthly installments. The lease payment shall be used to pay the debt service required to be paid by lessor on the existing and future long-term debt of the lessor.

On January 31, 1996, the Authority entered into an agreement consenting to the assignment of this lease agreement to Southeastern Healthcare Foundation, Inc. (Southeastern) a wholly owned affiliate of Shands Teaching Hospitals and Clinics, Inc. In conjunction with this lease assignment, the lease terms were amended in the following significant areas concerning financial matters:

1. The lease term was extended nine years, so as to expire on March 31, 2031.
2. Southeastern will guarantee payment of the outstanding bond issue by making an escrow deposit with a Trustee in the amount of the bonds, and directly making all payments and performing all conditions relating to the bonds. This escrow deposit will remain with the Trustee so long as the Authority levies the ad valorem tax required by the "Indigent Care Agreement" described in Note 3.
3. Once these provisions relating to the bond issue are enacted by Southeastern, the lease payments will be reduced to \$240,000 per year, which is net of the bond issue payments. This lease amount will be adjusted annually based upon changes in the Consumer Price Index.
4. The "working capital" long-term receivable of \$1,259,282 was returned to the Authority by Lake Shore Hospital, Inc. on March 4, 1996.

On March 12, 1997, this lease was subsequently assigned by Southeastern to Shands at Lake Shore, Inc., another wholly owned affiliate of Shands Teaching Hospitals and Clinics, Inc., under substantially the same terms.

On July 25, 2003, the Authority entered into an Amended and Restated Lease Agreement with Shands at Lake Shore, Inc. The terms of this agreement incorporated, and were substantially the same as the significant provisions of the preceding agreements.

Effective on July 1, 2010, the Authority entered into an amended and restated lease agreement with HMA Lake Shore, Inc. Under the terms of this agreement, the existing hospital lease was assigned to HMA Lake Shore, Inc., a private corporation. The terms of the lease remained substantially the same except the term which was extended until June 30, 2040, and the full amount of the lease payment was recalculated to \$389,303 annually payable in equal monthly installments. The amount of the monthly payment will be adjusted annually in accordance with the change in the CPI-U index. Other provisions required Shands at Lake Shore, Inc. to pay off the outstanding balance of the bonds described in Note 7, below, and provisions requiring clarification of lessee responsibility for building repairs and renovations.

The Authority's net investment in this direct financing lease at September 30, 2016, was \$5,993,944. Lease payments in the amount of \$434,708 were received for the current year.

Future minimum payments to be received from the direct financing lease as of September 30, 2016, are as follows:

Fiscal Year Ending September 30,		
2017	\$	447,186
2018		456,130
2019		465,253
2020		474,558
2021		484,049
2022-2026		2,569,391
2027-2031		2,836,815
2032-2036		3,132,073
2037-2040		2,562,498
		<u>13,427,953</u>
Less amount representing interest revenue under the lease		(7,434,009)
	\$	<u>5,993,944</u>

NOTE 7. INTERFUND ASSETS/LIABILITIES

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Hospital services	Operating	\$ 686,389
Clinical services	Hospital services	12,829
Capital improvements	Hospital services	10,200
		<u>\$ 709,418</u>

NOTE 8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2016, follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land	\$2,249,092	\$ -	\$ -	\$2,249,092
Depreciable				
Buildings	1,703,237	-	-	1,703,237
Equipment	101,289	7,284	-	108,573
Total depreciable	1,804,526	7,284	-	1,811,810
Accumulated depreciation	(385,249)	(55,979)	-	(441,228)
Depreciable capital assets, net	<u>1,419,277</u>	<u>(48,695)</u>	<u>-</u>	<u>1,370,582</u>
 Total capital assets, net	 <u>\$3,668,369</u>	 <u>\$ (48,695)</u>	 <u>\$ -</u>	 <u>\$3,619,674</u>

Total depreciation of \$55,979 was charged to the General Government function of the Authority primary government.

NOTE 9. RISK MANAGEMENT

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

NOTE 10. SUBSEQUENT EVENTS

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through March 2, 2017, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE SHORE HOPITAL AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Lease income	\$ 556,150	\$ 556,150	\$ 511,548	\$ (44,602)
Interest	20,000	20,000	31,150	11,150
Other	-	-	8,884	8,884
Total revenues	<u>576,150</u>	<u>576,150</u>	<u>551,582</u>	<u>(24,568)</u>
EXPENDITURES				
General government				
Personnel services				
Salaries	183,825	189,500	189,252	248
Payroll taxes	14,062	15,500	15,280	220
Retirement	26,319	27,320	27,262	58
Workers Compensation	1,092	1,092	-	1,092
	<u>225,298</u>	<u>233,412</u>	<u>231,794</u>	<u>1,618</u>
Operating expenses				
Legal and accounting	60,000	26,000	23,244	2,756
Insurance	21,000	14,000	12,597	1,403
Repairs and maintenance	15,000	48,000	47,297	703
Utilities	21,100	21,100	18,747	2,353
Other	44,600	48,200	39,889	8,311
	<u>161,700</u>	<u>157,300</u>	<u>141,774</u>	<u>15,526</u>
Capital outlay				
Capital outlay	-	10,000	7,284	2,716
	<u>-</u>	<u>-</u>	<u>7,284</u>	<u>2,716</u>
Total general government	<u>386,998</u>	<u>400,712</u>	<u>380,852</u>	<u>19,860</u>
Indigent patient care at clinics				
Indigent patient serices				
Public education	10,000	11,000	10,730	270
	<u>10,000</u>	<u>11,000</u>	<u>10,730</u>	<u>270</u>
Total expenditures	<u>396,998</u>	<u>411,712</u>	<u>391,582</u>	<u>20,130</u>
Excess of revenues over (under) expenditures	179,152	164,438	160,000	(4,438)
Fund balance, at beginning of year	9,031,523	9,031,523	9,031,523	-
Fund balance, at end of year	<u>\$ 9,210,675</u>	<u>\$ 9,195,961</u>	<u>\$ 9,191,523</u>	<u>\$ (4,438)</u>

LAKE SHORE HOSPITAL AUTHORITY
HOSPITAL SERVICES FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 2,181,639	\$ 2,181,639	\$ 2,237,289	55,650
Interest	5,000	5,000	13,095	8,095
Total revenues	<u>2,186,639</u>	<u>2,186,639</u>	<u>2,250,384</u>	<u>63,745</u>
EXPENDITURES				
Operating expenses				
Tax collector fees	50,000	40,000	39,424	576
Property appraiser fees	50,000	71,000	70,099	901
	<u>100,000</u>	<u>111,000</u>	<u>109,523</u>	<u>1,477</u>
Health care services				
Indigent health services	2,400,000	2,387,000	789,190	1,597,810
On-call coverage	160,000	160,000	108,644	51,356
Other indigent care	-	2,000	708	1,292
	<u>2,560,000</u>	<u>2,549,000</u>	<u>898,542</u>	<u>1,650,458</u>
Total expenditures	<u>2,660,000</u>	<u>2,660,000</u>	<u>1,008,065</u>	<u>1,651,935</u>
Excess of revenues over (under) expenditures	(473,361)	(473,361)	1,242,319	1,715,680
Fund balance, at beginning of year	2,796,260	2,796,260	2,796,260	-
Fund balance, at end of year	<u>\$ 2,322,899</u>	<u>\$ 2,322,899</u>	<u>\$ 4,038,579</u>	<u>\$ 1,715,680</u>

LAKE SHORE HOSPITAL AUTHORITY
CLINICAL SERVICES FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For tthe Fiscal Year Ended September 30, 2016

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Interest	\$ 5,000	\$ 9,579	\$ 4,579
Total revenues	<u>5,000</u>	<u>9,579</u>	<u>4,579</u>
EXPENDITURES			
Health care services			
Indigent patient services	550,000	57,225	492,775
Pharmacy	<u>50,000</u>	<u>12,680</u>	<u>37,320</u>
	<u>600,000</u>	<u>69,905</u>	<u>530,095</u>
Total expenditures	<u>600,000</u>	<u>69,905</u>	<u>530,095</u>
Excess of revenues over (under) expenditures	(595,000)	(60,326)	534,674
Fund balance, at beginning of year	<u>1,485,280</u>	<u>1,485,280</u>	-
Fund balance, at end of year	<u>\$ 890,280</u>	<u>\$ 1,424,954</u>	<u>\$ 534,674</u>

LAKE SHORE HOSPITAL AUTHORITY
CAPITAL IMPROVEMENTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended September 30, 2016

	Original and Final Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 10,200	\$ 10,200	\$ 10,200	\$ -
Interest	1,000	1,000	11,264	10,264
Total revenues	<u>11,200</u>	<u>11,200</u>	<u>21,464</u>	<u>10,264</u>
EXPENDITURES				
Repairs and maintenance	-	3,500	3,424	76
Other services	-	17,000	16,430	570
Total expenditures	<u>-</u>	<u>20,500</u>	<u>19,854</u>	<u>646</u>
Excess of revenues over (under) expenditures	11,200	(9,300)	1,610	10,910
Fund balance, at beginning of year	1,467,405	1,467,405	1,467,405	-
Fund balance, at end of year	<u>\$ 1,478,605</u>	<u>\$ 1,458,105</u>	<u>\$ 1,469,015</u>	<u>\$ 10,910</u>

LAKE SHORE HOSPITAL AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended September 30, 2016

A. Budgetary Information:

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America for all funds. All annual appropriations lapse at fiscal year end.

The Authority generally follows these procedures in establishing the budgetary data for the governmental funds as reflected in the financial statements:

1. Prior to September 30, the Executive Director submits to the Board of Trustees a proposed operating budget for the fiscal year commencing the following October. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted following preliminary examination and revision of the proposed operating budget by the Board of Trustees.
3. After public hearings and necessary revisions have been completed, the budget is approved.
4. The legal level of budgetary control is the fund level.
5. Formal budgetary integration is employed as a management control device during the year for all funds of the Authority.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF LAKE SHORE HOSPITAL AUTHORITY'S
PROPORTIONATE SHARE OF NET PENSION LIABILITY
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
LAST 10 FISCAL YEARS***

	2016	2015	2014
Authority's proportion of the FRS net pension liability	0.000658922	0.000624707%	0.000624707%
Authority's proportionate share of the FRS net pension liability	\$ 166,378	\$ 38,116	\$ 38,116
Authority's proportion of the HIS net pension liability	0.000604983	0.006295400%	0.000629540%
Authority's proportionate share of the HIS net pension liability	\$ 70,508	58,864	58,864
Authority's proportionate share of the total net pension liability	\$ 236,886	\$ 96,980	\$ 96,980
Authority's covered-employee payroll	\$ 189,252	\$ 165,485	\$ 180,402
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	125.16%	58.60%	53.76%
Plan fiduciary net position as a percentage of the total pension liability	79.36%	86.53%	90.67%

Note 1) The amounts presented for each year were determined as of the June 30 year end of the Florida Retirement System

*GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, only those years for which information is available is presented.

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF LAKE SHORE HOSPITAL AUTHORITY'S CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
LAST 10 FISCAL YEARS***

	2016	2015	2014
Contractually required FRS contribution	\$ 23,187	\$ 21,357	\$ 20,275
Contractually required HIS contribution	4,075	3,753	3,563
Total Contractually Required Contributions	<u>27,262</u>	<u>25,110</u>	<u>23,838</u>
Contributions in relation to the contractually required contribution	(27,262)	(25,110)	(23,838)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 189,252	\$ 165,485	\$ 180,462
Contributions as a percentage of covered-employee payroll	14.41%	15.17%	13.21%

*GASB 68 requires information for 10 years. However, until a full 10-year trend is compiled, only those years for which information is available is presented.

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
LAKE SHORE HOSPITAL AUTHORITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY AND REQUIRED CONTRIBUTIONS
FLORIDA RETIREMENT SYSTEM AND HEALTH INSURANCE SUBSIDY PROGRAM
For the Fiscal Year End September 30, 2016**

Net Pension Liability

The components of the collective net pension liability of the participating employers for each defined benefit plan for the measurement date of September 30, 2016, are shown below (in thousands):

	<u>FRS</u>	<u>HIS</u>
Total pension liability	\$ 167,030,999	\$11,768,445
Plan fiduciary net position	(141,780,921)	(113,859)
	<u>\$ 25,250,078</u>	<u>\$11,654,586</u>
 Plan fiduciary net position as a percentage of the total pension liability	 84.88%	 0.97%

The total pension liability for each plan was determined by the plans' actuary and reported in the plans' valuations dated July 1, 2016. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

The HIS actuarial valuation was prepared as of July 1, 2016. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the Plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements.

Basis for Allocation

The employer's proportionate share reported in the pension allocation schedules was calculated using accrued retirement contributions related to the reporting periods included in the System's fiscal years ending June 30, 2013, 2014, 2015 and 2016, respectively, for employers that were members of the FRS and HIS during those fiscal years. For fiscal years 2015 and 2016, in addition to contributions from employers the required accrued contributions for the Division (paid on behalf of the Division's employees who administer the Plans) were allocated to each employer on a proportionate basis. The Division administers the Plans, and therefore, cannot allocate a portion of the liability to itself. Although GASB 68 encourages the use of the employers' projected long-term contribution effort to the retirement plan, allocating on the basis of historical employer contributions is acceptable. The aggregate employer contribution amounts for each fiscal year agree to the employer contribution amounts reported in the system's CAFR for that fiscal year.

The proportion calculated based on contributions for each of the fiscal years presented in the pension allocation schedules was applied to the net pension liability and other pension amounts

applicable for that fiscal year to determine each employer's proportionate share of the liability, deferred outflows of resources, deferred inflow of resources and associated pension expense.

For the purposes of the pension allocation schedules, pension amounts are allocated to reporting employers. The pension amounts of participating employers whose payrolls are reported and contributions are remitted by another entity are included in the reporting employer's amounts and will be allocated to the participating employer by the reporting employer.

Actuarial Methods and Assumptions

Actuarial assumptions for both cost-sharing defined benefit plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The FRS Pension Plan has a valuation performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008 through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both Plans is assumed at 2.60%. Payroll growth, including inflation, for both Plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.60%. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 2.85% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both Plans were based on the Generational RP-2000 with Projection Scale BB tables (refer to the valuation reports for more information – See Additional Financial and Actuarial Information).

The following changes in actuarial assumptions occurred in 2015:

- FRS: The long-term expected rate of return was decreased from 7.65% to 7.60%, and the active member was mortality assumption was updated.
- HIS: The municipal bonds rate used to determine total pension liability was decreased from 3.80% to 2.85%.

COMPLIANCE SECTION

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

To the Board of Trustees
Lake Shore Hospital Authority
Lake City, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Lake Shore Hospital Authority, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Lake Shore Hospital Authority's basic financial statements, and have issued our report thereon dated March 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lake Shore 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 Lake Shore Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Lake Shore 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, we identified the following deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting.

**Finding 2011-1 (Fifth succeeding year)
Financial Statement Preparation**

A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. While your auditor can assist with the preparation of your financial statements and related footnotes, the financial statements are the responsibility of management. A deficiency in internal control exists when the government does not have the expertise necessary to prevent, detect, and correct misstatements. A deficiency in internal control exists in instances where Lake Shore Hospital Authority is not capable of drafting the financial

statements and all required footnotes disclosures in accordance with generally accepted accounting principles. Possessing suitable skill, knowledge, or experience to oversee services an auditor provides in assisting with financial statement presentation requires a lower level of technical knowledge than the competence required to prepare the financial statements and disclosures.

MANAGEMENT'S RESPONSE

We agree with this finding. We are a very small government and have used our available resources to employ a competent bookkeeper who maintains excellent accounting records and provides accurate monthly financial reports prepared generally on the cash basis. We likewise have confidence in our audit firm to utilize these records and prepare annual financial statements in the required formats and with all associated note disclosures. Both staff and the Board of Trustees review the annual financial reports and have the opportunity to ask the auditor any questions regarding the report prior to its formal presentation. The report is formally presented by the auditor at a scheduled meeting of the Board of Trustees.

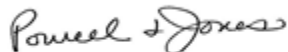
At this time, we do not believe it would be a justifiable expense to employ another accountant on either a part-time or full-time basis to prepare the annual financial statements. We thus accept this required disclosure finding and will continue to monitor this situation in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Shore 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.



POWELL & JONES

Certified Public Accountants

March 2, 2017

MANAGEMENT LETTER

To the Board of Trustees
Lake Shore Hospital Authority
Lake City, Florida

We have audited the financial statements of the Lake Shore Hospital Authority, as of and for the year ended September 30, 2016, and have issued our report thereon dated March 2, 2017. We have also issued our report on compliance and on internal control over financial reporting. That report should be considered in conjunction with this management letter.

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. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

PRIOR YEAR FINDINGS - There were no reportable findings in the prior year.

CURRENT YEAR FINDINGS - There were no reportable findings in the current year.

AUDITOR GENERAL COMPLIANCE MATTERS

Annual Local Government Financial Report - The Financial Report filed with the Department of Financial Services pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the accompanying financial statements of Lake Shore Hospital Authority, for the year ended September 30, 2016.

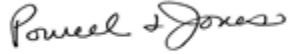
Financial Emergency Status - We determined that the Authority did not meet any of the conditions described in Section 218.503(1), *Florida Statutes*, that might result in a financial emergency.

Financial Condition Assessment - As required by the *Rules of the Auditor General* (Sections 10.555(7)(c) and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information they provided.

Our audit did not disclose any further items that would be required to be reported under the *Rules of the Auditor General*, Chapter 10.550.

CONCLUSION

We very much enjoyed the challenge and experiences associated with this year's audit of the Authority. We are pleased with the continuing fiscal strength of the Authority. We look forward to working with you in the future.

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

POWELL & JONES
Certified Public Accountants
March 2, 2017

INDEPENDENT ACCOUNTANT'S REPORT

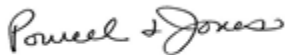
To the Board of Trustees
Lake Shore Hospital Authority
Lake City, Florida

We have examined the Lake Shore Hospital Authority's compliance with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the year ended September 30, 2016. Management is responsible for the Authority's compliance with those requirements. Our responsibility is to express an opinion on the Authority's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Authority's compliance with specified requirements.

In our opinion, the Authority complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2016.

This report is intended solely for the information and use of the Authority 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.



POWELL & JONES
Certified Public Accountants
March 2, 2017

Communication with Those Charged with Governance

To the Board of Trustees
Lake Shore Hospital Authority
Lake City, FL

We have audited the financial statements of Lake Shore Hospital Authority for the year ended September 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lake Shore Hospital Authority are described Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no sensitive estimates affecting Lake Shore Hospital Authority's financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures affecting the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no such misstatements identified during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 2, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

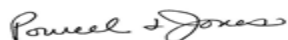
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Trustees and management of Lake Shore Hospital Authority, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



POWELL & JONES
Certified Public Accountants
March 2, 2017

RESPONSE TO AUDIT FINDINGS

To the Auditor General
State of Florida
Tallahassee, Florida

Dear Sir:

As required by Section 10.558(1), *Rules of the Auditor General*, I am filing this response to our audit report for the fiscal year ended September 30, 2016.

The audit has been presented to and reviewed by the Board of Trustees. No comments were noted regarding the audit report. We are pleased that no prior year or current year findings were noted in the audit, or management letter.

Finding 2011-Financial Statement Preparation

We agree with this finding. We are a very small government and have used our available resources to employ a competent bookkeeper who maintains excellent accounting records and provides accurate monthly financial reports prepared generally on the cash basis. We likewise have confidence in our audit firm to utilize these records and prepare annual financial statements in the required formats and with all associated note disclosures. Both staff and the Board of Trustees review the annual financial reports and have the opportunity to ask the auditor any questions regarding the report prior to its formal presentation. The report is formally presented by the auditor at a scheduled meeting of the Board of Trustees.

At this time, we do not believe it would be a justifiable expense to employ another accountant on either a part-time or full-time basis to prepare the annual financial statements. We thus accept this required disclosure finding and will continue to monitor this situation in the future.

Sincerely,



Jack Berry
Executive Director
March 12, 2017