

LAKE SHORE HOSPITAL AUTHORITY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2013

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ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2013

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INTRODUCTORY SECTION

LAKE SHORE HOSPITAL AUTHORITY

LIST OF PRINCIPAL OFFICIALS

September 30, 2013

BOARD OF TRUSTEES

CHAIRMAN	Dr. Waseem Khan
VICE-CHAIR	Stephen Douglas
SECRETARY/TREASURER	Loretta Chancy
BOARD MEMBERS	DeKoven Adams Mark Vann Tim Murphy
ATTORNEY	Marlin M. Feagle

FINANCIAL SECTION



Powell & Jones
Certified Public Accountants

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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, 2013, 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, 2013, 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 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 February 22, 2014, 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
February 22, 2014

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, 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, 2013, follows:

Net Position at September 30, 2013 and 2012

	Governmental Activities/ Total Government	
	2013	2012
Assets		
Cash and investments	\$ 7,156,034	\$ 7,239,566
Receivables	4,450	73,423
Prepaid expenses	343,612	900,367
Capital assets, net of accumulated depreciation	4,297,087	4,336,724
Net investment in capital lease	5,980,250	5,960,594
Total assets	<u>17,781,433</u>	<u>18,510,674</u>
Liabilities		
Current liabilities	<u>105,575</u>	<u>52,080</u>
Total liabilities	<u>105,575</u>	<u>52,080</u>
Net position		
Invested in capital assets	4,297,087	4,336,724
Invested in capital lease	5,980,250	5,960,594
Unrestricted	<u>7,398,521</u>	<u>8,161,276</u>
Total net position	<u>\$17,675,858</u>	<u>\$18,458,594</u>

During the year ended September 30, 2013, 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, 2013 and 2012

	Governmental Activities/ Total Government	
	2013	2012
Revenues:		
General revenues		
Ad valorem taxes	\$ 2,121,169	\$ 2,305,292
Interest	121,610	161,964
Lease income	444,788	436,108
Other	340	131
Total revenues	<u>2,687,907</u>	<u>2,903,495</u>
Expenses:		
General government	520,633	542,870
Human services	<u>2,950,010</u>	<u>3,259,105</u>
Total expenses	<u>3,470,643</u>	<u>3,801,975</u>
Other financing services (uses)		
Interfund transfers in	675,000	600,000
Interfund transfers out	<u>(675,000)</u>	<u>(600,000)</u>
Total other financing services (uses)	<u>-</u>	<u>-</u>
Decrease in net position	(782,736)	(898,480)
Beginning net position	18,458,594	19,357,074
Ending net position	<u>\$17,675,858</u>	<u>\$ 18,458,594</u>

Governmental activities

Health care program expenditures remained similar to the prior year.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2013, the Authority has \$4,297,087 invested in capital assets, consisting primarily of land and buildings.

Capital Assets at September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Land	\$2,776,592	\$2,776,592
Building	1,733,073	1,733,073
Office equipment	<u>61,656</u>	<u>46,793</u>
	4,571,321	4,556,458
Accumulated depreciation	<u>(274,234)</u>	<u>(219,734)</u>
Capital assets, net	<u><u>\$4,297,087</u></u>	<u><u>\$4,336,724</u></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, 2013

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 5,199,700
Accrued interest receivable	4,450
Investments	1,956,334
Prepaid expenses	343,612
Total current assets	<u>7,504,096</u>
Capital assets, net of accumulated depreciation	<u>4,297,087</u>
OTHER ASSETS	
Net investment in capital lease	5,980,250
Total assets	<u>\$ 17,781,433</u>
LIABILITIES	
Accounts payable	\$ 34,102
Accrued liabilities	14,078
Prepaid lease	44,842
Deposits	2,000
Compensated absences	10,553
Total liabilities	<u>105,575</u>
NET POSITION	
Invested in capital assets	4,297,087
Invested in capital lease	5,980,250
Unrestricted	7,398,521
Total net position	<u>\$ 17,675,858</u>

LAKE SHORE HOSPITAL AUTHORITY

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2013

	Expenses	Net (Expenses) Revenue and Change in Net Position
		Governmental Activities Total
Governmental activities:		
General government	\$ (520,633)	\$ (520,633)
Human services - healthcare	(2,950,010)	(2,950,010)
Total governmental activities	<u>\$ (3,470,643)</u>	<u>(3,470,643)</u>
General revenues:		
Ad valorem taxes		2,121,169
Interest		121,610
Lease income		444,788
Miscellaneous		340
Total general revenues		<u>2,687,907</u>
Change in net position		(782,736)
Net position, beginning of the year		<u>18,458,594</u>
Net position, end of year		<u>\$ 17,675,858</u>

LAKE SHORE HOSPITAL AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET
September 30, 2013

	Special Revenue Funds			Capital Improvements Fund	Total Governmental Funds
	General Fund	Hospital Services	Clinical Services		
ASSETS					
Cash	\$ 2,942,774	\$ 96,521	\$ 215,050	\$ 1,945,355	\$ 5,199,700
Due from other funds	-	686,389	812,839	-	1,499,228
Investments	1,242,940	-	713,394	-	1,956,334
Prepaid expenses	6,896	336,716	-	-	343,612
Accrued interest receivable	2,845	-	1,605	-	4,450
Net investment in capital lease	5,980,250	-	-	-	5,980,250
Total assets	\$ 10,175,705	\$ 1,119,626	\$ 1,742,888	\$ 1,945,355	14,983,574
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 3,928	\$ 13,333	\$ 16,841	\$ -	\$ 34,102
Accrued liabilities	14,078	-	-	-	14,078
Prepaid lease	44,842	-	-	-	44,842
Deposit	2,000	-	-	-	2,000
Due to other funds	686,389	812,839	-	-	1,499,228
Total liabilities	751,237	826,172	16,841	-	1,594,250
Fund balances:					
Restricted, long-term assets	5,980,250	-	-	-	5,980,250
Assigned	-	293,454	1,726,047	1,945,355	3,964,856
Unassigned	3,444,218	-	-	-	3,444,218
Total fund balances	9,424,468	293,454	1,726,047	1,945,355	13,389,324
Total liabilities and fund balances	\$ 10,175,705	\$ 1,119,626	\$ 1,742,888	\$ 1,945,355	

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	4,297,087
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(10,553)
Net position of governmental activities	\$ 17,675,858

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, 2013

	<u>Special Revenue Funds</u>			Capital Improvements Fund	Total Governmental Funds
	General Fund	Hospital Services	Clinical Services		
REVENUES					
Taxes - ad valorem	\$ -	\$ 1,371,169	\$ 750,000	\$ -	\$ 2,121,169
Lease income	444,788	-	-	-	444,788
Interest	107,433	1,491	5,393	7,293	121,610
Other	340	-	-	-	340
Total revenues	<u>552,561</u>	<u>1,372,660</u>	<u>755,393</u>	<u>7,293</u>	<u>2,687,907</u>
EXPENDITURES					
General government					
Personnel services:					
Salaries	179,870	-	-	-	179,870
Retirement	15,476	-	-	-	15,476
Payroll taxes	13,741	-	-	-	13,741
Workers compensation	677	-	-	-	677
Insurance	20,494	-	-	-	20,494
	<u>230,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>230,258</u>
Operating expenses:					
Tax Collector fees	-	33,424	-	-	33,424
Property Appraiser fees	-	60,342	-	-	60,342
Legal and accounting	27,323	-	-	-	27,323
Professional services	-	-	-	15,500	15,500
Utilities	10,047	-	-	-	10,047
Insurance	16,332	-	-	-	16,332
Repairs and maintenance	24,812	-	-	956	25,768
(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, 2013

	Special Revenue Funds			Capital Improvements Fund	Total Governmental Funds
	General Fund	Hospital Services	Clinical Services		
Operating expenses (continued)					
Other	26,392	9,821	252	121	36,586
	<u>104,906</u>	<u>103,587</u>	<u>252</u>	<u>16,577</u>	<u>225,322</u>
Total general government	<u>335,164</u>	<u>103,587</u>	<u>252</u>	<u>16,577</u>	<u>455,580</u>
Health					
Indigent health services					
Patient care	-	2,004,653	189,932	-	2,194,585
On-call coverage	-	154,269	-	-	154,269
Pharmacy	-	-	30,195	-	30,195
Public education	3,922	-	-	-	3,922
Capital contribution	-	-	-	567,039	567,039
	<u>3,922</u>	<u>2,158,922</u>	<u>220,127</u>	<u>567,039</u>	<u>2,950,010</u>
Capital outlay	14,863	-	-	-	14,863
Total expenditures	<u>353,949</u>	<u>2,262,509</u>	<u>220,379</u>	<u>583,616</u>	<u>3,420,453</u>
Excess (deficiency) of revenues over expenditures	198,612	(889,849)	535,014	(576,323)	(732,546)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	675,000	-	-	675,000
Interfund transfers out	(675,000)	-	-	-	(675,000)
Total other financing	<u>(675,000)</u>	<u>675,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>(476,388)</u>	<u>(214,849)</u>	<u>535,014</u>	<u>(576,323)</u>	<u>(732,546)</u>
Fund balances, at beginning of year	9,900,856	508,303	1,191,033	2,521,678	14,121,870
Fund balances, at end of year	<u>\$ 9,424,468</u>	<u>\$ 293,454</u>	<u>\$ 1,726,047</u>	<u>\$ 1,945,355</u>	<u>\$ 13,389,324</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, 2013

Net change in fund balances - Governmental Funds	\$	(732,546)
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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	14,863	
Less current year depreciation	(54,500)	
Difference		(39,637)

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		(10,553)
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Change in net position of governmental activities	\$	<u>(782,736)</u>
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See notes to financial statements.

LAKE SHORE HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS
September 30, 2013

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 government al. 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, 2013, 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, 2013, 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.

<u>Description</u>	<u>Category</u>		<u>Cost</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>		
Certificates of Deposit	\$1,956,334	\$ -	\$1,956,334	\$1,956,334
	<u>\$1,956,334</u>	<u>\$ -</u>	<u>\$1,956,334</u>	<u>\$1,956,334</u>

F. Budgets - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the Authority's special revenue 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, 2013, 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, 2013, fund balances are composed of the following:

	General Fund	Hospital Services Fund	Clinical Services Fund	Capital Improvements Fund	Total Governmental Funds
Nonspendable, long-term asset	\$ 5,980,250	\$ -	\$ -	\$ -	\$ 5,980,250
Assigned:					
Hospital services	-	793,454	-	-	793,454
Clinical services	-	-	1,726,047	-	1,726,047
Capital outlay	-	-	-	1,445,355	1,445,355
Unassigned funds	3,444,218	-	-	-	3,444,218
Total fund balances	<u>\$9,424,468</u>	<u>\$ 793,454</u>	<u>\$1,726,047</u>	<u>\$1,445,355</u>	<u>\$ 13,389,324</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 \$13,389,324 differs from "Net Position" of governmental activities \$17,675,858 reported in the statement of net position. This difference results from the long-term economical 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	\$4,571,321
Accumulated depreciation	<u>(274,234)</u>
Total	<u>\$4,297,087</u>

Eliminations of interfund receivables/payable

Interfund receivables and payables in the amount of \$1,499,228 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, 2013 were:

Compensated absences: \$10,553

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	\$ 7,156,034	\$ -	\$ -	\$ -	\$ 7,156,034
Due from other funds	1,499,228	-	-	(1,499,228)	-
Accrued interest receivable	4,450	-	-	-	4,450
Prepaid expenses	343,612	-	-	-	343,612
Net investment in capital lease	5,980,250	-	-	-	5,980,250
Capital assets - net	-	4,297,087	-	-	4,297,087
Total assets	\$ 14,983,574	\$ 4,297,087	\$ -	\$ (1,499,228)	\$ 17,781,433
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 34,102	\$ -	\$ -	\$ -	\$ 34,102
Accrued liabilities	14,078	-	-	-	14,078
Prepaid lease	44,842	-	-	-	44,842
Deposit	2,000	-	-	-	2,000
Compensated absences	-	-	10,553	-	10,553
Due to other funds	1,499,228	-	-	(1,499,228)	-
Total liabilities	1,594,250	-	10,553	(1,499,228)	105,575
Fund balances/net position					
Invested in capital assets	-	4,297,087	-	-	4,297,087
Nonspendable, long-term assets	5,980,250	-	-	-	5,980,250
Assigned	3,964,856	-	-	-	3,964,856
Unassigned	3,444,218	-	(10,553)	-	3,433,665
Total net position	13,389,324	4,297,087	(10,553)	-	17,675,858
Total liabilities and fund balances/ net position	\$ 14,983,574	\$ 4,297,087	\$ -	\$ (1,499,228)	\$ 17,781,433

See notes to financial statements.

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

The "net change in fund balances" for the Governmental Funds \$732,546 differs from the "change in net position" for governmental activities \$772,183 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	\$ 14,863
Depreciation expense	<u>(54,500)</u>
Difference	<u>\$ (39,637)</u>

Reclassification and Elimination

Interfund transfers in and interfund transfers out in the amount of \$1,175,000 between governmental activities should be eliminated.

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	<u>\$10,553</u>
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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	Eliminations	Statement of Activities
REVENUES					
Taxes	\$ 2,121,169	\$ -	\$ -	\$ -	\$ 2,121,169
Interest	121,610	-	-	-	121,610
Lease income	444,788	-	-	-	444,788
Other	340	-	-	-	340
Total revenues	<u>2,687,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,687,907</u>
EXPENDITURES					
Current expenditures					
General government	455,580	54,500	10,553	-	520,633
Human services	2,950,010	-	-	-	2,950,010
Capital outlay	14,863	(14,863)	-	-	-
Total expenditures	<u>3,420,453</u>	<u>39,637</u>	<u>10,553</u>	<u>-</u>	<u>3,460,090</u>
Excess (deficiency) of revenues over expenditures	(732,546)	(39,637)	(10,553)	-	(782,736)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	675,000	-	-	(675,000)	-
Interfund transfers out	(675,000)	-	-	675,000	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(732,546)	(39,637)	(10,553)	-	(782,736)
Fund balances at October 1, 2012	<u>14,121,870</u>	<u>4,336,724</u>	<u>-</u>	<u>-</u>	<u>18,458,594</u>
Fund balances at September 30, 2013	<u>\$ 13,389,324</u>	<u>\$ 4,297,087</u>	<u>\$ (10,553)</u>	<u>\$ -</u>	<u>\$ 17,675,858</u>

See notes to financial statements.

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. PENSION PLAN

Plan Description – The Authority contributes to the Florida Retirement System (the System), a cost-sharing multiple-employer defined benefit plan administered by the State of Florida, Department of Administration, Division of Retirement. The System provides retirement, disability or death benefits to retirees or their designated beneficiaries. Chapter 121, *Florida Statutes*, establishes the authority for benefit provisions. Changes to the law can only occur through an act of the Florida Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, 2639 North Monroe Street, Tallahassee, Florida, or by calling (850) 488-5706.

Funding Policy – The System is employee noncontributory. The Authority is required to contribute at an actuarially determined rate. The rates for Authority contribution at September 30, 2013, were as follows: Regular Employees 6.95%; and Senior Management 18.31%. All Plan members are required to contribute a designated rate of 3%. The contribution requirements of plan members and the Authority are established and may be amended by the Florida Legislature. The Authority's contributions to the System for the years ending September 30, 2013, 2012, and 2011, were \$15,476, \$9,119, and \$15,513, respectively. Total contributions were equal to the required contributions for the year.

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, 2013, was \$5,980,250. Lease payments in the amount of \$432,788 were received for the current year.

Future minimum payments to be received from the direct financing lease as of September 30, 2013, are as follows:

Fiscal Year Ending September 30,	
2014	\$ 421,394
2015	429,822
2016	438,418
2017	447,186
2018-2022	2,373,720
2023-2027	2,620,778
2028-2032	2,893,551
2033-2037	3,194,714
2038-2040	1,898,003
	<u>14,717,586</u>
Less amount representing interest revenue under the lease	<u>(8,737,336)</u>
	<u>\$ 5,980,250</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	812,839
		<u>\$1,499,228</u>

NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2013 consisted of the following:

Transfers from Capital Improvements Fund to:		
Hospital Services Fund		\$ 500,000
Transfers from Operating Fund to:		
Hospital Services Fund		675,000
		<u>\$1,175,000</u>

NOTE 9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2013, follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land	\$2,776,592	\$ -	\$ -	\$2,776,592
Depreciable				
Buildings	1,703,237	-	-	1,703,237
Equipment	76,629	14,863	-	91,492
Total depreciable	1,779,866	14,863	-	1,794,729
Accumulated depreciation	(219,734)	(54,500)	-	(274,234)
Depreciable capital assets, net	1,560,132	(39,637)	-	1,520,495
Total capital assets, net	<u>\$4,336,724</u>	<u>\$ (39,637)</u>	<u>\$ -</u>	<u>\$4,297,087</u>

Total depreciation of \$54,500 was charged to the General Government function of the Authority primary government.

NOTE 10. 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 11. SUBSEQUENT EVENTS

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through February 22, 2014, 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, 2013

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Lease income	\$ 479,070	\$ 444,788	\$ (34,282)
Interest	20,000	107,433	87,433
Other	-	340	340
Total revenues	<u>499,070</u>	<u>552,561</u>	<u>53,491</u>
EXPENDITURES			
General government			
Personnel services			
Salaries	176,715	179,870	(3,155)
Payroll taxes	13,519	13,741	(222)
Insurance	21,096	20,494	602
Workers Compensation	1,456	677	779
Retirement	13,014	15,476	(2,462)
	<u>225,800</u>	<u>230,258</u>	<u>(4,458)</u>
Operating expenses			
Legal and accounting	46,000	27,323	18,677
Insurance	29,000	16,332	12,668
Repairs and maintenance	33,100	24,812	8,288
Utilities	10,000	10,047	(47)
Other	41,200	26,392	14,808
Capital outlay	22,000	14,863	7,137
	<u>181,300</u>	<u>119,769</u>	<u>61,531</u>
Total general government	<u>407,100</u>	<u>350,027</u>	<u>57,073</u>
Indigent patient care at clinics			
Indigent patient serices			
Public education	10,000	3,922	6,078
	<u>10,000</u>	<u>3,922</u>	<u>6,078</u>
Total expenditures	<u>417,100</u>	<u>353,949</u>	<u>63,151</u>
Excess of revenues over expenditures	81,970	198,612	116,642
OTHER FINANCING SOURCES (USES)			
Interfund transfers out	(675,000)	(675,000)	-
Total other financing sources (uses)	<u>(675,000)</u>	<u>(675,000)</u>	<u>-</u>
Fund balance, at beginning of year	9,900,856	9,900,856	-
Fund balance, at end of year	<u>\$ 9,307,826</u>	<u>\$ 9,424,468</u>	<u>\$ 116,642</u>

See notes to financial statements.

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, 2013

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Ad valorem taxes	\$ 1,354,370	\$ 1,371,169	\$ 16,799
Interest	5,000	1,491	(3,509)
Total revenues	<u>1,359,370</u>	<u>1,372,660</u>	<u>13,290</u>
EXPENDITURES			
Operating expenses			
Tax collector fees	72,000	33,424	38,576
Property appraiser fees	105,000	60,342	44,658
Other	-	9,821	(9,821)
	<u>177,000</u>	<u>103,587</u>	<u>73,413</u>
Health care services			
Indigent health services	2,200,000	2,004,653	195,347
On-call coverage	160,000	154,269	5,731
	<u>2,360,000</u>	<u>2,158,922</u>	<u>201,078</u>
Total expenditures	<u>2,537,000</u>	<u>2,262,509</u>	<u>274,491</u>
Excess of revenues over (under) expenditures	(1,177,630)	(889,849)	287,781
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	1,175,000	675,000	(500,000)
Total other financing sources (uses)	<u>1,175,000</u>	<u>675,000</u>	<u>(500,000)</u>
Net change in fund balance	(2,630)	(214,849)	(212,219)
Fund balance, at beginning of year	508,303	508,303	-
Fund balance, at end of year	<u>\$ 505,673</u>	<u>\$ 293,454</u>	<u>\$ (212,219)</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, 2013

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Ad valorem taxes	\$ 750,000	\$ 750,000	\$ -
Interest	5,000	5,393	393
Total revenues	<u>755,000</u>	<u>755,393</u>	<u>393</u>
EXPENDITURES			
Operating expenses			
Other	-	252	(252)
	<u>-</u>	<u>252</u>	<u>(252)</u>
Health care services			
Indigent patient services	650,000	189,932	460,068
Pharmacy	100,000	30,195	69,805
	<u>750,000</u>	<u>220,127</u>	<u>529,873</u>
Total expenditures	<u>750,000</u>	<u>220,379</u>	<u>(529,621)</u>
Excess of revenues over expenditures	5,000	535,014	530,014
Fund balance, at beginning of year	1,191,033	1,191,033	-
Fund balance, at end of year	<u>\$ 1,196,033</u>	<u>\$ 1,726,047</u>	<u>\$ 530,014</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, 2013

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Ad valorem taxes	\$ 14,673	\$ -	\$ (14,673)
Interest	10,000	7,293	(2,707)
Total revenues	<u>24,673</u>	<u>7,293</u>	<u>(17,380)</u>
EXPENDITURES			
General government			
Operating expenses			
Professional services	-	15,500	(15,500)
Repairs and maintenance	-	956	(956)
Other	-	121	(121)
Total general government	<u>-</u>	<u>16,577</u>	<u>(16,577)</u>
Health			
Capital contribution	<u>-</u>	<u>567,039</u>	<u>(567,039)</u>
Total expenditures	<u>-</u>	<u>583,616</u>	<u>(583,616)</u>
Excess of revenues over (under) expenditures	24,673	(576,323)	(600,996)
OTHER FINANCING SOURCES (USES)			
Interfund transfers out	<u>(500,000)</u>	<u>-</u>	<u>500,000</u>
Total other financing sources (uses)	<u>(500,000)</u>	<u>-</u>	<u>500,000</u>
Net change in fund balance	(475,327)	(576,323)	(100,996)
Fund balance, at beginning of year	2,521,678	2,521,678	-
Fund balance, at end of year	<u>\$ 2,046,351</u>	<u>\$ 1,945,355</u>	<u>\$ (100,996)</u>

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, 2013, 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 February 22, 2014.

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 (Second 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
Lake City, Florida
February 22, 2014

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, 2013, and have issued our report thereon dated February 22, 2014. 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, 2013.

Investment of Public Funds - The Authority complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds during the fiscal year.

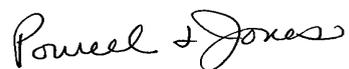
Financial Emergency Status - We determined that the Authority did not meet any of the conditions described in Section 218.503(1), *Florida Statutes*, that might result in a financial emergency.

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
February 22, 2014

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, 2013.

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 2011-1 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