

LAKE SHORE HOSPITAL AUTHORITY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2012

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ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2012

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## INTRODUCTORY SECTION

LAKE SHORE HOSPITAL AUTHORITY

LIST OF PRINCIPAL OFFICIALS

September 30, 2012

BOARD OF TRUSTEES

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

FINANCIAL SECTION



**Powell & Jones**  
Certified Public Accountants

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

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

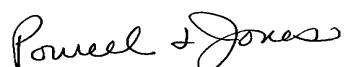
We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of Lake Shore Hospital Authority, Florida, (LSHA) as of and for the year ended September 30, 2012, which collectively comprise LSHA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lake Shore Hospital Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the major funds, and the aggregate remaining fund information of Lake Shore Hospital Authority as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 1, 2013, on our consideration of Lake Shore Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information presented for the major governmental funds and required supplementary information, 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 assurance.

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

Powell & Jones  
Certified Public Accountants  
May 1, 2013



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 Shands at 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 Indigent Care Agreement.

**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 associated with the on-going renovation of the leased hospital facilities.

### Authority as a Whole

#### *Government-wide Financial Statements*

A condensed version of the Statement of Net Position at September 30, 2012, follows:

Net Position at September 30, 2012 and 2011

	Governmental Activities/ Total Government	
	2012	2011
Assets		
Cash and investments	\$ 7,239,566	\$ 8,583,518
Receivables	73,423	19,429
Prepaid expenses	900,367	853,864
Capital assets, net of accumulated depreciation	4,336,724	4,380,964
Net investment in capital lease	5,960,594	5,934,516
Total assets	<u>18,510,674</u>	<u>19,772,291</u>
Liabilities		
Current liabilities	<u>52,080</u>	<u>415,217</u>
Total liabilities	<u>52,080</u>	<u>415,217</u>
Net position		
Invested in capital assets	4,336,724	4,380,964
Invested in capital lease	5,960,594	5,934,516
Unrestricted	8,161,276	9,041,594
Total net position	<u>\$18,458,594</u>	<u>\$19,357,074</u>

During the year ended September 30, 2012, there was no significant change in Net Position, except through normal on-going operations.

A condensed version of the Statement of Activities follows:

Governmental Activities  
For the Fiscal Years Ended September 30, 2012 and 2011

	Governmental Activities/ Total Government	
	2012	2011
Revenues:		
General revenues		
Ad valorem taxes	\$ 2,305,292	\$ 2,247,994
Interest	161,964	236,679
Lease income	436,108	428,896
Other	131	368
Total revenues	<u>2,903,495</u>	<u>2,913,937</u>
Expenses:		
General government	542,870	551,143
Human services	<u>3,259,105</u>	<u>3,594,128</u>
Total expenses	<u>3,801,975</u>	<u>4,145,271</u>
Other financing services (uses)		
Interfund transfers in	600,000	6,653,955
Interfund transfers out	<u>(600,000)</u>	<u>(6,653,955)</u>
Total other financing services (uses)	<u>-</u>	<u>-</u>
Decrease in net position	(898,480)	(1,231,334)
Beginning net position	<u>19,357,074</u>	<u>20,588,408</u>
Ending net position	<u>\$18,458,594</u>	<u>\$ 19,357,074</u>

Governmental activities

Health care program expenditures remained similar to the prior year.

Capital Assets and Debt Administration

Capital Assets

At September 30, 2012, the Authority has \$4,336,724 invested in capital assets, consisting primarily of land and buildings.

Capital Assets at September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Land	\$2,776,592	\$2,776,592
Building	1,733,073	1,733,073
Office equipment	<u>46,793</u>	<u>37,388</u>
	4,556,458	4,547,053
Accumulated depreciation	<u>(219,734)</u>	<u>(166,089)</u>
Capital assets, net	<u><u>\$4,336,724</u></u>	<u><u>\$4,380,964</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, 2012

	Governmental Activities
<b>ASSETS</b>	
Current assets	
Cash	\$ 5,294,934
Due from other governments	69,288
Accrued interest receivable	4,135
Investments	1,944,632
Prepaid expenses	900,367
Total current assets	<u>8,213,356</u>
Capital assets, net of accumulated depreciation	<u>4,336,724</u>
<b>OTHER ASSETS</b>	
Net investment in capital lease	5,960,594
Total assets	<u><u>\$ 18,510,674</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 39,484
Accrued liabilities	10,596
Deposits	2,000
Total liabilities	<u>52,080</u>
<b>NET POSITION</b>	
Invested in capital assets	4,336,724
Invested in capital lease	5,960,594
Unrestricted	8,161,276
Total net position	<u><u>\$ 18,458,594</u></u>

LAKE SHORE HOSPITAL AUTHORITY

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended September 30, 2012

	Expenses	Net (Expenses) Revenue and Change in Net Position
		Governmental Activities Total
Governmental activities:		
General government	\$ (542,870)	\$ (542,870)
Human services - healthcare	(3,259,105)	(3,259,105)
Total governmental activities	<u>\$ (3,801,975)</u>	<u>(3,801,975)</u>
General revenues:		
Ad valorem taxes		2,305,292
Interest		161,964
Lease income		436,108
Miscellaneous		131
Total general revenues		<u>2,903,495</u>
Change in net position		(898,480)
Net position, beginning of the year		<u>19,357,074</u>
Net position, end of year		<u>\$ 18,458,594</u>

LAKE SHORE HOSPITAL AUTHORITY  
GOVERNMENTAL FUNDS BALANCE SHEET  
September 30, 2012

	Special Revenue Funds			Capital Improvements Fund	Total Governmental Funds
	General Fund	Hospital Services	Clinical Services		
<b>ASSETS</b>					
Cash	\$ 2,721,383	\$ 176,938	\$ 441,974	\$ 1,954,639	\$ 5,294,934
Due from other governments	-	69,288	-	-	69,288
Due from other funds	-	11,389	62,839	-	74,228
Investments	1,235,504	-	709,128	-	1,944,632
Prepaid expenses	6,468	326,860	-	567,039	900,367
Accrued interest receivable	3,331	-	804	-	4,135
Net investment in capital lease	5,960,594	-	-	-	5,960,594
<b>Total assets</b>	<b>\$ 9,927,280</b>	<b>\$ 584,475</b>	<b>\$ 1,214,745</b>	<b>\$ 2,521,678</b>	<b>14,248,178</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 2,439	\$ 13,333	\$ 23,712	\$ -	\$ 39,484
Accrued liabilities	10,596	-	-	-	10,596
Deposit	2,000	-	-	-	2,000
Due to other funds	11,389	62,839	-	-	74,228
<b>Total liabilities</b>	<b>26,424</b>	<b>76,172</b>	<b>23,712</b>	<b>-</b>	<b>126,308</b>
<b>Fund balances:</b>					
Nonspendable, long-term assets	5,960,594	-	-	-	5,960,594
Assigned	-	508,303	1,191,033	2,521,678	4,221,014
Unassigned	3,940,262	-	-	-	3,940,262
<b>Total fund balances</b>	<b>9,900,856</b>	<b>508,303</b>	<b>1,191,033</b>	<b>2,521,678</b>	<b>14,121,870</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,927,280</b>	<b>\$ 584,475</b>	<b>\$ 1,214,745</b>	<b>\$ 2,521,678</b>	

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

Net position of governmental activities

4,336,724

\$ 18,458,594



LAKE SHORE HOSPITAL AUTHORITY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGE IN FUND BALANCES  
For the Fiscal Year Ended September 30, 2012

	<u>Special Revenue Funds</u>				Total Governmental Funds
	General Fund	Hospital Services	Clinical Services	Capital Improvements Fund	
<b>REVENUES</b>					
Taxes - ad valorem	\$ -	\$ 1,575,292	\$ 730,000	\$ -	\$ 2,305,292
Lease income	436,108	-	-	-	436,108
Interest	120,865	6,564	6,015	28,520	161,964
Other	131	-	-	-	131
Total revenues	<u>557,104</u>	<u>1,581,856</u>	<u>736,015</u>	<u>28,520</u>	<u>2,903,495</u>
<b>EXPENDITURES</b>					
General government					
Personnel services:					
Salaries	184,591	-	-	-	184,591
Retirement	9,119	-	-	-	9,119
Payroll taxes	13,557	-	-	-	13,557
Workers compensation	687	-	-	-	687
Insurance	22,854	-	-	-	22,854
	<u>230,808</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>230,808</u>
Operating expenses:					
Tax Collector fees	-	37,930	-	-	37,930
Property Appraiser fees	-	56,900	-	-	56,900
Legal and accounting	20,593	-	-	-	20,593
Professional services	-	-	-	35,216	35,216
Utilities	10,595	-	-	-	10,595
Insurance	21,628	-	-	-	21,628
Repairs and maintenance	19,007	-	-	5,066	24,073

(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, 2012

	<u>Special Revenue Funds</u>			Capital Improvements Fund	Total Governmental Funds
	General Fund	Hospital Services	Clinical Services		
Operating expenses (continued)					
Other	41,240	726	-	9,516	51,482
	<u>113,063</u>	<u>95,556</u>	<u>-</u>	<u>49,798</u>	<u>258,417</u>
Total general government	<u>343,871</u>	<u>95,556</u>	<u>-</u>	<u>49,798</u>	<u>489,225</u>
Health					
Indigent health services					
Patient care	-	2,548,000	492,100	-	3,040,100
On-call coverage	-	160,000	-	-	160,000
Pharmacy	-	-	56,052	-	56,052
Public education	2,953	-	-	-	2,953
	<u>2,953</u>	<u>2,708,000</u>	<u>548,152</u>	<u>-</u>	<u>3,259,105</u>
	<u>1,780</u>	<u>-</u>	<u>-</u>	<u>7,625</u>	<u>9,405</u>
Total expenditures	<u>348,604</u>	<u>2,803,556</u>	<u>548,152</u>	<u>57,423</u>	<u>3,757,735</u>
Excess (deficiency) of revenues over expenditures	208,500	(1,221,700)	187,863	(28,903)	(854,240)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	600,000	-	-	600,000
Interfund transfers out	-	-	-	(600,000)	(600,000)
Total other financing	<u>-</u>	<u>600,000</u>	<u>-</u>	<u>(600,000)</u>	<u>-</u>
Net change in fund balance	208,500	(621,700)	187,863	(628,903)	(854,240)
Fund balances, at beginning of year	9,692,356	1,130,003	1,003,170	3,150,581	14,976,110
Fund balances, at end of year	<u>\$ 9,900,856</u>	<u>\$ 508,303</u>	<u>\$ 1,191,033</u>	<u>\$ 2,521,678</u>	<u>\$ 14,121,870</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, 2012

Net change in fund balances - Governmental Funds \$ (854,240)

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	9,405	
Less current year depreciation	(53,645)	
	(44,240)	
Difference		(44,240)

Change in net position of governmental activities \$ (898,480)

See notes to financial statements.

LAKE SHORE HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
September 30, 2012

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, 2012, 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, 2012, 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	\$1,944,632	\$ -	\$1,944,632	\$1,944,632
	<u>\$1,944,632</u>	<u>\$ -</u>	<u>\$1,944,632</u>	<u>\$1,944,632</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, 2012, 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, 2012, 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	\$ 5,960,594	\$ -	\$ -	\$ -	\$ 5,960,594
Assigned:					
Hospital services	-	508,303	-	-	508,303
Clinical services	-	-	1,191,033	-	1,191,033
Capital outlay	-	-	-	2,521,678	2,521,678
Unassigned funds	3,940,262	-	-	-	3,940,262
Total fund balances	<u>\$9,900,856</u>	<u>\$ 508,303</u>	<u>\$1,191,033</u>	<u>\$2,521,678</u>	<u>\$ 14,121,870</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 \$14,121,870 differs from "Net Position" of governmental activities \$18,458,594 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	\$4,556,458
Accumulated depreciation	<u>(219,734)</u>
Total	<u><u>\$4,336,724</u></u>

Eliminations of interfund receivables/payable

Interfund receivables and payables in the amount of \$74,228 between governmental funds must be eliminated for the Statement of Net Position .



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	Eliminations	Statement of Net Assets
<b>ASSETS</b>				
Cash and cash equivalents	\$ 7,239,566	\$ -	\$ -	\$ 7,239,566
Due from other governments	69,288			69,288
Due from other funds	74,228	-	(74,228)	-
Accrued interest receivable	4,135			4,135
Prepaid expenses	900,367			900,367
Net investment in capital lease	5,960,594	-	-	5,960,594
Capital assets - net	-	4,336,724	-	4,336,724
<b>Total assets</b>	<b>\$ 14,248,178</b>	<b>\$ 4,336,724</b>	<b>\$ (74,228)</b>	<b>\$ 18,510,674</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 39,484	\$ -	\$ -	\$ 39,484
Accrued liabilities	10,596			10,596
Deposit	2,000			2,000
Due to other funds	74,228		(74,228)	-
<b>Total liabilities</b>	<b>126,308</b>	<b>-</b>	<b>(74,228)</b>	<b>52,080</b>
<b>Fund balances/net position</b>				
Invested in capital assets	-	4,336,724	-	4,336,724
Nonspendable, long-term assets	5,960,594	-	-	5,960,594
Assigned	4,221,014	-	-	4,221,014
Unassigned	3,940,262	-	-	3,940,262
<b>Total net position</b>	<b>14,121,870</b>	<b>4,336,724</b>	<b>-</b>	<b>18,458,594</b>
<b>Total liabilities and fund balances/ net position</b>	<b>\$ 14,248,179</b>	<b>\$ 4,336,724</b>	<b>\$ (74,228)</b>	<b>\$ 18,510,674</b>

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 \$(854,240) differs from the "change in net position" for governmental activities \$(898,480) 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	\$ 9,405
Depreciation expense	<u>(53,645)</u>
Difference	<u>\$ (44,240)</u>

Reclassification and Elimination

Interfund transfers in and interfund transfers out in the amount of \$600,000 between governmental activities should be eliminated.

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	Statement of Activities
<b>REVENUES</b>			
Taxes	\$ 2,305,292	\$ -	\$ 2,305,292
Interest	161,964	-	161,964
Lease income	436,108	-	436,108
Other	131	-	131
Total revenues	<u>2,903,495</u>	<u>-</u>	<u>2,903,495</u>
<b>EXPENDITURES</b>			
Current expenditures			
General government	489,225	53,645	542,870
Human services	3,259,105	-	3,259,105
Capital outlay	9,405	(9,405)	-
Total expenditures	<u>3,757,735</u>	<u>44,240</u>	<u>3,801,975</u>
Excess (deficiency) of revenues over expenditures	(854,240)	(44,240)	(898,480)
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers in	600,000	-	600,000
Interfund transfers out	(600,000)	-	(600,000)
	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(854,240)	(44,240)	(898,480)
Fund balances at October 1, 2011	<u>14,976,110</u>	<u>4,380,964</u>	<u>19,357,074</u>
Fund balances at September 30, 2012	<u>\$ 14,121,870</u>	<u>\$ 4,336,724</u>	<u>\$ 18,458,594</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, 2012, were as follows: Regular Employees 5.18%; and Senior Management 6.30%. 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, 2012, 2011, and 2010, were \$9,119, \$15,513, and \$9,544, 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, 2012, was \$5,960,594. Lease payments in the amount of \$431,108 were received for the current year.

Future minimum payments to be received from the direct financing lease as of September 30, 2012, are as follows:

Fiscal Year Ending September 30,		
2013	\$	413,132
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>15,130,718</u>
Less amount representing interest revenue under the lease		<u>(9,170,124)</u>
		<u>\$ 5,960,594</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	\$ 11,389
Clinical services	Hospital services	62,839
		<u>\$ 74,228</u>

#### NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ended September 30, 2012 consisted of the following:

Transfers from Capital Improvements Fund to:	
Hospital Services Fund	\$ 600,000
	<u>\$ 600,000</u>

#### NOTE 9. CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2012, follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land	\$2,776,592	\$ -	\$ -	\$2,776,592
Depreciable				
Buildings	1,103,073	-	-	1,103,073
Equipment	37,388	9,405	-	46,793
Total depreciable	1,770,461	9,405	-	1,779,866
Accumulated depreciation	(166,089)	(53,645)	-	(219,734)
Depreciable capital assets, net	<u>1,604,372</u>	<u>(44,240)</u>	<u>-</u>	<u>1,560,132</u>
Total capital assets, net	<u>\$4,380,964</u>	<u>\$ (44,240)</u>	<u>\$ -</u>	<u>\$4,336,724</u>

Total depreciation of \$53,645 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 May 1, 2013, 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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Lease income	\$ 479,070	\$ 479,070	\$ 436,108	\$ (42,962)
Interest	75,000	75,000	120,865	45,865
Other	-	-	131	131
Total revenues	<u>554,070</u>	<u>554,070</u>	<u>557,104</u>	<u>3,034</u>
<b>EXPENDITURES</b>				
General government				
Personnel services				
Salaries	176,715	176,715	184,591	(7,876)
Payroll taxes	13,519	13,519	13,557	(38)
Insurance	21,096	21,096	22,854	(1,758)
Workers Compensation	1,456	1,456	687	769
Retirement	9,712	9,712	9,119	593
	<u>222,498</u>	<u>222,498</u>	<u>230,808</u>	<u>(8,310)</u>
Operating expenses				
Legal and accounting	46,000	43,000	20,593	22,407
Insurance	29,000	29,000	21,628	7,372
Repairs and maintenance	8,100	20,100	19,007	1,093
Utilities	10,000	12,000	10,595	1,405
Other	36,200	43,200	41,240	1,960
Capital outlay	-	3,000	1,780	1,220
	<u>129,300</u>	<u>150,300</u>	<u>114,843</u>	<u>35,457</u>
Total general government	<u>351,798</u>	<u>372,798</u>	<u>345,651</u>	<u>27,147</u>
Indigent patient care at clinics				
Indigent patient services				
Public education	25,000	4,000	2,953	1,047
	<u>25,000</u>	<u>4,000</u>	<u>2,953</u>	<u>1,047</u>
Total expenditures	<u>376,798</u>	<u>376,798</u>	<u>348,604</u>	<u>28,194</u>
Excess of revenues over expenditures	177,272	177,272	208,500	31,228
Fund balance, at beginning of year	9,692,356	9,692,356	9,692,356	-
Fund balance, at end of year	<u>\$ 9,869,628</u>	<u>\$ 9,869,628</u>	<u>\$ 9,900,856</u>	<u>\$ 31,228</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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Ad valorem taxes	\$ 1,367,316	\$ 1,532,316	\$ 1,575,292	\$ 42,976
Interest	40,000	40,000	6,564	(33,436)
Total revenues	<u>1,407,316</u>	<u>1,572,316</u>	<u>1,581,856</u>	<u>9,540</u>
<b>EXPENDITURES</b>				
Operating expenses				
Tax collector fees	84,000	84,000	37,930	46,070
Property appraiser fees	110,000	110,000	56,900	53,100
Other	-	-	726	(726)
	<u>194,000</u>	<u>194,000</u>	<u>95,556</u>	<u>98,444</u>
Health care services				
Indigent health services	2,420,000	2,545,000	2,548,000	(3,000)
On-call coverage	120,000	160,000	160,000	-
	<u>2,540,000</u>	<u>2,705,000</u>	<u>2,708,000</u>	<u>(3,000)</u>
Total expenditures	<u>2,734,000</u>	<u>2,899,000</u>	<u>2,803,556</u>	<u>95,444</u>
Excess of revenues over (under) expenditures	(1,326,684)	(1,326,684)	(1,221,700)	104,984
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in	600,000	600,000	600,000	-
Total other financing sources (uses)	<u>600,000</u>	<u>600,000</u>	<u>600,000</u>	<u>-</u>
Net change in fund balance	(726,684)	(726,684)	(621,700)	104,984
Fund balance, at beginning of year	1,130,003	1,130,003	1,130,003	-
Fund balance, at end of year	<u>\$ 403,319</u>	<u>\$ 403,319</u>	<u>\$ 508,303</u>	<u>\$ 104,984</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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Ad valorem taxes	\$ 730,000	\$ 730,000	\$ 730,000	\$ -
Interest	5,000	5,000	6,015	1,015
Total revenues	<u>735,000</u>	<u>735,000</u>	<u>736,015</u>	<u>1,015</u>
<b>EXPENDITURES</b>				
Health care services				
Indigent patient services	700,000	500,000	492,100	207,900
Pharmacy	30,000	65,000	56,052	(26,052)
Total expenditures	<u>730,000</u>	<u>565,000</u>	<u>548,152</u>	<u>181,848</u>
Excess of revenues over (under) expenditures	5,000	170,000	187,863	17,863
Fund balance, at beginning of year	1,003,170	1,003,170	1,003,170	-
Fund balance, at end of year	<u>\$ 1,008,170</u>	<u>\$ 1,173,170</u>	<u>\$ 1,191,033</u>	<u>\$ 17,863</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, 2012

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Interest	\$ 10,000	\$ 10,000	\$ 28,520	\$ 18,520
Total revenues	<u>10,000</u>	<u>10,000</u>	<u>28,520</u>	<u>18,520</u>
<b>EXPENDITURES</b>				
General government				
Operating expenses				
Professional services	-	10,000	35,216	(25,216)
Repairs and maintenance	-	-	5,066	(5,066)
Other	-	-	9,516	(9,516)
Total general government	<u>-</u>	<u>10,000</u>	<u>49,798</u>	<u>(39,798)</u>
Health				
Capital Outlay	<u>-</u>	<u>660,000</u>	<u>7,625</u>	<u>652,375</u>
Total expenditures	<u>-</u>	<u>670,000</u>	<u>57,423</u>	<u>612,577</u>
Excess of revenues over (under) expenditures	10,000	(660,000)	(28,903)	631,097
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers out	<u>(600,000)</u>	<u>(600,000)</u>	<u>(600,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(600,000)</u>	<u>(600,000)</u>	<u>(600,000)</u>	<u>-</u>
Net change in fund balance	(590,000)	(1,260,000)	(628,903)	631,097
Fund balance, at beginning of year	3,150,581	3,150,581	3,150,581	-
Fund balance, at end of year	<u>\$ 2,560,581</u>	<u>\$ 1,890,581</u>	<u>\$ 2,521,678</u>	<u>\$ 631,097</u>

COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and the major funds of Lake Shore Hospital Authority, of and for the year ended September 30, 2012, which collectively comprise Lake Shore Hospital Authority's basic financial statements and have issued our report thereon dated May 1, 2013. 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.

#### Internal Control Over Financial Reporting

Management of Lake Shore Hospital Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lake Shore Hospital Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lake Shore Hospital Authority's internal control over financial reporting.

*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.

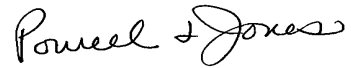
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Shore Hospital Authority's financial statements are free of 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*.

This report is intended solely for the information and use of management and Lake Shore Hospital Authority, the Auditor General of the State of Florida, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

POWELL & JONES, CPAs  
Certified Public Accountants  
May 1, 2013

## 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, 2012, and have issued our report thereon dated May 1, 2013. 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, 2012.

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 - Nothing came to our attention that caused us to believe that the Authority had met any of the conditions described in Section 218.503(1), *Florida Statutes*, that might result in a financial emergency.

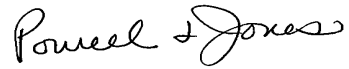
Financial Condition Assessment - As required by the *Rules of the Auditor General* (Sections 10.555(7)(c) and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based 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  
May 1, 2013

**RESPONSE TO AUDIT FINDINGS**

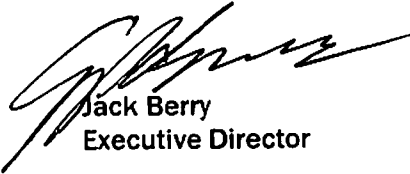
To the Auditor General  
State of Florida  
Tallahassee, Florida

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, 2012.

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.

Sincerely,



Jack Berry  
Executive Director