

# **Lee County Trauma Services District**

**Letter of Comments and Recommendations  
September 30, 2016**



January 19, 2017

Board of Directors  
Lee County Trauma Services District  
Fort Myers, Florida

Members of the Board of Directors:

In planning and performing our audit of the basic financial statements of Lee County Trauma Services District (the "District") as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the District's internal control over financial reporting. Accordingly, we do not express an opinion on the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, of the AICPA Professional Standards includes the following definitions of a deficiency, a significant deficiency and a material weakness:

**Deficiency**—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.

**Significant Deficiency**—a deficiency, or 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.

**Material Weakness**—a deficiency, or 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.

We are providing you with a full detailed report of all deficiencies and operational or business observations that came to our attention in performing our audit.



Board of Directors  
Lee County Trauma Services District  
January 19, 2017

### **Independent Certified Public Accountant's Responsibility**

Additionally, we conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*.

### **Other Report**

We have issued our Report of Independent Certified Public Accountants 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*. Disclosures in that report, which is dated January 19, 2017, should be considered in conjunction with this Letter of Comments and Recommendations.

### **Prior Audit Findings**

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. The current status of comments reported in fiscal year 2015 is included in the status of prior year's recommendations section of the attachment.

### **Official Title and Legal Authority**

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The District is a special purpose unit of local government created by a special act of the 2003 Florida Legislature, Chapter 63-1552 of the Laws of Florida, Special Acts, 1963 as re-codified by Chapter 2603-357, Laws of Florida, Special Acts 2003.

### **Financial Condition**

Section 10.554(1)(i)5.a., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the District has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the District did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the District's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. In connection with our audit, our procedures did not disclose deteriorating financial conditions as defined in the aforementioned section.



Board of Directors  
Lee County Trauma Services District  
January 19, 2017

### **Annual Financial Report**

Section 10.554(1)(i)5.b., *Rules of the Auditor General*, requires that we report the results of our determination as to whether the annual financial report for the District for the fiscal year ended September 30, 2016, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2016. In connection with our audit, we determined that these two reports were in agreement.

### **Other Matters**

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we are submitting for consideration the accompanying recommendations designed to help improve financial management.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

### **Purpose of this Letter**

This Letter of Comments and Recommendations is intended solely for the information and use of the Board of Directors of Lee County Trauma Services District, the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

If you would like any further information or would like to discuss any of the issues raised, please contact John L. Sittig II, Engagement Partner, at (813) 222-5422.

Very truly yours,

A handwritten signature in black ink, which appears to read "PricewaterhouseCoopers 22P".

**Lee County Trauma Services District**  
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**September 30, 2016**

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**Lee County Trauma Services District  
Letter of Comments and Recommendations  
September 30, 2016**

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**I. Business Recommendations**

No comments or recommendations were noted in connection with our audit of the District's September 30, 2016 basic financial statements.

**II. Status of Prior Year's Recommendations**

In connection with our audit of the District's September 30, 2015 basic financial statements, we made certain comments and recommendations, which have been reviewed in order to determine the status of implementation. A summary of the status of prior year's recommendations is as follows:

Recommendations	Status
<b>Recent Accounting Pronouncements</b>	
<ul style="list-style-type: none"><li>GASB Statement No. 69, <i>Government Combinations and Disposals of Government Operations</i></li></ul>	The District adopted GASB No. 69 for the fiscal year ended September 30, 2015.
<b>Business Recommendations</b>	
<ul style="list-style-type: none"><li>2014-01 – Capital Asset Allocation</li></ul>	<b>Closed:</b> The recommendation has been implemented by Management during the fiscal year ended September 30, 2016.

# **Lee County Trauma Services District**

**Basic Financial Statements  
September 30, 2016**

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**September 30, 2016**

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# **Lee County Trauma Services District Management's Discussion and Analysis (Unaudited) September 30, 2016**

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## **Introduction**

This section of the annual financial report of Lee County Trauma Services District (hereinafter referred to as "Trauma District" or the "District") presents management's discussion and analysis of the financial position and performance of the District for the year ended September 30, 2016. This discussion has been prepared along with the basic financial statements and related footnote disclosures, and they should be read in conjunction therewith. This discussion, the basic financial statements and footnotes are the responsibility of the District's management.

The Trauma District was created as an independent special district pursuant to Chapter 189, Florida Statutes, by the 2003 Florida Legislature with the express purpose of financially supporting the provision of trauma services in Lee County, including the comprehensive emergency medical services for victims of trauma and trauma-related injuries provided by the State of Florida Level II Trauma Center operated by Lee Memorial Health System (the "System"). Governance for the Trauma District is entrusted to the same publicly elected board as serves the System. The Trauma District provides a mechanism for the System to make the financial operations of its trauma services program transparent to the community, and may provide an avenue to seek a stable, long-term funding source such as a local referendum.

## **Purpose of the Trauma District**

The Board of Directors of the System (the "Board") possesses the strategic vision to become the best patient and family centered healthcare system by working collaboratively to deliver excellence in quality, safety, efficiency and compassion. To achieve this vision, the Board works within a strategic plan and evaluates existing and new service offerings based upon community needs and economic viability. A key component of that strategy is significant involvement of physicians in the resource allocations of the Board as well as examination of regional and national healthcare trends.

In keeping with its strategy, the Board found that on both a state and national level, trauma centers are facing major financial hurdles that threaten their viability. Given that the provision of trauma services is an enhancement, which is provided on a voluntary basis by the System, it is necessary that trauma program financing not compromise core hospital services that generate positive revenue.

Dating back to 1999, the Board began to hear of increasing dissatisfaction within the physician community related to providing on-call coverage for the Trauma District. Trauma services were creating a barrier between the System and specialty physicians, in effect, driving physicians away and making it more difficult for the System to compete for vital physician services and referrals. Because the Board recognized the community need for a trauma program, a solution to stabilize the community's emergency medical response system was sought. This eventually resulted in a local sales tax referendum that would have provided funding for a broad array of community services including emergency medical services, mental health services, primary care services, and trauma services. This was put before the Lee County voters in November 2002 and failed to pass.

# **Lee County Trauma Services District Management's Discussion and Analysis (Unaudited) September 30, 2016**

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Creation of the Trauma District was an outgrowth of the sales tax referendum defeat. During the campaign, there was widespread public support for the trauma center and a trauma-only sales tax referendum that continues to exist today. This support resulted in the creation of the Trauma District so as to enable voters, at some point in the future, to focus public funding solely on trauma care. The Trauma District has created a Regional Advisory Committee comprised of representatives from a five county area in order to secure the appropriate community and regional support.

An interlocal agreement between the District and the System has been executed that sets forth the responsibilities of both agencies. In order to avoid duplication of overhead, the System provides the District with all of its support functions such as general administration, legal services, business and financial operations, information technology, and all hospital clinical services, excluding physician services.

## **Overview of the Basic Financial Statements**

Our annual report consists of a series of basic financial statements prepared in accordance with accounting standards generally accepted in the United States of America.

## **Basic Statement of Financial Position at September 30, 2016**

Assets consist of patient accounts receivable from the provision of professional medical services by employed trauma surgeons, as well as equipment used by these surgeons in the office portion of their practice. The District opened a cash account in 2009 for a High Risk Driver's Program that requires the attendees to pay cash. The funds are used to pay the speakers of the class and for supplies and educational materials. Liabilities include accrued physician specialty support payments, payroll withholdings related to the employed trauma surgeons and their office staff, as well as a small amount of payables related to the same. The remaining account is the intercompany payable/receivable with the System.

## **Basic Statement of Operations and Changes in Net Position at September 30, 2016**

Historically, the Trauma District operates at a loss, excluding funding received from the System. The System agreed to provide funds to the District equal to any operating loss. As such, the District does not generate any net assets during the year. The District did not have any net assets at September 30, 2016.

For fiscal year 2016, funding for the District was generated from four key sources. The majority of funding came from operating gains realized on the technical component (hospital) at Trauma District services. Collections for the provision of trauma surgeon professional medical services provided substantial funds. A third source in fiscal year 2016 was community support via contributions to the Lee Memorial Health System Foundation, Inc. (the "Foundation"). A fourth source of funding is the State of Florida's red light running bill which has provided funds through fines assessed on those ticketed for running red lights.

Expenses include labor and benefits for employed trauma surgeons and support staff, payments to specialty physicians for providing professional services to trauma center patients and purchased services from Lee Memorial Hospital (the "Hospital"). Services purchased from the Hospital include funding the operation of a single surgery suite, staffing for the rapid provision of services devoted to trauma patients, and reimbursing the Hospital for the actual cost, net of collections, of providing hospital services to all trauma patients.

**Lee County Trauma Services District  
Management's Discussion and Analysis (Unaudited)  
September 30, 2016**

The Basic Statement of Operations and Changes in Net Position in fiscal year 2016 includes a credit adjustment of approximately \$7.9 million, which represents the excess of hospital revenues over expenses realized on Trauma patients. The hospital gain, however, is offset in part by losses incurred on the professional (physician) component of trauma services netting the gain down to approximately \$3.5 million as displayed in the Basic Statement of Operations and Changes in Net Position.

The System management asserts that there are opportunity costs and trauma "readiness" costs related to providing trauma service. The computation of these costs is reasonable and determined as objectively as possible. Management quantified these dollars by comparing costs of operations at the hospital, which provides the trauma services, to similar operations at the System's other four acute care hospitals. Studies that have viewed total economic impact, such as the 2004 study commissioned by the University of Michigan, do include these types of costs. The additional cost to be trauma ready at all times is estimated at \$2.7 million per year, which results in a net overall gain for Trauma District services in fiscal year 2016 of approximately \$757,000. Opportunity costs relate to profits that could be realized by utilizing the trauma space on more profitable services.

The table below reconciles the Trauma District's Basic Statement of Operations per the internal basic financial statements to the audited basic financial statements for the year ended September 30, 2016.

**LEE COUNTY TRAUMA SERVICES DISTRICT  
Basic Statement of Operations and Changes in Net Position  
Reconciliation Between Unaudited Internal Basic Financial Statements and Audited Basic  
Financial Statements  
Year Ended September 30, 2016**

	<b>Unaudited Internal Basic Financial Statements</b>	<b>Adjustments</b>	<b>Audited Basic Financial Statements</b>
<b>Operating revenues</b>			
Net patient service revenue	\$ 2,923,616	\$ -	\$ 2,923,616
Other revenue	742,545	-	742,545
Total operating revenues	<u>3,666,161</u>	<u>-</u>	<u>3,666,161</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	6,133,019	1,800 (a)	6,134,819
Supplies and other	120,434	-	120,434
Purchased services	1,791,792	-	1,791,792
Corporate allocation from Lee Memorial Health System	-	(7,869,300) (b)	(7,869,300)
Depreciation	31,212	-	31,212
Total operating expenses	<u>8,076,457</u>	<u>(7,867,500)</u>	<u>208,957</u>
Operating (loss) income	(4,410,296)	7,867,500	3,457,204
Interest income	21	-	21
<b>Transfers from (to) Lee Memorial Health System</b>	<u>4,410,275</u>	<u>(7,867,500) (c)</u>	<u>(3,457,225)</u>
Change in net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(a) Adjustment for employee health insurance accrual.

(b) Includes \$7.9 million credit which represents the hospital's gain on trauma patients.

(c) To eliminate the total impact on net assets.

# **Lee County Trauma Services District Management's Discussion and Analysis (Unaudited) September 30, 2016**

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## **Capital Assets**

At September 30, 2016, the Trauma District had \$92,717 invested in capital assets. (A breakdown of these assets can be found in Note 4 to the basic financial statements.) Capital assets are comprised of equipment, furniture and fixtures for the trauma surgeon office.

## **Debt Outstanding**

There is no debt outstanding. All cash inflows and outflows are accounted for by the System via an inter-company payable/receivable with the District.

## **Corporate Compliance**

The healthcare industry is subject to numerous laws and regulations which include, but are not limited to, matters such as government rules relating to healthcare participation, licensure and accreditation standards, reimbursement for patient services as well as Medicare and Medicaid fraud and abuse. Providers that are found to have violated these laws and regulations may be excluded from participating in government healthcare programs, subjected to fines or penalties or be required to repay amounts received from previously billed patient services.

As the District is dedicated to being legally and ethically correct in all of its actions, the Board has voluntarily established a corporate compliance program to assist in maintaining an ethical climate and to provide a mechanism to prevent, detect, and correct compliance violations. All employees, agents, medical staff, volunteers and any other individual doing business with or performing functions at the District will meet our legal and ethical standards.



## Report of Independent Certified Public Accountants

To the Board of Directors of  
Lee County Trauma Services District

We have audited the accompanying basic financial statements of Lee County Trauma Services District (the "District"), as of and for the year ended September 30, 2016, and the related notes to the basic financial statements, which collectively comprise the basic statement of net position, and the related basic statement of operations and changes in net position and the basic statement of cash flows.

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

Management is responsible for the preparation and fair presentation of the basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

### ***Independent Certified Public Accountants' Responsibility***

Our responsibility is to express an opinion on the basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the basic 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 District'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 basic financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

***Other Matter***

The accompanying Management's Discussion and Analysis (Unaudited) on pages 1 through 4 is required by accounting principles generally accepted in the United States of America 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers 22P". The signature is written in a cursive, flowing style.

January 19, 2017

**Lee County Trauma Services District**  
**Basic Statement of Net Position**  
**September 30, 2016**

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**Assets**

Current assets

Assets whose use is restricted	\$ 3,012
Accounts receivable from patients, net of allowance for estimated uncollectibles of \$580,761	910,343
Total current assets	<u>913,355</u>

Noncurrent assets

Capital assets, net	92,717
Due from Lee Memorial Health System	157,327
Total assets	<u>\$ 1,163,399</u>

**Liabilities and Net Position**

Current liabilities

Accrued payroll	\$ 284,683
Other accrued liabilities	664,037
Total current liabilities	<u>948,720</u>

Noncurrent liabilities

Other liabilities	214,679
Total liabilities	<u>1,163,399</u>

Commitments and contingencies

Net position

Unrestricted	-
Total liabilities and net position	<u>\$ 1,163,399</u>

The accompanying notes are an integral part of these basic financial statements.

**Lee County Trauma Services District**  
**Basic Statement of Operations and Changes in Net Position**  
**Year Ended September 30, 2016**

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**Operating revenues**

Net patient service revenue, net of provision for doubtful accounts of \$3,235,078	\$ 2,923,616
Other revenue	742,545
Total operating revenues	<u>3,666,161</u>

**Operating expenses**

Salaries, wages and benefits	6,134,819
Supplies and other	120,434
Purchased services	1,791,792
Corporate allocation from Lee Memorial Health System	(7,869,300)
Depreciation	31,212
Total operating expenses	<u>208,957</u>
Operating income	3,457,204

**Other changes in net position**

Interest income	21
Transfers to Lee Memorial Health System	<u>(3,457,225)</u>
Change in net position	-

**Net position**

Beginning of year	<u>-</u>
End of year	<u>\$ -</u>

The accompanying notes are an integral part of these basic financial statements.

**Lee County Trauma Services District**  
**Basic Statement of Cash Flows**  
**Year Ended September 30, 2016**

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<b>Cash flows from operating activities</b>	
Received from patient care services	\$ 2,683,392
Payments to employees	(6,039,348)
Payments to suppliers	(1,927,734)
Corporate allocation from Lee Memorial Health System	7,869,300
Other receipts	742,545
Net cash provided by operating activities	<u>3,328,155</u>
<b>Cash flows from noncapital financing activities</b>	
Decrease in due from Lee Memorial Health System	202,431
Transfers to Lee Memorial Health System	(3,457,225)
Change in assets whose use is restricted	181
Net cash used in noncapital financing activities	<u>(3,254,613)</u>
<b>Cash flows from investing activities</b>	
Transfers of capital assets	(73,563)
Receipts of interest	21
Net cash used in investing activities	<u>(73,542)</u>
Change in cash and cash equivalents	-
<b>Cash and cash equivalents</b>	
Beginning of year	-
End of year	<u>\$ -</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 3,457,204
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	31,212
Provision for bad debts	3,235,078
Changes in	
Accounts receivable from patients	(3,475,302)
Accrued payroll	95,471
Other accrued liabilities	14,916
Other liabilities	(30,424)
Net cash provided by operating activities	<u>\$ 3,328,155</u>

The accompanying notes are an integral part of these basic financial statements.

# Lee County Trauma Services District

## Notes to Basic Financial Statements

### September 30, 2016

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#### 1. Description of Reporting Entity and Summary of Significant Accounting Policies

##### **Description of Reporting Entity**

Lee County Trauma Services District (the "District") is a not-for-profit organization located in Fort Myers, Florida. The District is a special purpose unit of local government created by special act of the 2003 Florida Legislature, Chapter 63-1552, Laws of Florida, Special Acts, 1963 as re-codified by Chapter 2003-357, Laws of Florida, Special Acts 2003. The District is classified as an independent special district under laws of Florida. The District serves as an integral member of the continuum of care offered by Lee Memorial Health System (the "System") and its affiliates which includes Lee Memorial Hospital (the "Hospital").

##### **Basis of Presentation**

The accompanying basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board ("GASB"), on the accrual basis of accounting.

The accompanying basic financial statements of the District have been prepared on the basis that the District will continue as a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. The District has income from operations of \$3,457,204 for the year ended September 30, 2016. Per the Interlocal Agreement pursuant to the provisions of Section 163.01, Florida Statutes (2002) between the System and the District, the Hospital shall provide monetary support to the District in a sufficient amount so there is no financial loss (or gain) to the District. The Interlocal Agreement shall continue for a period of fifty years and may be terminated by either of the parties for cause, which shall be determined as the failure of the non-terminating party to fulfill any responsibility imposed by the Interlocal Agreement after receiving written notice of the same from the terminating party, which failure is not cured within 60 days after receiving such notice. Transfers to the System were \$3,457,225 for the year ended September 30, 2016.

##### **Use of Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### **Assets Whose Use is Restricted**

Assets whose use is restricted consists of cash received from the District's High Risk Driver's Program that requires attendees to pay cash. The funds are used to pay the speakers of the class and for supplies and educational materials. These assets are comprised of cash, which are stated at fair market value in the accompanying basic financial statements.

##### **Capital Assets**

Capital assets have been recorded at cost or fair market value at date of purchase or donation, respectively. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity or extend the useful life of an asset are capitalized.

**Lee County Trauma Services District**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

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Major asset classifications and estimated useful lives are generally in accordance with those recommended by the American Hospital Association. The straight-line method of computing depreciation is used for all depreciable assets as summarized below:

Buildings and improvements	5–40 years
Equipment, furniture and fixtures	3–15 years

**Net Patient Service Revenue**

Patient service revenue is recorded by the District at its established rates. Contractual adjustments under third-party payment agreements represent the difference between established rates for services and amounts paid by the third-party payors. Contractual adjustments are deducted from the District's established rates to arrive at net patient service revenue.

**Income Taxes**

The District has been recognized by the Internal Revenue Service as a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"). Income earned in furtherance of the District's tax-exempt purpose is exempt from Federal and State income taxes. The Code provides for taxation of unrelated business income under certain circumstances. The District has no material unrelated business income; however, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities.

**Concentrations of Credit Risk**

Financial instruments which potentially subject the District to concentrations of credit risk consist principally of accounts receivable from patients.

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30, 2016 is as follows:

Medicare	9%
Medicaid	6%
Managed care	17%
Insurance	18%
Self-pay and other	50%
	100%

**Fair Value of Financial Instruments**

The carrying value of net accounts receivable from patients, accrued payroll and other accrued liabilities approximates fair value due to the short-term nature of these accounts.

**2. Net Patient Service Revenue**

Net patient service revenue for the year ended September 30, 2016 consists of the following:

Gross patient service revenue	\$ 11,821,887
Third-party payor and other contractual adjustments	(5,663,193)
Provision for doubtful accounts	(3,235,078)
Net patient service revenue	\$ 2,923,616

# Lee County Trauma Services District

## Notes to Basic Financial Statements

### September 30, 2016

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For Medicare cost reporting services, the District is considered a department of the Hospital.

The System's Medicare cost reports have been audited and final settlement has been determined by the intermediaries for all years through September 30, 2012. Estimated third-party settlements for the Medicare program for open years, subject to cost reimbursement, reflect management's estimates of the ultimate settlements for each program year. Differences between amounts estimated and actual settlements will be reflected as adjustments to contractual expense in the period in which the determination of such differences is made.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The District believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future governmental review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

### **3. Related Party Transactions**

The System provides the District with all of its support functions such as general administration, legal services, business and financial operations, information technology and all hospital clinical services, excluding physician services, at no additional cost. All normal operating expenses of the District are paid by the System and recorded by the District. Expenses of \$8,047,045 were paid during the year ended September 30, 2016 by the System on behalf of the District.

The District reimburses the Hospital for the actual cost, net of collections, of providing hospital services to all trauma patients. Patients are categorized as trauma patients based upon the guidelines defined in the Florida Department of Health Florida Trauma Registry Manual. Expenses include labor and benefits for employed trauma surgeons and support staff, payments to specialty physicians for providing professional services to trauma center patients, and purchased services from the Hospital inclusive of funding the operation of a single surgery suite and staffing for the rapid provision of services devoted to trauma patients. The System allocates the amount of Hospital net gain (loss) on trauma patients through a monthly intercompany allocation. This amount equaled net gains of \$7,869,300 for the year ended September 30, 2016.

At September 30, 2016, the District had a receivable from the System of \$157,327.

**Lee County Trauma Services District**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

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**4. Capital Assets**

Capital asset additions, transfers and retirements, and balance for the year ended September 30, 2016 were as follows:

	<b>Balance at September 30, 2015</b>	<b>Additions and Transfers</b>	<b>Retirements and Transfers</b>	<b>Balance at September 30, 2016</b>
Buildings and improvements	\$ 129,452	\$ -	\$ -	\$ 129,452
Equipment, furniture and fixtures	444,204	112,821	(116,441)	440,584
Totals	<u>573,656</u>	<u>112,821</u>	<u>(116,441)</u>	<u>570,036</u>
Less: Accumulated depreciation for				
Buildings and improvements	(116,648)	(1,873)	-	(118,521)
Equipment, furniture and fixtures	(409,263)	(26,717)	77,182	(358,798)
	<u>(525,911)</u>	<u>(28,590)</u>	<u>77,182</u>	<u>(477,319)</u>
Capital assets, net	<u>\$ 47,745</u>	<u>\$ 84,231</u>	<u>\$ (39,259)</u>	<u>\$ 92,717</u>

Depreciation expense was \$31,212 for the year ended September 30, 2016.



**Report of Independent Certified Public Accountants 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 Directors of  
Lee County Trauma Services District

We have audited, 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, the basic financial statements of Lee County Trauma Services District (the "District"), which comprise the basic statement of net position as of September 30, 2016, and the related basic statement of operations and changes in net position and the basic statement of cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated January 19, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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



**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's basic 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 basic 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*.

We noted certain matters that we reported to management of the District in a separate letter dated January 19, 2017.

**Purpose of this Report**

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers 22P".

January 19, 2017