

Lee County Trauma Services District

**Letter of Comments and Recommendations
September 30, 2018**



January 31, 2019

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, 2018, 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

AICPA AU C-265, *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 31, 2019

Auditor's Responsibility

Additionally, we conducted our audit in accordance with the standards applicable to financial audits contained in the *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 Auditors 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 31, 2019, 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 2017 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 basic 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 31, 2019

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, 2018, 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, 2018. 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 basic 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 matters raised, please contact Hillary Griffin, Engagement Partner, at (404) 353-4156.

Very truly yours,

PricewaterhouseCoopers L.L.P.

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**Lee County Trauma Services District
Letter of Comments and Recommendations
September 30, 2018**

I. Business Recommendations

No comments or recommendations were noted in connection with our audit of the District's September 30, 2018 basic financial statements.

II. Status of Prior Year's Recommendations

In connection with our audit of the District's September 30, 2017 basic financial statements, we made no comments or recommendations.

Lee County Trauma Services District

**Basic Financial Statements
September 30, 2018**

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September 30, 2018

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Lee County Trauma Services District Management's Discussion and Analysis (Unaudited) September 30, 2018

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, 2018. 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 inspire hope and be a national leader for the advancement of health and healing. 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.

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.

Lee County Trauma Services District

Management's Discussion and Analysis (Unaudited)

September 30, 2018

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 including all applicable effective statements of the Governmental Accounting Standards Board ("GASB").

Basic Statement of Financial Position at September 30, 2018

Assets consist of patient accounts receivable from the provision of professional medical services by employed trauma surgeons, equipment used by these surgeons in the office portion of their practice and accrued red light grant payments from the State of Florida. 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, a small amount of payables, and the intercompany payable/receivable with the System.

Basic Statement of Operations and Changes in Net Position at September 30, 2018

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, 2018.

For fiscal year 2018, funding for the District was generated from three 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 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.

The Basic Statement of Operations and Changes in Net Position in fiscal year 2018 includes a credit adjustment of approximately \$6.0 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 \$1.5 million as displayed in the Basic Statement of Operations and Changes in Net Position.

**Lee County Trauma Services District
Management's Discussion and Analysis (Unaudited)
September 30, 2018**

The table below reconciles the Trauma District's Basic Statement of Operations and Changes in Net Position per the internal basic financial statements to the audited basic financial statements for the year ended September 30, 2018.

**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, 2018**

	Unaudited Internal Basic Financial Statements	Adjustments	Audited Basic Financial Statements
Operating revenues			
Net patient service revenue, net of provision for doubtful accounts of \$2,338,994	\$ 2,755,811	\$ -	\$ 2,755,811
Other revenue	469,964	-	469,964
Total operating revenues	<u>3,225,775</u>	<u>-</u>	<u>3,225,775</u>
Operating expenses			
Salaries, wages and benefits	6,253,461	-	6,253,461
Supplies and other	135,383	(6,214) (a)	129,169
Purchased services	1,379,672	-	1,379,672
Corporate allocation from Lee Memorial Health System	(7,055,438)	1,018,073 (b)	(6,037,365)
Depreciation	32,592	-	32,592
Total operating expenses	<u>745,670</u>	<u>1,011,859</u>	<u>1,757,529</u>
Operating gain	2,480,105	(1,011,859)	1,468,246
Interest income	26		26
Transfers to Lee Memorial Health System	-	(1,468,272) (c)	(1,468,272)
Change in net position	<u>\$ 2,480,131</u>	<u>\$ (2,480,131)</u>	<u>\$ -</u>

(a) Reduce Continuing Medical Education accrual

(b) Adjust to total of \$6.0 million credit which represents the hospital's gain on trauma patients.

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

Capital Assets

At September 30, 2018, the Trauma District had \$57,909 invested in capital assets. Capital assets are comprised of equipment, furniture, fixtures, buildings and improvements for the trauma surgeon office. Refer to Note 4 to the basic financial statements for more information.

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.

**Lee County Trauma Services District
Management's Discussion and Analysis (Unaudited)
September 30, 2018**

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 Auditors

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") which comprise the basic statement of net position as of September 30, 2018, 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.

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.

Auditors' 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 Lee County Trauma Services District as of September 30, 2018, and the results of their operations, changes in their net position and their cash flows for the year 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 31, 2019 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 Matters

The accompanying management's discussion and analysis (unaudited) on pages 1 through 4 are 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.

PricewaterhouseCoopers L.L.P.

Tampa, Florida
January 31, 2019

Lee County Trauma Services District
Basic Statement of Net Position
September 30, 2018

Assets

Current assets

Assets whose use is restricted	\$ 19,295
Accounts receivable from patients, net of allowance for estimated uncollectibles of \$729,856	560,896
Other current assets	<u>288,678</u>
Total current assets	868,869

Noncurrent assets

Capital assets, net	<u>57,909</u>
Total assets	<u>\$ 926,778</u>

Liabilities and Net Position

Current liabilities

Accrued payroll	\$ 118,510
Other accrued liabilities	<u>595,155</u>
Total current liabilities	713,665

Noncurrent liabilities

Other liabilities	193,441
Due to Lee Memorial Health System	<u>19,672</u>
Total liabilities	926,778

Net position

Unrestricted	<u>-</u>
Total liabilities and net position	<u>\$ 926,778</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, 2018

Operating revenues

Net patient service revenue, net of provision for doubtful accounts of \$2,338,994	\$ 2,755,811
Other revenue	469,964
Total operating revenues	<u>3,225,775</u>

Operating expenses

Salaries, wages and benefits	6,253,461
Supplies and other	129,169
Purchased services	1,379,672
Corporate allocation from Lee Memorial Health System	(6,037,365)
Depreciation	32,592
Total operating expenses	<u>1,757,529</u>

Operating income 1,468,246

Other changes in net position

Interest income	26
Transfers to Lee Memorial Health System	(1,468,272)
Change in net position	<u>-</u>

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, 2018

Cash flows from operating activities	
Received from patient care services	\$ 2,392,907
Payments to employees	(6,157,866)
Payments to suppliers	(1,928,318)
Corporate allocation from Lee Memorial Health System	6,037,365
Other receipts	469,964
Net cash provided by operating activities	<u>814,052</u>
Cash flows from noncapital financing activities	
Decrease in due from Lee Memorial Health System	653,566
Transfers to Lee Memorial Health System	(1,468,272)
Changes in assets whose use is restricted	628
Net cash used in noncapital financing activities	<u>(814,078)</u>
Cash flows from capital and related financing activities	
Purchases/transfers of capital assets	-
Receipts (payments) of interest	26
Net cash provided by capital and related financing activities	<u>26</u>
Change in cash and cash equivalents	-
Cash and cash equivalents	
Beginning of year	-
End of year	<u>\$ -</u>
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 1,468,246
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	32,592
Provision for bad debts	2,338,994
Changes in	
Accounts receivable from patients	(2,701,898)
Other assets	(288,678)
Accrued payroll	95,595
Other accrued liabilities	(99,941)
Other liabilities	(30,858)
Net cash provided by operating activities	<u>\$ 814,052</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, 2018 and 2017

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 \$1,468,272 for the year ended September 30, 2018. 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 \$1,468,272 for the year ended September 30, 2018.

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, 2018 and 2017

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 and Patient Accounts Receivable

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursement costs, discounted charges, and per diem payments. Net patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Provision for Bad Debts and Allowance for Uncollectible Accounts

The provision for bad debts is based on management’s assessment of historical and expected net collections, considering business and economic conditions, trends in federal and state governmental health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. The results of this review are then used to make any modification to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Patient accounts receivable are written off after collection efforts have been followed under the District’s policies.

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, 2018 is as follows:

Medicare	7%
Medicaid	6%
Managed care	18%
Insurance	36%
Self-pay and other	33%
	<hr/>
	100%
	<hr/>

Lee County Trauma Services District
Notes to Basic Financial Statements
September 30, 2018 and 2017

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, 2018 consists of the following:

Gross patient service revenue	\$ 9,070,678
Third-party payor and other contractual adjustments	(3,975,873)
Provision for doubtful accounts	<u>(2,338,994)</u>
Net patient service revenue	<u>\$ 2,755,811</u>

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, 2013. 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 \$7,762,303 were paid during the year ended September 30, 2018 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 \$6,037,365 for the year ended September 30, 2018.

At September 30, 2018, the District had a liability due to the System of \$19,672.

Lee County Trauma Services District
Notes to Basic Financial Statements
September 30, 2018 and 2017

4. Capital Assets

Capital asset additions, transfers and retirements, and balance for the year ended September 30, 2018 were as follows:

	Balance at September 30, 2017	Additions and Transfers	Retirements and Transfers	Balance at September 30, 2018
Buildings and improvements	\$ 129,452	\$ -	\$ -	\$ 129,452
Equipment, furniture and fixtures	477,120	-	-	477,120
Totals	<u>606,572</u>	<u>-</u>	<u>-</u>	<u>606,572</u>
Less: Accumulated depreciation for				
Buildings and improvements	(119,145)	(1,875)	-	(121,020)
Equipment, furniture and fixtures	<u>(396,926)</u>	<u>(30,717)</u>	<u>-</u>	<u>(427,643)</u>
	<u>(516,071)</u>	<u>(32,592)</u>	<u>-</u>	<u>(548,663)</u>
Capital assets, net	<u>\$ 90,501</u>	<u>\$ (32,592)</u>	<u>\$ -</u>	<u>\$ 57,909</u>

Depreciation expense was \$32,592 for the year ended September 30, 2018.

5. Subsequent Events

The District has assessed the impact of subsequent events through January 31, 2019, the date the audited basic financial statements were issued, and has concluded that there are no such events that require adjustment to or disclosure in the basic financial statements.



**Report of Independent Auditors 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, 2018, 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 31, 2019.

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 31, 2019.

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.

PricewaterhouseCoopers L.L.P.

Tampa, Florida
January 31, 2019

Lee Memorial Health System
Reports on Federal Awards in Accordance with the
Uniform Guidance
September 30, 2018
EIN: 59-0714812

Lee Memorial Health System

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Lee Memorial Health System

Management's Discussion and Analysis (Unaudited)

September 30, 2018 and 2017

Introduction

This section of Lee Memorial Health System's (the "System") annual financial report presents management's discussion and analysis of the financial position and performance of the System for the year ended September 30, 2018 with comparative information as of and for the years ended September 30, 2017 and 2016. This discussion has been prepared by management and should be read in conjunction with the consolidated basic financial statements and related footnote disclosures.

The System is governed by a ten-member, publicly elected Board of Directors (the "Board"). Each Board member can be elected to an unlimited number of four-year terms with six members being up-for-election normally in the presidential election year and four in the nonpresidential election year. This assists in providing leadership continuity among the Board members.

The System is an integrated health care provider which consists of 1,542 acute care hospital beds located at four campuses, which includes a 128-bed designated children's hospital, a 60-bed rehabilitation hospital, and an 18-bed skilled nursing unit. In addition, the System operates a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physician offices. For further detail on these entities, refer to Note 1 of the consolidated basic financial statements.

The Board's mission is to be a trusted partner, empowering healthier lives through care and compassion. The Board's vision is to inspire hope and be a national leader for the advancement of health and healing. To achieve this vision, the Board works within a strategic plan and evaluates existing and new services based upon community needs and economic viability.

The Board's strategic plan to achieve the System's mission and vision includes four strategic priorities which are (1) to deliver an exceptional patient experience every time, (2) provide excellent health outcomes to those we serve, (3) empower healthier lives through personalized coordinated care and (4) assure ongoing financial viability by lowering costs and growing revenues. These strategic priorities will be achieved by resourcing and deploying strategies and tactics that are fully aligned and deployed to operations through our lean operating system. The strategies will be driven by data analytics to improve processes, standardize to best practices, and utilize human capital and technology to achieve the highest probability of success in improving outcomes and lowering costs.

Overview of the Consolidated Basic Financial Statements

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

Required Financial Statements

The required statements are the consolidated basic statements of net position, the consolidated basic statements of revenues, expenses and changes in net position and the consolidated basic statements of cash flows. These statements offer short and long-term financial information about System activities.

The consolidated basic statements of net position reflect all of the System's assets, liabilities, deferred inflows and outflows and provide information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). Assets, liabilities and deferred activity are presented in a classified format, which distinguishes between their current and long-term time frame. The difference between the assets plus deferred outflows and liabilities plus deferred inflows is reported as "net position."

Lee Memorial Health System
Management's Discussion and Analysis (Unaudited)
September 30, 2018 and 2017

As more fully described in Note 1, the System adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB No. 75"), as of October 1, 2017 and, adjusted net position as of October 1, 2017, resulting in a decrease of approximately \$19.9 million, which is reflected in the accompanying consolidated basic statement of net position as of September 30, 2018, and is summarized below:

(in thousands of dollars)

Net position at September 30, 2017, as reported	\$ 1,459,208
Adoption of GASB No. 75	<u>(19,943)</u>
Net position at October 1, 2017	<u>\$ 1,439,265</u>

The consolidated basic statements of revenues, expenses and changes in net position present the change in net position resulting from revenues earned and expenses incurred. All changes in net position are reported as revenues are earned and expenses are incurred, regardless of the timing of related cash flows.

The consolidated basic statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operating, financing (capital and non-capital), and investing activities. The purpose of the statements is to reflect the key sources and uses of cash during the reporting period.

Condensed Consolidated Basic Statements of Revenues, Expenses and Changes in Net Position

A summary of the System's consolidated basic statements of revenues, expenses and changes in net position are presented below.

(in thousands of dollars)

	2018	2017	2016
Operating revenues	\$ 1,789,982	\$ 1,735,193	\$ 1,630,927
Operating expenses	<u>1,715,143</u>	<u>1,645,035</u>	<u>1,519,829</u>
Operating income	<u>74,839</u>	<u>90,158</u>	<u>111,098</u>
Nonoperating items	25,065	106,179	77,844
Contributions and grants	<u>1,135</u>	<u>(27,063)</u>	<u>(14,182)</u>
Total nonoperating income (loss)	<u>26,200</u>	<u>79,116</u>	<u>63,662</u>
Increase in net position	<u>\$ 101,039</u>	<u>\$ 169,274</u>	<u>\$ 174,760</u>

A summary of the System's key operating ratios is presented below. All ratios are expressed as a percentage of total net operating revenue.

	2018	2017	2016	% Variance 2017-2018	% Variance 2016-2017
Salaries, wages and benefits	54.6%	54.7%	52.8%	-0.2%	3.6%
Supplies and other services	25.2%	24.6%	25.3%	2.4%	-2.8%
Purchased services	10.5%	10.0%	10.1%	5.0%	-1.0%
Capital costs (depreciation, amortization and interest expense)	6.8%	6.8%	6.4%	0.0%	6.3%

Lee Memorial Health System

Management's Discussion and Analysis (Unaudited)

September 30, 2018 and 2017

Operating Revenues

Total operating revenues increased in 2018 and 2017 by \$54.8 million, or 3.2%, and \$104.3 million, or 6.4%, respectively. In 2018, net patient service revenue increased by \$55.0 million, 3.2% reflecting an increase in adjusted admissions of 2.1%, and an average rate increase of 5.0% with favorable payor mix changes. During 2017, net patient service revenue increased by \$107.2 million, or 6.8%, reflecting an increase in adjusted admissions of 2.0%, and an average rate increase of 5.0% with favorable payor mix changes.

Other operating revenue decreased by \$0.3 million, or 0.6%, in 2018 due primarily to the end of the Medicare and Medicaid electronic health record ("EHR") incentive payment program and the expiration of grants received in relation to Federally Qualified Health Centers for care for the low-income patient population. In 2017, other operating revenue decreased by \$0.8 million, or 1.9%, due primarily to decreases in Medicare and Medicaid funding of the EHR incentive payments in the amount of \$3.0 million.

Operating Expenses

Total operating expenses increased in fiscal year 2018 by \$70.1 million, or 4.3%. Salaries, wages and benefits increased by approximately \$28.1 million, or 3.0%. The increase in salaries and wages is due to an increase in average hourly rate of 2.1%, staffing increases due to an increase in patient volumes of 2.1%, as well as continued expansion in outpatient services and other programs aimed at improving community health and patient access. Benefit costs increased by \$8.7 million, or 6.7%, and increased from 2017 as a percent of salaries and wages to 16.4%. Salaries, wages and benefits, as a percent of total net operating revenues, decreased by 0.1% to 54.6%. In 2017, total operating expenses increased by \$125.2 million, or 8.2%. Salaries, wages and benefits increased by approximately \$86.8 million, or 10.1%. The increase in salaries and wages is due to an increase in average hourly rate of 4.4%, staffing increases due to an increase in patient volumes of 2.0%, as well as the opening of the new Golisano Children's Hospital of Southwest Florida facility in May of 2017, continued expansion in outpatient services and other programs aimed at improving community health and patient access. Benefit costs increased by \$11.9 million, or 10.2%, and remained constant from 2016 as a percent of salaries and wages at 15.7%.

Capital costs, which include depreciation and amortization, increased to \$100.4 million in fiscal year 2018, a \$4.4 million increase over the prior year. Capital costs, expressed as a percentage of total operating revenues, increased to 5.6%. In 2017, capital costs increased to \$96.0 million, a \$14.1 million increase over the prior year. This increase was due mainly to the opening of the Golisano Children's Hospital in May 2017. Capital costs, expressed as a percentage of total operating revenues, increased to 5.5% over the previous year.

Nonoperating items, net

Nonoperating items decreased in 2018 by \$52.9 million, or 66.9%. Included in this category are investment performance and fair value changes on investments, which can vary significantly from year to year, and interest expense. Investment income decreased by \$45.0 million. During fiscal year 2018, there were unrealized gains of \$20.6 million from financial market performance, coupled with interest income and realized gains of \$21.9 million. Realized gains and interest earned on investments decreased by \$18.3 million. Interest expense decreased by \$0.4 million, largely due to more favorable rates obtained through financing. In 2017, nonoperating items increased by \$15.5 million, or 24.3%. Included in this category are investment performance and fair value changes on investments, which can vary significantly from year to year, and interest expense. Investment income increased by \$15.7 million. During fiscal year 2017, there were unrealized gains of \$47.4 million resulting from strong financial markets, coupled with interest income and realized gains of

Lee Memorial Health System
Management's Discussion and Analysis (Unaudited)
September 30, 2018 and 2017

\$40.1 million. Realized gains and interest earned on investments increased by \$2.3 million. Interest expense decreased by \$0.7 million, largely due to more favorable rates obtained through financing.

The System's net position as of September 30, 2018 increased approximately \$101.0 million since the prior year, resulting in a profit margin of 5.6%. In 2017, the increase in net position over the previous year was approximately \$169.3 million, resulting in a profit margin of 9.8%.

Below is a table outlining our Board defined and monitored operating ratios. These ratios are compared with Moody's A-rated hospitals.

	2017 Moody's Median	FYE 2018	FYE 2017	FYE 2016
Profitability Ratios				
Operating margin (%)	2.3%	3.0%	4.0%	5.5%
Excess margin (%)	5.2%	5.5%	9.2%	10.2%
EBITDA margin (%)	8.6%	9.8%	10.7%	11.8%
Liquidity Ratios				
Days cash on hand	226.5	195.6	231.6	253.3
Cushion ratio	23.9	13.1	16.2	16.3
Cash-to-debt (%)	169.6%	133.2%	146.5%	143.1%
Capitalization Ratios				
Debt to capitalization (%)	32.9%	30.5%	32.4%	36.5%
Annual debt service coverage	5.4	3.1	4.2	4.2
Debt to cash flow	3.0	3.6	3.1	3.2

* Operating margin is calculated as operating income less interest expense divided by total operating revenues.

* Excess margin is calculated as the increase in net position divided by [total operating revenues plus nonoperating revenues plus interest expense].

* EBITDA margin is calculated as [operating income plus depreciation and amortization divided by total operating revenues].

Annually, the Board establishes targets for these key ratios and then monitors these ratios each month to ensure that the System remains an A-rated organization. The days cash on hand, cushion ratio, cash-to-debt, annual debt service coverage, and debt to cash flow ratios fall outside the range of the Moody's 2017 Medians.

Cash Flows

Cash and cash equivalents increased \$20.3 million in fiscal year 2018.

Net cash provided by operating activities was \$161.3 million for fiscal year 2018 and \$121.0 million for the prior year. The main factors contributing to the \$40.3 million increase in operating cash flow during fiscal year 2018 as compared to fiscal year 2017 are as follows:

- \$93.7 million in additional cash received from patient care services, offset by
- \$37.0 million in additional cash payments made to employees and suppliers.

Lee Memorial Health System
Management's Discussion and Analysis (Unaudited)
September 30, 2018 and 2017

- \$16.1 million in additional payments to suppliers.

Net cash provided by noncapital financing activities was \$20.6 million for fiscal year 2018 versus \$23.3 million provided by noncapital financing activities in the prior year.

Net cash used in capital and related financing activities was \$330.2 million in fiscal year 2018 and \$249.1 million in fiscal year 2017. This \$81.1 million change in the use of cash is primarily the result of an increase in the purchase of capital assets of \$103.8 million, from \$173.3 million in fiscal year 2017 to \$277.1 million in fiscal year 2018.

Net cash provided by investing activities was \$168.6 million for fiscal year 2018 versus \$74.5 million in the prior year. The majority of the change in the cash provided by investing activities was due to the reduction in short term investments from 2017 to 2018 of \$126.3 million. For fiscal year 2018, \$22.8 million in investment income was received through interest earnings and realized gains. For fiscal year 2017, \$41.2 million in investment income was received through interest earnings and realized gains. Short-term and long-term investments in the portfolio decreased \$34.7 million during fiscal year 2017.

General Trends

As reflected in the revenue table below, the System is dependent on the State and Federal governments for the majority of its revenues with 65.7% of the System's revenue being derived from the Medicare and Medicaid programs. Over the past several years, the Medicare rate increases have not kept pace with overall medical expense increases. Management expects these trends to continue. This will put continued pressure on operating margins necessitating continued efforts to enhance operating efficiencies. The System has created a department with highly trained Lean Management personnel to implement process standardization and waste elimination through the use of Lean methodologies.

	2018	2017	2016
Medicare	52.1%	52.0%	51.8%
Medicaid	13.6%	13.8%	13.7%
Commercial	23.8%	24.0%	24.6%
Other	10.5%	10.2%	9.9%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Capital Assets

At September 30, 2018, the System had \$1,149.2 million in net capital assets. A breakdown of these assets can be found in Note 6 to the consolidated basic financial statements. This represents an increase of \$190.1 million over the prior year's net capital assets of \$959.1 million.

The System expects to make total capital expenditures of \$164.9 million in fiscal year 2019. Of this amount, an estimated \$41.5 million is related to construction of the Lee Health Coconut Point in Estero, Florida and \$80.0 million pertains to the expansion of Gulf Coast Medical Center. The remaining capital expenditures are primarily for facility upgrades, information systems and patient care equipment. These capital purchases will be funded directly from operations.

Lee Memorial Health System

Management's Discussion and Analysis (Unaudited)

September 30, 2018 and 2017

Debt Outstanding

As of September 30, 2018, the System had \$658.2 million in debt (bonds, notes, etc.) outstanding. The long-term debt is comprised of a number of bond issues, notes payable, and capital leases described in more detail in Note 8 and Note 9 to the consolidated basic financial statements. In 2018, sixty-five percent (65%) of the System's total debt outstanding has fixed interest rates, while one-hundred percent (100%) of the System's bonds outstanding have fixed interest rates. As of September 30, 2017, the System had \$680.2 million in debt (bonds, notes, etc.) outstanding. In 2017, sixty-five percent (65%) of the System's total debt outstanding has fixed interest rates, while one-hundred percent (100%) of the System's bonds outstanding have fixed interest rates. The System's bonds carry an A/Positive and an A2 rating from S&P and Moody's, respectively.

Community Benefits

As a special purpose unit of government, the System is committed to meeting the needs and improving the health status of the people of Southwest Florida. The essential services that are provided throughout the health system were created from our commitment to the community and not because of an economic opportunity. Therefore, the System regularly assesses the needs of the community so that even the most vulnerable of its citizens are provided care even though a particular service might generate a low or negative margin.

The entire cost of providing care to low income citizens or to fund unprofitable services is subsidized through our tax exempt status. Therefore, the System regularly estimates the benefit of its tax exempt status as compared to the "community benefits" that are provided to the citizens as well as identifying the types of services that are provided often at significant financial loss to meet the needs of the community.

The analysis of the community benefit reveals that the System's financial benefit of its tax exempt status was approximately \$52.9 million for fiscal year 2018, \$58.8 million for fiscal year 2017 and \$66.6 million for fiscal year 2016. This includes the savings that are derived from not having to pay certain state and federal taxes, real estate taxes, sales and intangible taxes as well as lower malpractice costs due to sovereign immunity as a governmental entity, and lower cost of capital due to the use of tax-exempt financing.

The System estimates the benefits of the services provided to the community exceeded \$470.0 million in fiscal year 2018, \$419.2 million in fiscal year 2017, and \$375.3 million in fiscal year 2016. The increase in benefits for services provided to the community from 2017 to 2018 of \$50.8 million was largely due to Medicaid retro rate adjustments from prior years and implementation of the Enhanced Ambulatory Patient Group ("EAPG") methodology for determining Medicaid claims payments. This community benefit consists of charity care provided to patients whom might not have access to health care; low income services that are provided at less than cost (e.g., Medicaid); other services that are provided at a loss such as community wellness and health education programs.

Lee Memorial Health System
Management's Discussion and Analysis (Unaudited)
September 30, 2018 and 2017

The System's commitment to the community is summarized into the following community benefit categories for the years ended September 30, 2018, 2017 and 2016 as follows:

<i>(in thousands of dollars)</i>	2018	2017	2016
Cost of charity care for low income patients	\$ 63,592	\$ 62,986	\$ 54,822
Cost of community outreach and educational programs and one-of-a-kind medical services	58,445	61,082	55,437
Cost of unpaid Medicaid services	91,449	74,509	58,427
Cost of unpaid Medicare and other government programs	<u>256,607</u>	<u>220,580</u>	<u>206,642</u>
	<u>\$ 470,093</u>	<u>\$ 419,157</u>	<u>\$ 375,328</u>

In summary, the System continues to provide benefits to the community well in excess of the value of its tax exempt status. The System continues to be focused on the provision of essential services to all of its citizens and uses its financial surplus to further its charitable purpose.



Report of Independent Auditors

To the Board of Directors of
Lee Memorial Health System

Report on the Consolidated Basic Financial Statements

We have audited the accompanying consolidated basic financial statements of Lee Memorial Health System (the "System") which comprise the consolidated basic statements of net position as of September 30, 2018 and 2017, and the related consolidated basic statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the consolidated basic financial statements.

Management's Responsibility for the Consolidated Basic Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated basic financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated basic financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the System's preparation and fair presentation of the consolidated 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 System'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 consolidated 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 consolidated basic financial statements referred to above present fairly, in all material respects, the financial position of Lee Memorial Health System as of September 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated basic financial statements, the System changed the manner in which it accounts for postemployment benefits other than pensions in 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis (unaudited) on pages 1 through 7, the schedule of changes in the net pension liability and related ratios (unaudited) on page 53, the schedule of employer contributions (unaudited) on page 54, the schedule of investment returns (unaudited) on page 55, the schedule of changes in total other post-employment benefits ("OPEB") liability (unaudited) on page 56 and the schedule of total other post-employment benefits ("OPEB") contributions on page 57 are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated 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 consolidated 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 consolidated basic financial statements, and other knowledge we obtained during our audits of the consolidated 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.

Supplemental and Other Information

Our audits were conducted for the purpose of forming opinions on the consolidated basic financial statements. The supplemental consolidating information on pages 59 through 64 is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. The supplemental consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The supplemental consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2018 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic



financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018 on our consideration of the System'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 for the year ended September 30, 2018. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of 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 System's internal control over financial reporting and compliance.

PricewaterhouseCoopers L.L.P.

Tampa, Florida
January 31, 2019

Lee Memorial Health System
Consolidated Basic Statements of Net Position
September 30, 2018 and 2017

(in thousands of dollars)

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 33,195	\$ 12,890
Short-term investments	831,879	958,219
Assets whose use is restricted	5,598	5,582
Patient accounts receivable, net of allowance for estimated uncollectibles of \$79,647 in 2018 and \$55,943 in 2017	243,232	229,909
Inventories	33,947	33,003
Other current assets	39,664	38,438
Total current assets	<u>1,187,515</u>	<u>1,278,041</u>
Noncurrent assets		
Assets whose use is restricted	11,446	25,325
Capital assets, net	1,149,219	959,038
Other assets, net	29,213	44,122
Total assets	<u>2,377,393</u>	<u>2,306,526</u>
Deferred outflows of resources		
Deferred loss on debt refunding	1,924	2,511
Deferred outflows on pension	1,026	1,026
Excess consideration provided for acquisition	98,481	101,577
Total deferred outflows of resources	<u>101,431</u>	<u>105,114</u>
Liabilities		
Current liabilities		
Accounts payable	61,537	54,280
Current installments of long-term debt	42,306	38,857
Accrued expenses		
Employee compensation	59,532	43,353
Interest	7,366	6,913
Other	43,861	37,270
Estimated third-party payor settlements	7,204	35,695
Total current liabilities	<u>221,806</u>	<u>216,368</u>
Noncurrent liabilities		
Long-term debt, excluding current installments	615,860	641,352
Other liabilities	98,240	91,800
Total liabilities	<u>935,906</u>	<u>949,520</u>
Deferred inflows of resources		
Deferred inflows on pension	2,254	2,912
Deferred inflows on split interest agreements	360	-
Total deferred inflows of resources	<u>2,614</u>	<u>2,912</u>
Commitments and contingencies		
Net position		
Restricted for		
Nonexpendable	6,356	6,269
Expendable	33,423	31,855
Net investment in capital assets	491,053	278,830
Unrestricted	1,009,472	1,142,254
Total net position	<u>\$ 1,540,304</u>	<u>\$ 1,459,208</u>

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

Lee Memorial Health System
Consolidated Basic Statements of Revenues, Expenses and Changes in Net
Position
Years Ended September 30, 2018 and 2017

(in thousands of dollars)

	2018	2017
Operating revenues		
Net patient service revenue, net of provision for doubtful accounts of \$238,582 in 2018 and \$214,235 in 2017	\$ 1,750,494	\$ 1,695,451
Other revenue	39,488	39,742
Total operating revenues	<u>1,789,982</u>	<u>1,735,193</u>
Operating expenses		
Salaries, wages and benefits	976,610	948,526
Supplies and other services	450,225	427,639
Purchased services	187,942	172,867
Depreciation and amortization	100,366	96,003
Total operating expenses	<u>1,715,143</u>	<u>1,645,035</u>
Operating income	<u>74,839</u>	<u>90,158</u>
Nonoperating items		
Interest expense	(20,996)	(21,414)
Investment income, including realized and unrealized gains on investments	42,521	87,550
Contributions and grants	1,135	(27,063)
Investment activity on restricted nonexpendable investments	515	961
Loss on sale of capital assets	(907)	(417)
Other	3,932	39,499
Total nonoperating income	<u>26,200</u>	<u>79,116</u>
Increase in net position	101,039	169,274
Net position		
Beginning of year, as reported	1,459,208	1,289,934
Adoption of GASB No. 75 (see Note 1)	(19,943)	-
Beginning of year, as restated	<u>1,439,265</u>	<u>1,289,934</u>
End of year	<u>\$ 1,540,304</u>	<u>\$ 1,459,208</u>

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

Lee Memorial Health System
Consolidated Basic Statements of Cash Flows
Years Ended September 30, 2018 and 2017

(in thousands of dollars)

	2018	2017
Cash flows from operating activities		
Received from patient care services	\$ 1,722,791	\$ 1,629,085
Salaries and benefits paid to employees	(981,440)	(944,468)
Payments to suppliers	(619,090)	(602,992)
Other receipts from operations	39,064	39,352
Net cash provided by operating activities	<u>161,325</u>	<u>120,977</u>
Cash flows from noncapital financing activities		
Restricted gifts received (noncapital related)	2,742	(14,672)
Assets donated via Lee Memorial Health System Foundation, Inc.	5,582	36,304
Miscellaneous nonoperating items	12,268	1,626
Net cash provided by noncapital financing activities	<u>20,592</u>	<u>23,258</u>
Cash flows from capital and related financing activities		
Proceeds from long-term borrowings	10,633	-
Purchases of capital assets	(277,092)	(173,253)
Proceeds from sale of capital assets	76	109
Interest payments	(25,042)	(26,791)
Repayment of long-term debt	(39,223)	(37,949)
Restricted gifts received (capital related)	422	(11,223)
Net cash used in capital and related financing activities	<u>(330,226)</u>	<u>(249,107)</u>
Cash flows from investing activities		
Investment income received	22,846	41,210
Decrease in investments	146,955	34,689
Joint venture funding and activity	(1,187)	(1,401)
Net cash provided by investing activities	<u>168,614</u>	<u>74,498</u>
Increase (decrease) in cash and cash equivalents	20,305	(30,374)
Cash and cash equivalents		
Beginning of year	<u>12,890</u>	<u>43,264</u>
End of year	<u>\$ 33,195</u>	<u>\$ 12,890</u>
Disclosure of supplemental cash flow information		
Capital assets financed through capital lease obligations	\$ 7,723	\$ 14,824
Long-term debt extinguished through refunding transaction	-	101,290

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

Lee Memorial Health System
Consolidated Basic Statements of Cash Flows
Years Ended September 30, 2018 and 2017

(in thousands of dollars)

	2018	2017
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 74,839	\$ 90,158
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	100,366	96,003
Provision for bad debts	238,582	214,235
Changes in		
Patient accounts receivable	(237,797)	(256,989)
Inventories	(944)	(2,342)
Other assets	(31)	(7,840)
Accounts payable	7,257	(1,412)
Accrued expenses	1,104	3,844
Estimated third-party payor settlements	(28,491)	(23,612)
Other liabilities	6,440	8,932
Net cash provided by operating activities	<u>\$ 161,325</u>	<u>\$ 120,977</u>

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

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

September 30, 2018 and 2017

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

Description of Reporting Entity

Lee Memorial Health System (the "System") is a special purpose unit of local government created by special act of the Florida Legislature, Chapter 63-1552, Laws of Florida, Special Acts, 1963 as re-codified by Chapter 2000-439, Laws of Florida, Special Acts, 2000 (the "Enabling Act"). It is classified as an independent special district under the laws of Florida. The System operates pursuant to the Enabling Act, as amended.

The System includes four acute care hospitals, Lee Memorial Hospital, HealthPark Medical Center, Gulf Coast Medical Center and Cape Coral Hospital. Additionally, the System is comprised of other healthcare facilities and services, which include a 128-bed designated children's hospital, a 60-bed rehabilitation hospital, an 18-bed skilled nursing unit, a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physicians' offices. The System operates in Lee County, Florida.

Certain of these operations have been placed in subagencies for administrative purposes. Subagencies are created by resolution of the System's Board of Directors under authorization granted by its Enabling Act. These subagencies are not incorporated under the corporation laws of Florida.

Other System operations are carried out through subsidiary corporations, as follows:

- Cape Coral Hospital is managed through a not-for-profit organization, Cape Memorial Hospital, Inc. ("Cape Coral Hospital"). This corporation was created by the System's Board of Directors to receive and hold the assets purchased from Cape Coral Medical Center, Inc. ("CCMC") on July 1, 1996, upon acquisition of Cape Coral Hospital. Its Board of Directors consists of the ten members of the System's Board of Directors and this is presented as a blended component unit of the System (Note 13).
- HealthPark Care Center, Inc. ("HPCC") is a not-for-profit corporation, which owns and operates the System's skilled nursing facility. Its Board of Directors consists of the ten members of the System's Board of Directors.
- Lee Memorial Home Health, Inc. is a not-for-profit corporation, which owns and operates the System's home health agency. Its Board of Directors consists of the ten members of the System's Board of Directors.
- Lee Memorial Health System Foundation, Inc. (the "Foundation") is a not-for-profit corporation created by the System's Board of Directors and community leaders to serve as a fund-raising organization in support of the System. Its Board of Directors consists of persons prominent in the community and interested in serving the community and the System's needs. Two Board positions are also reserved on an ex officio basis for the Chairman of the Board of Directors of the System or members of such board designated by the Chairman and the Chief Executive Officer of the System or his/her designee.

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

September 30, 2018 and 2017

- 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 a special act of the 2003 Florida Legislature, Chapter 63-1552, Laws of Florida, Special Acts, 1963 as recodified by Chapter 2003-357, Laws of Florida, Special Acts 2003. The District is classified as an independent special district under the laws of Florida. The District serves as an integral member of the continuum of care offered by the System. Operations of the District began on October 1, 2003.
- The System provides vital patient care services through various access points. To promote access to comprehensive preventive and primary health services for medically underserved residents members of the community regardless of their ability to pay for such services, the System sought and received, from the Health Resources and Services Administration (“HRSA”) of the United States Department of Health and Human Services, the designation of certain System clinic locations as public-entity model federally qualified health center look-alikes (“FQHC-LA”), known as public health centers. Lee Community Healthcare, Inc. (“LCH”) is a separate tax exempt Florida not-for-profit corporation with a Board of Directors that meets independent governance (community board) standards and retains reserve powers relative to FQHC-LA operations. The System and LCH entered into a co-applicant arrangement to comply with the federal law requirements related to independent Board of Directors oversight of the designated centers. As the public entity, the System is responsible for the operation of the centers which are located in Cape Coral, North Fort Myers, East Fort Myers, South Fort Myers and Lehigh Acres.

Summary of Significant Accounting Policies

All intercompany transactions have been eliminated in the accompanying consolidated basic financial statements.

Basis of Presentation

The accompanying consolidated 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 and include the accounts of the System and its subsidiaries. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Use of Estimates

The preparation of consolidated 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 consolidated basic financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts held as bank deposits and highly liquid investments with maturities of three months or less at date of purchase.

Inventories

Inventories consist principally of pharmaceuticals and medical and surgical supplies which are valued at the lower of net realizable value, on a first-in first-out basis, or market.

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

September 30, 2018 and 2017

Assets Whose Use Is Restricted

Assets whose use is restricted consist primarily of investments restricted under the terms of the System's bond indenture agreements, assets restricted by donor stipulations and assets held under other contractual agreements (Note 4). The current portion of assets whose use is restricted relates to the corresponding estimated current obligations.

Capital Assets

Capital assets have been recorded at historical cost or fair market value at date of purchase or donation, respectively. Equipment under capital leases is stated at the present value of minimum lease payments at the inception of the lease. 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. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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. Equipment under capital leases is amortized under the straight-line method over the shorter of the lease term or estimated useful life of the asset as summarized below:

Buildings and improvements	10–40 years
Equipment	3–15 years

Impairment of Long-Lived Assets

Long-lived assets are evaluated for recoverability whenever adverse events or changes in business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. For the years ended September 30, 2018 and 2017, the System does not believe there were any adverse events or changes in business that would indicate that an impairment reserve is required.

Bond and Note Issuance Costs

Bond issuance costs are expensed at time of issuance.

Bond Premiums and Discounts

Bond premiums and discounts are amortized over the period the bonds are outstanding using the effective interest method.

Net Patient Service Revenue and Patient Accounts Receivable

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

September 30, 2018 and 2017

Provision for Bad Debts and Allowance for Uncollectible Accounts

The provision for bad debts is based on management's assessment of historical and expected net collections, considering business and economic conditions, trends in federal and state governmental health care coverage, and other collection indicators. Throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon these trends. The results of this review are then used to make any modification to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Patient accounts receivable are written off after collection efforts have been followed under the System's policies.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of these amounts, they are not reported as net patient service revenue. The level of direct charity care provided during the years ended September 30, 2018 and 2017 consisted of foregone revenues of approximately \$294.5 million and \$286.4 million, respectively.

Investments and Investment Income

Investment securities held by the System, including investments in companies that are deemed to be alternative investment funds as addressed in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and GASB Statement No. 72, *Fair Value Measurement and Application*, are carried at fair value. Realized gains and losses, based on the specific identification method, and unrealized gains and losses are included in investment income in the consolidated basic statements of revenues, expenses and changes in net position.

At September 30, 2018 and 2017, the System's investments in companies deemed to be alternative investment funds and the approximate ownership interest in each company were as follows:

	2018	2017
SEI Core Property Fund, LP ("Core Property Fund")	2.78%	2.55%
SEI Special Situations Fund, Ltd. ("Special Situations Fund")	5.74%	6.25%
SEI Core Property Fund, LP (held by the Foundation)	0.05%	0.05%

Joint Ventures

The System has entered into various partnership agreements to form corporations that will provide additional health care services throughout the community. The System's equity interest in each corporation is 40-50%. The System's investments are reflected in other assets and are being accounted for under the equity method and each has been recorded at the amount of capital contributions, including cash contributions and the fair value of fixed assets contributed, adjusted for earnings or losses for each.

Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in the current or preceding year.

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

September 30, 2018 and 2017

Effective October 1, 2011, the sovereign immunity limits in Florida have been increased from \$100,000 to \$200,000 for any one person for one incident and from \$200,000 to \$300,000 in total for one incident.

Self-Insurance Programs

Estimated liabilities for self-insured medical malpractice, employee health and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The System is a special purpose unit of local government created by the Enabling Act. Certain of the System's controlled subsidiaries have been recognized by the Internal Revenue Service as tax-exempt organizations described in Section 501(c)(3) of the Internal Revenue Code (the "Code"). Income earned in furtherance of the System's tax-exempt or governmental purpose is exempt from federal and state income taxes. The Code provides for taxation of unrelated business income under certain circumstances. The System has no significant unrelated business income; however, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities.

Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent a consumption of net assets that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net assets that is applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets, and deferred inflows of resources have a negative effect on net position, similar to liabilities. Notwithstanding those similarities, deferred outflows of resources are not assets and deferred inflows of resources are not liabilities and accordingly are not included in those sections of the accompanying consolidated basic statements of net position, but rather, separately reported.

Net Position

Net position of the System is classified in four components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System, including amounts deposited with trustees as required by revenue bond indentures. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are the remaining net assets that do not meet the definition of net investment in capital assets or restricted.

Resources restricted by donors or grantors for specific operating purposes are reported in other operating revenue to the extent used in the period.

Operating Revenues and Expenses

The System's consolidated basic statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the System's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating items. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2018 and 2017

Concentrations of Credit Risk

Financial instruments which potentially subject the System to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, equity method and other investments, patient accounts receivable, other assets and assets whose use is restricted under bond indenture agreements and by the Board of Directors for future use.

The System places its cash and cash equivalents with what management believes to be high credit quality financial institutions. Included in cash and cash equivalents are bank deposits in the amount of \$5.0 million and \$7.8 million as of September 30, 2018 and 2017, respectively. These deposits are in excess of the federal insured amount of \$250,000. However, the System is a Qualified Public Depositor with the State of Florida. As such, deposits at Qualified Public Depositories are insured at the full amount on deposit. Management does not anticipate nonperformance risk by the financial institutions. The System's short-term investments and assets whose use is restricted are primarily invested in commercial paper and money market funds, U.S. Government agencies, mutual funds, and alternative investment funds.

The System 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 is as follows:

	2018	2017
Medicare	29%	30%
Medicaid	13%	16%
Managed care	22%	23%
Commercial insurance	6%	5%
Self-pay and other	30%	26%
	<u>100%</u>	<u>100%</u>

Fair Value of Financial Instruments

The carrying value of net accounts receivable, accrued liabilities (other than liabilities for malpractice and workers' compensation claims), and accounts payable approximates fair value due to the short-term nature of these accounts. Long-term receivables under agreement, less allowance for doubtful accounts, are valued by management at approximate fair market value. Malpractice and workers' compensation liabilities are stated at estimated fair value.

The carrying amount of the Hospital Revenue Bonds issued at rates which vary with the market approximates the fair value of these instruments, as their interest rates approximate the rates available to the System for debt of similar types and maturities. The carrying value of the System's long-term debt, excluding capital leases, was approximately \$535.2 million and \$561.5 million at September 30, 2018 and 2017, respectively. The fair value of the System's long-term debt, excluding capital leases, was approximately \$544.0 million and \$572.1 million at September 30, 2018 and 2017, respectively.

Excess Consideration Provided for Acquisition

Excess consideration provided for acquisition represents the consideration paid by the System for various acquisitions in excess of the estimated fair value of net position acquired. Pursuant to GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69"), which the System adopted in 2015, this deferred outflow is being attributed to future periods (i.e., amortized) in a systematic and rational manner over the periods presented in

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2018 and 2017

the table below. The System recognized approximately \$3.1 million in amortization expense in 2018 and 2017, with such amounts being included as a component of the line item titled “depreciation and amortization,” in the consolidated basic statements of revenues, expenses and changes in net position. The table below depicts the components of this balance, annual amortization, and the amortization period at the component level as well as System totals:

(in thousands of dollars)

	2018 Balance	Annual Amortization	Amortization Period (in years)
Lee Memorial Hospital	\$ 3,339	\$ 209	20
Gulf Coast Medical Center	87,358	2,427	40
Cape Coral Hospital	7,784	486	20
Total	<u>\$ 98,481</u>	<u>\$ 3,122</u>	

Accounting Pronouncements

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations* (“GASB No. 83”). GASB No. 83 addresses accounting and financial reporting for certain asset retirement obligations (“AROs”). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on GASB No. 83. GASB No. 83 is effective for fiscal years beginning after June 15, 2018. The System is currently evaluating the impact GASB No. 83 will have on its consolidated basic financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities* (“GASB No. 84”). The principal objective of GASB No. 84 is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. GASB No. 84 is effective for fiscal years beginning after December 15, 2018. The System is currently evaluating the impact GASB No. 84 will have on its consolidated basic financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases* (“GASB No. 87”). GASB No. 87 establishes standards of accounting and financial reporting by lessees and lessors. GASB No. 87 will require a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will require a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. GASB No. 87 is effective for fiscal years beginning after December 15, 2019. The System is currently evaluating the impact GASB No. 87 will have on its consolidated basic financial statements.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2018 and 2017

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* (“GASB No. 88”). GASB No. 88 requires additional information related to debt to be disclosed in the notes to the financial statements. GASB No. 88 is effective for fiscal years beginning after June 15, 2018. The System is currently evaluating the impact GASB No. 88 will have on its consolidated basic financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (“GASB No. 89”). Upon adoption of GASB No. 89, interest cost incurred before the end of a construction period will be recognized as an expense in the period in which the cost is incurred. GASB No. 89 is effective for fiscal years beginning after December 15, 2019. The System is currently evaluating the impact GASB No. 89 will have on its consolidated basic financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interests* (“GASB No. 90”). GASB No. 90 clarifies the accounting and financial reporting requirements for a state or local government’s majority equity interest in an organization that remains legally separate after acquisition. GASB No. 90 is effective for fiscal years beginning after December 15, 2018. The System is currently evaluating the impact GASB No. 90 will have on its consolidated basic financial statements.

During the year ended September 30, 2018, the System adopted GASB Statement No. 81, *Irrevocable Split Interest Agreements*, GASB Statement No. 85, *Omnibus 2017*, and GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The adoption of such statements did not have a material impact on the consolidated basic financial statements.

Revision of Previously Issued Financial Statements

During the year ended September 30, 2018, the System adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, (“GASB No. 75”). This statement supersedes GASB Statement No. 45 and establishes new requirements for calculating and reporting the System’s postemployment benefits. GASB No. 75 was adopted in fiscal year 2018, resulting in an increase in obligations for postemployment benefits and a decrease in unrestricted net position of \$19.9 million at October 1, 2017. The adoption of GASB No. 75 has not been reflected as of the beginning of the earliest period presented in the financial statements as the impact was not material to the financial statements.

Net position as of October 1, 2017 was restated for the effects of the System’s adoption of GASB No. 75 as follows:

(in thousands of dollars)

	September 30, 2017 As Previously Reported	GASB No. 75 Adoption	October 1, 2017 As Restated
Noncurrent Liabilities			
Other liabilities	\$ 91,800	\$ 19,943	\$ 111,743
Net Position			
Unrestricted	\$ 1,142,254	\$ (19,943)	\$ 1,122,311

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

September 30, 2018 and 2017

2. Third-Party Payors

The System has agreements with third-party payors that provide for payment at amounts different from its established rates.

A summary of the basis of payment with major third-party payors follows:

Medicare

Inpatient acute care services, rehabilitative services, psychiatric services, skilled nursing services, hospital outpatient services and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The System's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2013. Retroactive adjustments for cost report settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

Medicaid

Inpatient and outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries have historically been reimbursed under a cost based reimbursement methodology.

The System's Medicaid cost reports have been audited and final settlements determined by the Medicaid intermediary for all years through September 30, 2015. Effective July 1, 2013, the State of Florida converted to an All Patient Refined Diagnosis Related Groups ("APR DRG") methodology for determining Medicaid inpatient hospital payments. The payments made under APR DRG are paid on a per case basis based on the APR DRG assignment that reflects severity of illness and resources related to services rendered. Effective July 1, 2017, the State of Florida implemented the Enhanced Ambulatory Patient Groups ("EAPG") methodology for determining Medicaid outpatient claim payments. Patients in each EAPG have similar clinical characteristics and similar resource use and cost. This method converts payments from a cost-based system to a prospective payment system.

The System's classification of patients and the appropriateness of their admission are subject to review by the fiscal intermediaries administering the Medicare and Medicaid programs.

Other

The System has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
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3. Net Patient Service Revenue

Net patient service revenue, including subagency service revenue, for the years ended September 30 consists of the following:

<i>(in thousands of dollars)</i>	2018	2017
Gross patient service revenue	\$ 8,000,778	\$ 7,434,440
Third-party payor and other contractual adjustments	(6,011,702)	(5,524,754)
Provision for doubtful accounts	<u>(238,582)</u>	<u>(214,235)</u>
Net patient service revenue	<u>\$ 1,750,494</u>	<u>\$ 1,695,451</u>

4. Assets Whose Use Is Restricted

Assets whose use is restricted, which are required to meet current obligations of the System, are reported in current assets. The fair market value of assets whose use is restricted at September 30 consists of the following:

<i>(in thousands of dollars)</i>	2018	2017
Held by trustee under bond indenture agreements	\$ 5,208	\$ 5,210
Held by Board of Directors for future use	1,590	372
Held in trust for other uses	925	990
Designated by donors for specific purposes	<u>9,321</u>	<u>24,335</u>
Total assets whose use is restricted	17,044	30,907
Less: Amounts required to meet current obligations	<u>(5,598)</u>	<u>(5,582)</u>
Assets whose use is restricted, net of amounts required to meet current obligations	<u>\$ 11,446</u>	<u>\$ 25,325</u>

Investments which comprise assets whose use is restricted are included in the general investment portfolios of the System.

5. Investments

The System primarily invests its resources in domestic and international equity and fixed income mutual funds, hedge funds, and money market funds. Such investments include amounts available for current operations as well as assets whose use is restricted under bond indenture agreements and by the Board of Directors for future use. The System's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the System's investment horizon within the System's risk tolerance and cash requirements.

Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in non-operating revenues when earned.

The System's mutual fund investments are carried at fair value as determined through the use of quoted market prices (market approach). As the System's investments in hedge funds do not have readily determinable fair values, the System has established the fair value of these investments by using each investment's net asset value ("NAV") per share.

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The System categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application* ("GASB No. 72"). The hierarchy is summarized in three levels:

Level 1 – Observable inputs that reflect quoted prices for identical investments.

Level 2 – Other significant observable inputs including quoted prices for similar investments, interest rates or credit risk.

Level 3 – Unobservable inputs including entity specific inputs or inputs derived through extrapolation or interpolation that cannot be derived from market data.

The recurring fair value measurement of investments at September 30, 2018 is as follows:

(in thousands of dollars)

	Fair Value Measurement of Investments 2018			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Domestic equity mutual funds	\$ 228,201	\$ 228,201	\$ -	\$ -
International equity mutual funds	159,409	159,409	-	-
Domestic fixed income mutual funds	352,155	352,155	-	-
International fixed income mutual funds	-	-	-	-
Total Investments by Fair Value Level	\$ 739,765	\$ 739,765	\$ -	\$ -
Investments Measured at the Net Asset Value (NAV)				
SEI Core Property Fund, LP	\$ 61,458			
SEI Special Situations Fund	40,532			
Total Investments Measured at NAV	\$ 101,990			
Other				
Commercial paper and money market funds	7,168			
	\$ 848,923			

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The recurring fair value measurement of investments at September 30, 2017 is as follows:

(in thousands of dollars)

	Fair Value Measurement of Investments 2017			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Domestic equity mutual funds	\$ 223,694	\$ 223,694	\$ -	\$ -
International equity mutual funds	165,573	165,573	-	-
Domestic fixed income mutual funds	387,672	387,672	-	-
International fixed income mutual funds	7	7	-	-
Total Investments by Fair Value Level	\$ 776,946	\$ 776,946	\$ -	\$ -
Investments Measured at the Net Asset Value (NAV)				
SEI Core Property Fund, LP	\$ 52,274			
SEI Special Situations Fund	38,368			
Total Investments Measured at NAV	\$ 90,642			
Other				
Commercial paper and money market funds	121,538			
	\$ 989,126			

The System has an investment management agreement with SEI Investments Company ("SEI") to manage approximately 99.1% of their investments. Approximately 0.1% of investments are monitored and managed through the Lee Memorial Health System Foundation, Inc., a not-for-profit corporation created by the System and community leaders to serve as a fundraising organization in support of the System, on a quarterly basis with the remainder residing in money markets and being monitored daily.

With the exception of the SEI Core Property and SEI Special Situation Funds, the System can liquidate funds within the trade date plus one business day. SEI does require a 30-day notice for termination and full liquidation of public market funds held in the portfolio. The SEI Core Property Fund, LP can liquidate 90% of holdings quarterly with a 95-day pre-notification. The SEI Special Situations Fund, Ltd. can liquidate 90% of holdings semi-annually with 95-days pre-notification. SEI holds 10% of total redemptions until completion of the funds' audit for both hedge funds.

As of September 30, 2018 and 2017, these investments in hedge funds made up approximately 12.0% and 9.2%, respectively, of total investments in the accompanying consolidated basic statements of net position.

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The System has assessed the custodial credit risk, concentration of credit risk, credit risk and interest rate risk of its investments and assets whose use is restricted below.

- a. **Custodial Credit Risk** – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The System's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution or collateralized with securities held by the pledging financial institution's trust department or agent but not held in the System's name.

At September 30, 2018 and 2017, the System's investments were not exposed to custodial credit risk since the full amount of investments were insured or registered, or securities held by the System or its agent, are in the System's name.

- b. **Concentration of Credit Risk** – This is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Disclosure is required for investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, alternative investment funds, and other pooled investments are excluded from this requirement. The System has no investments from any one issuer that exceeds 5%. The System's investment policy states that no corporate fixed income issue shall represent more than 5% of any portfolio at the time of purchase, nor shall any single corporate position exceed 10%. Equity assets of any one issuer, when purchased, shall represent no more than 3% of the portfolio and shall not grow to exceed 10%.
- c. **Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

The System currently invests in mutual funds. Due to the nature of mutual funds, credit risk rating is not consistent with the credit risk ratings of individual stocks which are measured by Moody's Investors Services and Standard & Poor's. These rating agencies do not provide credit risk rating of mutual funds.

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- d. Interest Rate Risk – This is the risk that an investment’s value will be adversely affected due to a change in the level of interest rates. The System’s investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the System’s investment horizon within the System’s risk tolerance and cash requirements. The distribution of the System’s short-term investments and assets whose use is restricted by maturity as of September 30, 2018 is as follows:

(in thousands of dollars)

	Investment Maturities for 2018					
	Fair Value	Less than 1 Year	13 to 24 Months	25 to 60 Months	Greater than 60 Months	N/A
Commercial paper and money market funds	\$ 1,960	\$ 1,264	\$ -	\$ -	\$ -	\$ 696
U.S. Government agencies	5,208	-	-	-	-	5,208
Mutual funds	739,765	-	-	-	-	739,765
Alternative investment funds	101,990	-	-	-	-	101,990
	<u>\$848,923</u>	<u>\$ 1,264</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$847,659</u>

The distribution of the System’s short-term investments and assets whose use is restricted by maturity as of September 30, 2017 is as follows:

(in thousands of dollars)

	Investment Maturities for 2017					
	Fair Value	Less than 1 Year	13 to 24 Months	25 to 60 Months	Greater than 60 Months	N/A
Commercial paper and money market funds	\$ 116,327	\$ 8,681	\$ 6,879	\$ -	\$ -	\$ 100,767
U.S. Government agencies	5,211	-	-	-	-	5,211
Mutual funds	776,946	-	-	-	-	776,946
Alternative investment funds	90,642	-	-	-	-	90,642
	<u>\$989,126</u>	<u>\$ 8,681</u>	<u>\$ 6,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$973,566</u>

During the years ended September 30, 2018 and 2017, the System recorded net realized gains of approximately \$2.3 million and \$22.4 million, respectively, from the sale of investments. The calculations of realized gains and losses are independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

The net increase in the fair value of investments for the year ended September 30, 2018 was approximately \$20.7 million compared to a net increase in the fair value of investments of \$48.1 million for the year ended September 30, 2017. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year.

The total unrealized gains on investments held at September 30, 2018 and 2017 were approximately \$114.5 million and \$93.8 million, respectively. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying consolidated basic statement of revenues, expenses and changes in net position in the period such fluctuations occur.

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6. Capital Assets

Capital asset additions, retirements and balances for the years ended September 30, 2018 and 2017 were as follows:

(in thousands of dollars)

	Balance at September 30, 2017	Additions and Transfers	Retirements and Transfers	Balance at September 30, 2018
Land	\$ 118,982	\$ 18,956		\$ 137,938
Buildings and improvements	720,993	57,634	(2,657)	775,970
Equipment	954,665	57,487	(30,772)	981,380
Totals at historical cost	<u>1,794,640</u>	<u>134,077</u>	<u>(33,429)</u>	<u>1,895,288</u>
Less: Accumulated depreciation for				
Buildings and improvements	(447,645)	(44,209)	3,966	(487,888)
Equipment	(468,580)	(53,034)	25,847	(495,767)
	<u>(916,225)</u>	<u>(97,243)</u>	<u>29,813</u>	<u>(983,655)</u>
Construction-in-progress	80,623	284,565	(127,602)	237,586
Capital assets, net	<u>\$ 959,038</u>	<u>\$ 321,399</u>	<u>\$ (131,218)</u>	<u>\$ 1,149,219</u>

(in thousands of dollars)

	Balance at September 30, 2016	Additions and Transfers	Retirements and Transfers	Balance at September 30, 2017
Land	\$ 117,317	\$ 1,668	\$ (3)	\$ 118,982
Buildings and improvements	578,909	142,084	-	720,993
Equipment	853,530	156,244	(55,109)	954,665
Totals at historical cost	<u>1,549,756</u>	<u>299,996</u>	<u>(55,112)</u>	<u>1,794,640</u>
Less: Accumulated depreciation for				
Buildings and improvements	(413,287)	(35,605)	1,247	(447,645)
Equipment	(463,038)	(57,117)	51,575	(468,580)
	<u>(876,325)</u>	<u>(92,722)</u>	<u>52,822</u>	<u>(916,225)</u>
Construction-in-progress	186,798	140,670	(246,845)	80,623
Capital assets, net	<u>\$ 860,229</u>	<u>\$ 347,944</u>	<u>\$ (249,135)</u>	<u>\$ 959,038</u>

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Construction-in-progress (“CIP”) at September 30, 2018 consists primarily of expenditures for computer equipment, surgical equipment and building renovations and improvements. There were numerous projects underway at September 30, 2018, which were being funded both through operations and by assets designated by the System’s Board of Directors for the replacement of plant and equipment. For the years ended September 30, 2018 and 2017, the System capitalized interest of approximately \$4.3 million and \$4.1 million, respectively.

Depreciation expense was approximately \$97.2 million and \$92.7 million for the years ended September 30, 2018 and 2017, respectively.

7. Other Assets

Other assets as of September 30 consist of the following:

<i>(in thousands of dollars)</i>	2018	2017
Long-term receivables	\$ -	\$ 38,816
Allowance for doubtful accounts	-	(24,706)
Long-term accounts receivable, net	-	14,110
Deposits and other	4,874	7,841
Investments in joint ventures	24,339	22,171
Other assets, net	<u>\$ 29,213</u>	<u>\$ 44,122</u>

Long-term receivables relate to medical charges for patients who have been identified as parties to litigation. Collections, which are pending determination by negotiation or legal proceedings, accordingly, are classified as noncurrent. There were no such long-term receivables as of September 30, 2018 as patient accounts receivable are classified as current. The allowance for doubtful accounts is based on the expected collectability of these receivables.

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8. Long-Term Debt

Long-term debt as of September 30 consists of the following outstanding principal balances. Payment descriptions refer to principal payments only.

<i>(in thousands of dollars)</i>	2018	2017
2017 BAPCC Loan, payable in variable annual installments beginning April 2021 through April 2032.	\$ 101,290	\$ 101,290
2016 BAPCC Loan, payable in variable monthly installments beginning July 2016 through June 2023.	17,258	20,732
2015 BAPCC Loan, payable in variable monthly installments beginning October 2015 through September 2025.	36,017	40,770
2015 Bank of America Loan, payable in variable annual installments beginning April 2016 through April 2024.	49,980	50,185
2014 JP Morgan Chase Loan, payable in variable annual installments beginning April 2015 through April 2033.	13,800	15,170
2013 BAPCC Loan, payable in variable monthly installments beginning July 2013 through June 2020.	13,022	20,304
2012 BAPCC Loan, payable in variable annual installments beginning April 2013 through April 2029.	35,445	38,345
2012 JP Morgan Chase Loan, payable in variable annual installments beginning April 2013 through April 2020.	5,485	8,000
2011 Bank of America Loan , payable in variable annual installments beginning April 2012 through April 2033.	77,011	84,661
2010 Bank Qualified Loan , payable in variable annual installments beginning April 2011 through April 2020.	6,515	9,830
Hospital Revenue Bonds, 2010 Series A ("2010 Series A Bonds"), payable in variable annual installments beginning April 2025 through April 2027.	42,000	42,000
Hospital Revenue Bonds, 2007 Series A ("2007 Series A Bonds"), payable in variable annual installments beginning April 2033 through April 2037. Net of unamortized premium of approximately \$3,639 and \$3,835 in 2018 and 2017, respectively.	167,314	167,511
Notes payable and capital leases	<u>93,029</u>	<u>81,411</u>
	658,166	680,209
Less: Current installments	<u>(42,306)</u>	<u>(38,857)</u>
	<u>\$ 615,860</u>	<u>\$ 641,352</u>

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Long-term debt activity for the years ended September 30, 2018 and 2017 were as follows:

(in thousands of dollars)

	Balance			Balance	Amounts
	September 30,	Additions	Reductions	September 30,	Due Within
	2017			2018	One Year
2017 BAPCC Loan	\$ 101,290	\$ -	\$ -	\$ 101,290	\$ -
2016 BAPCC Loan	20,732	-	(3,474)	17,258	3,528
2015 BAPCC Loan	40,770	-	(4,753)	36,017	4,847
2015 Bank of America Loan	50,185	-	(205)	49,980	215
2014 JP Morgan Chase Loan	15,170	-	(1,370)	13,800	1,455
2013 BAPCC Loan	20,304	-	(7,282)	13,022	7,398
2012 BAPCC Loan	38,345	-	(2,900)	35,445	2,960
2012 JP Morgan Chase Loan	8,000	-	(2,515)	5,485	2,670
2011 Bank of America Loan	84,661	-	(7,650)	77,011	8,110
2010 Bank Qualified Loan	9,830	-	(3,315)	6,515	3,300
2010 Series A Bonds	42,000	-	-	42,000	-
2007 Series A Bonds	167,511	-	(197)	167,314	-
Other	81,411	17,674	(6,056)	93,029	7,823
Total long-term debt	<u>\$ 680,209</u>	<u>\$ 17,674</u>	<u>\$ (39,717)</u>	<u>\$ 658,166</u>	<u>\$ 42,306</u>

(in thousands of dollars)

	Balance			Balance	Amounts
	September 30,	Additions	Reductions	September 30,	Due Within
	2016			2017	One Year
2017 BAPCC Loan	\$ -	\$ 101,290	\$ -	\$ 101,290	\$ -
2016 BAPCC Loan	24,153	-	(3,421)	20,732	3,474
2015 BAPCC Loan	45,430	-	(4,660)	40,770	4,753
2015 Bank of America Loan	50,385	-	(200)	50,185	205
2014 JP Morgan Chase Loan	16,460	-	(1,290)	15,170	1,370
2013 BAPCC Loan	27,472	-	(7,168)	20,304	7,282
2012 BAPCC Loan	41,190	-	(2,845)	38,345	2,900
2012 JP Morgan Chase Loan	10,455	-	(2,455)	8,000	2,515
2011 Bank of America Loan	91,841	-	(7,180)	84,661	7,650
2010 Bank Qualified Loan	13,265	-	(3,435)	9,830	3,315
2010 Series A Bonds	42,000	-	-	42,000	-
2007 Series A Bonds	271,493	-	(103,982)	167,511	-
Other	71,838	14,824	(5,251)	81,411	5,393
Total long-term debt	<u>\$ 705,982</u>	<u>\$ 116,114</u>	<u>\$ (141,887)</u>	<u>\$ 680,209</u>	<u>\$ 38,857</u>

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Maturities under the long-term debt agreements, including corresponding interest, over the next five years and in five-year increments thereafter are as follows:

(in thousands of dollars)

Years Ending September 30,	Total	Principal	Interest
2019	\$ 66,688	\$ 42,306	\$ 24,382
2020	64,341	40,990	23,351
2021	58,487	35,841	22,646
2022	58,874	36,899	21,975
2023	57,967	36,818	21,149
2024-2028	243,509	157,986	85,523
2029-2033	210,427	158,070	52,357
2034-2038	161,679	143,378	18,301
	<u>\$ 921,972</u>	<u>\$ 652,288</u>	<u>\$ 269,684</u>

2017 BAPCC Loan

On March 30, 2017, the System's Board of Directors approved a partial refunding and refinancing of the 2007 Series A Bonds with the 2017 BAPCC Direct Bank Loan in the approximate amount of \$101.3 million. Principal will be paid annually beginning April 2021 and is set to mature April 2032. Monthly interest payments are variable based on 67% LIBOR plus 70 basis points. Issuance costs were paid with internal funds. The refinancing resulted in a gain of approximately \$2.4 million attributed to the derecognition of the 2007 Series A bonds-related premiums. Bonds-related premiums and the estimated economic gain (the difference between the present value of the old and new debt service payments) was approximately \$17.6 million.

2012 BAPCC Loan

On June 20, 2016, the System's Board of Directors approved the modification of the 2012 BAPCC Loan in the amount of \$41.2 million in which the tender date was extended from May 31, 2019 to May 31, 2023. Principal payments of the 2012 BAPCC Loan are paid annually in April while the interest payments are paid quarterly. Interest payments are variable based on 67% of LIBOR plus 62 basis points and matures in April 2029. On November 30, 2012, the System's Board of Directors approved the refunding and refinancing of the Compass Loan, utilizing a direct bank loan in the amount of \$50.3 million. The 2012 BAPCC Loan bears a variable interest rate of 67% of LIBOR plus 95 basis points and matures in April 2029. Issuance costs were paid with internal funds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$100,000. Although the current refunding resulted in the recognition of an accounting loss of approximately \$100,000, the System obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$5.7 million. This loan was modified on June 20, 2016 in the amount of \$41.2 million to extend the tender date.

2016 BAPCC Loan

On April 28, 2016, the System's Board of Directors approved the issuance of new debt in the amount of \$25 million to reimburse the System for prior capital expenditures through a direct bank loan. The 2016 BAPCC Loan bears a fixed rate of 1.55% paid monthly and matures in June 2023. Issuance costs were paid with internal funds.

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2015 BAPCC Loan

On August 27, 2015, the System's Board of Directors approved the issuance of new debt in the amount of \$50 million to reimburse the System for prior capital expenditures through a direct bank loan. The 2015 BAPCC Loan bears a fixed interest rate of 1.97% paid monthly and matures in September 2025. Issuance costs were paid with internal funds.

2015 Bank of America Loan

On June 25, 2015, the System's Board of Directors approved the refunding and refinancing of the Hospital Revenue Refunding Bonds, 2005 Series A with a direct bank loan of \$50.85 million. Principal payments of the 2015 Bank of America Loan are paid annually in April while the interest payments are paid semi-annually in October and April at a fixed rate of 2.79%. The 2015 Bank of America Loan is set to mature in April 2024. Although the refunding resulted in the recognition of an accounting loss of \$0.2 million for the year ended September 30, 2015, the System obtained an economic gain of \$6.39 million. Issuance costs were paid with internal funds.

2014 JP Morgan Chase Loan

On June 26, 2014, the System's Board of Directors approved the refunding and refinancing of the 2009 Series C Bonds with the 2014 JP Morgan Bank Loan in the amount of \$18.445 million. This transaction closed October 8, 2014. Principal payments of the 2014 JP Morgan Bank Loan are paid annually in April while the interest payments are paid semi-annually in October and April. Interest payments are variable based on 67% of LIBOR plus 73 basis points. The 2014 JP Morgan Bank Loan is set to mature in April 2033. Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$1.96 million for the year ended September 30, 2015, the System was able to eliminate the need of the letter of credit securing the 2009 Series C Bonds and reduce the interest rate. Issuance costs were paid with internal funds.

2013 BAPCC Loan

On June 28, 2013, the System's Board of Directors approved the financing of the EPIC software system consisting of clinical and revenue cycle applications utilizing a direct bank loan in the amount of \$50 million. The 2013 BAPCC Loan bears a fixed interest rate of 1.58% and matures in June 2020. Issuance costs were paid with internal funds.

2012 JP Morgan Chase Loan

On January 19, 2012, the System's Board of Directors approved the refunding and refinancing of the 2002 Series A Bonds, utilizing a direct bank loan in the amount of \$25.9 million. The 2012 Bank Loan bears a fixed interest rate of 1.92% and matures in April 2020. Issuance costs were paid with internal funds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$2.2 million. Although the current refunding resulted in the recognition of an accounting loss of approximately \$2.2 million, the System obtained an economic gain of approximately \$2.9 million.

2011 Bank of America Loan

On September 1, 2011, the System's Board of Directors approved the refunding and refinancing of the 2009 Series A and 2009 Series B Bonds, utilizing a direct bank loan in the amount of approximately \$109.5 million. The 2011 Bank Loan bears a variable interest rate of 65.1% of LIBOR plus 72 basis points and matures in April 2033. Issuance costs were paid with internal funds. This loan also terminated the line of credit ("LOC") that was in place for the 2009 Series A and 2009 Series B Bonds. Although the current advanced refunding resulted in the recognition of an accounting loss of \$0.9 million, the System obtained an economic gain of approximately \$8.7 million.

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2010 Bank Qualified Loan

On November 18, 2010, the System's Board of Directors approved the refunding and refinancing of the 1997 Series C Bonds, utilizing a direct bank qualified fixed rate loan in the amount of \$30.0 million. The 2010 Bank Loan bears a fixed interest rate of 2.794%, and matures in April 2020. The transaction was completed on December 22, 2010. Issuance costs were paid with internal funds. Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$2.2 million, the System in effect reduced its aggregate debt service payments by approximately \$3.2 million and obtained an economic gain of approximately \$2.9 million.

2010 Series A Bonds

In May 2010, the System issued Hospital Revenue Bonds, 2010 Series A (Build America Bonds - Direct Payment) in the amount of \$42.0 million. The proceeds of the 2010 Series A Bonds were used to finance a portion of the costs of acquisition, equipping and construction of the System's healthcare facilities. The 2010 Series A Bonds were issued as fixed rate bonds with interest payable semiannually on April 1 and October 1 of each year at 7.281% with a 32.585% interest paid rebate from the IRS which becomes an effective rate of 4.9085%.

2007 Series A Bonds

In April 2007, the System issued Hospital Revenue Bonds, 2007 Series A, in the amount of \$270.9 million. The 2007 Series A Bonds were issued as fixed-rate bonds with interest payable semiannually on April 1 and October 1 of each year. The proceeds of the 2007 Series A Bonds were used to replace the temporary bank loan established with Bank of America, N.A. to fund the purchase of Southwest Regional Medical Center and Gulf Coast Hospital. At the time of issuance, the 2007 Series A Bonds are comprised of approximately \$262.4 million of serial bonds bearing interest at a rate ranging from 4.5% to 5.25% as the bonds mature, and approximately \$8.5 million in term bonds bearing interest at 4.0% to 5.0%. Effective April 12, 2017, the System refunded and refinanced approximately \$101.3 million of the 2007 Series A Bonds with a new 2017 BAPCC Loan. Prior to the refunding and refinancing, the 2007 Series A Bonds had an outstanding principal balance of approximately \$265.0 million. Following the refunding and refinancing, the outstanding balance of the 2007 Series A Bonds was reduced to \$163.7 million. The refinancing resulted in a gain of approximately \$2.4 million, attributable to the derecognition of the related bond premium established at issuance.

Other Long-Term Debt

The Plantation Sleep Center lease allows for acceleration of rent upon a lessee default without terminating the lessee's right of possession. This is viewed as a contingent form of collateral which is a form of continuing involvement that would preclude sale-leaseback accounting under this guidance. According to lease guidance addressing sale-leaseback transactions involving real estate, the System has accounted for the debt obligations in its consolidated basic financial statements. At September 30, 2018, for the Plantation Sleep Center the effective interest rate was 9.0%, the long-term debt amounted to approximately \$2.2 million and the related current portion of debt amounted to approximately \$0.03 million. At September 30, 2017, the effective interest rate was 9.0%, the long-term debt amounted to approximately \$2.3 million and the related current portion of debt amounted to approximately \$0.2 million.

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In September 2005, the System entered into a ground lease with CB Medical South, LLC and a ground lease with CB Medical North, LLC (collectively, the “Lessors”), whereby CB Medical South, LLC and CB Medical North, LLC are leasing constructed medical office buildings to the System. Since the System had continuing involvement with the assets as discussed in lease guidance addressing sale-leaseback transactions involving real estate, the System was unable to remove the assets and related debt from its consolidated basic statements of net position after construction of the assets were completed.

On August 26, 2010, the System’s Board of Directors approved the acquisition of the ownership interest in CB Medical North, LLC, which owns the land and building housing the Lee Memorial Regional Cancer Center at the Sanctuary and CB Medical South, LLC, which owns the land and building housing the Outpatient Center at the Sanctuary. The System acquired full ownership effective October 1, 2010. As part of the transaction, the System assumed the mortgages on the properties which totaled approximately \$62.0 million plus approximately \$2.3 million in cash. The System was required to update the previous capital asset and long-term debt recordings to reflect the purchase transaction. The CB Medical South, LLC and CB Medical North, LLC values for capital assets and long-term debt reported as of September 30, 2010 reflected the lease guidance addressing sale-leaseback transactions. The CB Medical South, LLC and CB Medical North, LLC values for capital assets and long-term debt reported as of September 30, 2014 reflect the full ownership interest resulting from the October 1, 2010 acquisition transaction. At September 30, 2018 and 2017, the value included in capital assets, net of accumulated depreciation, amounted to approximately \$23.2 million and \$23.8 million, respectively, for the Sanctuary Regional Cancer Center, and the related long-term debt amounted to approximately \$23.4 million and \$24.0 million, respectively. At September 30, 2018 and 2017, the value included in capital assets, net of accumulated depreciation, amounted to approximately \$26.5 million and \$27.2 million, respectively, for the Sanctuary Outpatient Center, and the related long-term debt amounted to approximately \$31.3 million and \$32.4 million, respectively.

In April 2018, the System entered into a Purchase Money Mortgage with Lee Healthcare Resources, a Florida Not For Profit Corporation, in the amount of \$10.3 million plus approximately \$1.9 million in cash for the Med Plaza One Building. Principal payments of \$2.1 million plus interest will be paid annually through April 2023. Interest on the principal sum of this note as of September 2018 was 2.72% per annum and is subject to annual adjustment based on the Applicable Federal Rate. The Med Plaza One Building is comprised of medical and administrative offices.

The bond agreements require the System to maintain specified financial ratios, the most restrictive of which are a minimum debt service coverage ratio, long-term debt to capital ratio, and minimum cash and investment balances, and provide a pledge of revenues of the System on a parity basis. The System was in compliance with the financial covenants for the years ended September 30, 2018 and 2017. The net assets of nonobligated group members, which are the Lee County Trauma Services District, Lee Memorial Home Health, Inc., HealthPark Care Center, Inc., and Lee Memorial Health System Foundation, Inc., included in the consolidated basic financial statements at September 30, 2018 and 2017 were approximately \$-2.3 million and \$8.7 million, respectively.

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9. Capital Lease Obligations

At September 30, 2018 and 2017, assets under capital leases included in capital assets were approximately \$44.1 million and \$36.9 million, respectively. The accumulated amortization for these assets was approximately \$17.3 million and \$14.4 million as of September 30, 2018 and 2017, respectively. Amortization expense of approximately \$3.2 million and \$3.8 million is included in depreciation and amortization expense in the accompanying consolidated basic statements of revenues, expenses and changes in net position for the years ended September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, an approximate obligation of \$24.2 million and \$22.8 million, respectively, was outstanding under the capital leases. During the years ended 2018 and 2017, interest expense of approximately \$2.2 million and \$1.6 million, respectively, was incurred.

Future minimum lease payments are as follows:

(in thousands of dollars)

Years Ending	
2019	\$ 6,687
2020	5,947
2021	5,495
2022	5,551
2023	4,886
Later years	<u>15,302</u>
Total minimum lease payments	43,868
Less: Amount representing interest	<u>(19,629)</u>
Present value of net minimum lease payments	<u>\$ 24,239</u>

10. Retirement Plans

Tax Sheltered Annuity Plan

The System provides a single-employer tax deferred annuity program for all eligible employees who elect to participate in the program. The annuity program is administered by the System. The Lee Memorial Hospital Tax Sheltered Annuity Plan (the "Plan") purchases annuity contracts for participating employees through salary reduction, thereby deferring taxability of these amounts. For employees with one year or more of eligible service, the System participates in the Plan by matching approximately 5% of the participating employees' salaries. The Board of Directors of the System has the sole discretion to amend the Plan and change the contribution amount. Contribution expense incurred by the System in connection with the Plan was \$21.7 million and \$18.5 million for the years ended September 30, 2018 and 2017, respectively.

Retiree Health Insurance Plan

As of the year ending September 30, 2018, the System adopted GASB No. 75 for reporting of the System's Self-Funded Retiree Health Insurance Plan (the "RHI Plan"), which is a post-employment benefit plan ("OPEB"). The System did not restate prior year financial statements in adopting GASB No. 75 as the amounts were not material. Thus, the years presented are not comparable. The new GASB disclosures for 2018 are presented first, followed by 2017.

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Plan Description

As of September 30, 2018, the System's RHI Plan, which provides medical benefits to active employees, also provides medical benefits to eligible retired employees under a defined benefit postemployment healthcare plan.

The contribution requirements of the RHI Plan members and the System are established and may be amended by the System's Board of Directors. Current retiree RHI Plan members who are receiving benefits do not contribute to the RHI Plan as the System covered their health insurance based on current Medicare regulations which made the RHI Plan the secondary payer with Medicare paying as the primary payer.

Effective January 1, 2009, employees who retire at age 65 or later with 20 years of continuous full-time service or equivalent part-time service will receive, if they elect retiree health coverage, a \$2,500 check each year for the rest of their life which will be increased in subsequent years by 2%.

Benefits Provided

The RHI Plan provides for a \$2,500 per retiree benefit to be paid on an annual basis. The RHI Plan also sets forth an increase of 2% per year after retirement. To be eligible for benefits an employee must meet one of four eligibility requirements. The first is to retire after attaining age 65 with 20 years of continuous full-time (or equivalent) service and retire after January 1, 2009. The second is to be age 63 or older on May 1, 1993 and retire after attaining age 65 with 20 years full-time (or equivalent) service. The third is to become disabled with 20 years continuous full-time (or equivalent) service, before attaining age 65. Last, an employee would need to have 30 or more years of full-time (or equivalent) service on September 30, 2009. Part-time services count as one-half of full-time service. Temporary or PRN service is not eligible.

Contributions

The System's funding policy is to fund on a pay-as-you-go basis so there are no contributions.

Employees Covered by Benefit Terms

At January 1, 2017, the census date for the OPEB liability, the following employees were covered by the benefit terms:

Participant data as of January 1, 2017

Retirees	335
Fully eligible	902
Other	2,780
	<u>4,017</u>

Net OPEB Liability

The System's net OPEB liability was measured as of December 31, 2017. The service cost and total OPEB liability were measured as of the census date based on participant data as of the census date.

The total OPEB liability in the September 30, 2018 actuarial valuation was projected from the measurement date using standard methodology, adjusting for benefit payments, expected growth in benefit obligations, changes in key assumptions and plan provisions, and any significant changes in plan demographics that occurred during the year.

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Current Health Care Cost Trend Rate	6.5%
Investment Rate of Return	0.0%, due to the RHI Plan is a pay-as-you-go plan
Salary increases	3.0%

Mortality rates were based on RP-2014 Employee and Annuitant Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward from 2006 using generational projection Scale MP-2017 for males and females.

Effective October 1, 2017, the plan implemented GASB No. 75. The actuarial cost method was changed from the Projected Unit Credit Method ("PUC") to Entry Age Normal ("EAN") for the fiscal year ending September 30, 2018 per GASB No. 75.

The discount rate used to measure the total OPEB liability was 3.31%. The individual EAN Cost Method is used in completing the actuarial valuation. Under this method the normal cost is the level percentage of pay contribution that would have been required from age on the valuation date coincident with or next following the date the employee is hired in order to fund the employed participant's OPEB benefits if the current plan provisions regarding accrual of benefits had always been in effect. The total OPEB liability is the excess of the present value of future benefits over the present value of future service costs for employed participants. The service cost and total OPEB liability for the RHI plan are the sums of the individually computed service costs and OPEB liabilities for all plan participants.

As required by GASB No. 75, the discount rate for an unfunded OPEB plan is based on a 20-year high-quality municipal bond rate as of the last business day preceding the measurement date. The discount rate used in this valuation was determined using the 20-year yields on the Fidelity AA Municipal General Obligation Fund (rounded to 2 decimal places).

Changes in the net OPEB liability are summarized in the following table:

(in thousands of dollars)

	<u>Increase (Decrease)</u>
	Total OPEB
	Liability
	(a)
	<u> </u>
Balance at October 1, 2017, as reported	\$ 32,454
Balance at October 1, 2017, as restated*	52,758
Changes for the year:	
Service cost	683
Interest cost	1,728
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(1,104)
Net changes	<u>1,307</u>
Balance at September 30, 2018	<u>\$ 54,065</u>

* GASB No. 75 adoption balance at October 1, 2017, as restated (see Note 1).

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Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following table presents, as of September 30, 2018, the System's net OPEB liability calculated using the discount rate of 3.31%, as well as the net OPEB liability using a discount rate that is 1% lower (2.31%) or 1% higher (4.31%):

(in thousands of dollars)

	1% Decrease (2.31%)	Current Discount Rate (3.31%)	1% Increase (4.31%)
Net OPEB liability	\$ 47,350	\$ 54,065	\$ 62,272

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents, as of September 30, 2018, the System's net OPEB liability calculated using the healthcare cost trend rate of 6.5%, as well as the net OPEB liability using a discount rate that is 1% lower (5.5%) or 1% higher (7.5%):

(in thousands of dollars)

	1% Decrease (5.5%)	Current Healthcare Cost Trend Rate (6.5%)	1% Increase (7.5%)
Net OPEB liability	\$ 60,467	\$ 54,065	\$ 48,592

The System is currently funding the OPEB obligation on a pay-as-you-go basis so no assets have been segregated and/or restricted to provide the postemployment benefits.

Significant actuarial assumptions used as of the measurement date are as follows:

Discount Rate on 20-Year General Obligation Municipal Bonds

- 3.31% as of the last business day preceding the measurement date of January 1, 2017.

Rates of Increase in Compensation

- 3.0% based on the System's budgetary salary increase for the fiscal year 2019 budget year.

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OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The System recognized OPEB expense of approximately \$2.4 million for the year ended September 30, 2018. At September 30, 2018, the System reported zero deferred outflows and deferred inflows of resources related to defined benefit pension from the following sources:

(in thousands of dollars)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to defined benefit pension will be recognized in pension expense as follows:

(in thousands of dollars)

Year Ending September 30,

2019	\$ -
2020	-
2021	-
2022	-
Thereafter	-

Payable to the OPEB Plan

As of September 30, 2018, there are no payables to the Plan.

Prior Year Disclosure for Retiree Health Insurance Plan

As of the accounting period ending September 30, 2018, the System adopted GASB No. 75. The information presented below is the prior year's disclosures based on GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB No. 45"), which has not been restated and, therefore, is not comparable.

The System is required to expense the annual required contribution ("ARC") of the employer which is an amount that is actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarially determined liabilities (or funding excess) over a period not to exceed thirty years. The System is currently funding the OPEB on a pay-as-you-go basis so no assets have been segregated and/or restricted to provide the postemployment benefits.

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The System's annual OPEB expense of approximately \$3.1 million for the year ended September 30, 2017 was equal to the ARC plus interest in the net OPEB obligation less adjustment to the ARC. The following table shows the components of the System's annual OPEB cost for the year ended September 30, 2017, the amount actually contributed to the plan and the changes in the net OPEB obligation:

<i>(in thousands of dollars)</i>	2017
Annual required contribution	\$ 3,619
Interest on net OPEB obligation	1,221
Adjustment to annual required contribution	<u>(1,765)</u>
Annual OPEB expense	3,075
Amount funded	<u>(1,150)</u>
Increase in net OPEB obligation	1,925
Net OPEB obligation at beginning of year	<u>30,529</u>
Net OPEB obligation at end of year	<u>\$ 32,454</u>

Annual OPEB cost, contribution information and net OPEB obligation for the last two fiscal years are as follows:

<i>(in thousands of dollars)</i>	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Year Ended			
September 30, 2016	\$ 3,165	36.3%	\$ 30,529
September 30, 2017	3,075	37.4%	32,454

The schedule of funding progress for the RHI Plan is as follows:

<i>(in thousands of dollars)</i>						
Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2013	\$ 45,432	\$ -	\$ 45,432	0%	\$ 577,681	7.9%
1/1/2015	42,069	-	42,069	0%	609,102	6.9%
1/1/2017	43,090	-	43,090	0%	757,319	5.7%

Actuarial valuations of an ongoing plan involve estimates of the value or reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially determined accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 30, 2017 expenses, the projected unit credit ("PUC") actuarial cost method was used as the valuation methodology. The objective under PUC is to fund each participant's benefits under the plan as they would accrue. The actuarial assumptions include a 4.0% discount rate and an annual healthcare trend rate of 6.5% initially, reduced each year until an ultimate rate of 5.0% is reached after 6 years. The mortality assumption is the RP 2000 table projected to 2018 using Scale AA. The unfunded actuarial accrued liability is being amortized as a level dollar open amortization over 30 years.

Defined Benefit Pension Plan

Plan Description

Effective July 1, 1996, the System became the sponsor of the frozen retirement plan of former Cape Coral Medical Center, Inc. employees (the "CCMC Plan"). The CCMC Plan was frozen on September 30, 1995 by the management in place at that time. The CCMC Plan is a noncontributory, single-employer defined benefit plan, administered by a committee appointed by the System. Under the provisions of the CCMC Plan, the System has the authority to make amendments. There have been no new members of the CCMC Plan since the date the CCMC Plan was frozen. The CCMC Plan provides Life-Only annuity benefits to plan members and beneficiaries. An actuarial report is prepared each year effective June 30 and is available from the System. The funding policy of the System is to contribute an amount at least equal to the annual required contribution prescribed by GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions and Amendment of GASB No. 27* ("GASB No. 68"), and determined by the actuary. For the years ended September 30, 2018 and 2017, the ARC was \$0.7 million and \$0.8 million, respectively.

Benefits Provided

The Plan provides for retirement and death benefits. Retirement benefits are determined based upon varying formulas dependent on years of service. All employees of the Employer were eligible to participate in the CCMC Plan as of the first day of the month coincident with or next following the date on which they completed one Year of Vesting Service. All other employees became participants as of the first day of the month coincident with or next following the completion of one year of service during which they accumulated at least 1,000 hours of service. No new participants entered after September 30, 1995, unless they had previously been participants before September 30, 1995.

The accrued benefit is calculated using the formula for the normal retirement benefit, based upon the average monthly compensation and years of benefit service as of the date of the calculation. The accrued benefit is payable at the normal retirement date in the normal form of payment. Accrued benefits were frozen as of September 30, 1995. The normal retirement benefit is calculated by taking 2% of the average monthly compensation multiplied by years of benefit service up to a maximum of 20 years. Benefit terms also provide for annual cost-of-living adjustments to retired participants based upon the Secretary of the Treasury for cost-of-living increases.

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Employees Covered by Benefit Terms

At July 1, 2018, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data as of July 1, 2018	
Active	99
Terminated vested	458
Retired	415
	972
	972

Contributions

The CCMC plan sponsor's funding policy is to make contributions to meet the minimum funding requirements of Internal Revenue Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, the Plan Sponsor may contribute an amount above the required contribution. The Plan Sponsor's contributions of approximately \$0.7 million and \$0.8 million for the years ended September 30, 2018 and 2017, respectively, meet the minimum funding requirements of ERISA.

Net Pension Liability

The System's net pension liability was measured as of July 1, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018.

The total pension liability in the September 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.1%
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation
Salary increases	Not applicable due to plan freeze

Effective September 30, 2017, the assumption for mortality has been changed from RP-2014 mortality with fully generational projections using Scale MP-2015 to RP-2006 mortality with fully generational projections using Scale MP-2017. The change was made based on a recommendation of the Society of Actuaries.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected real rates of return (expected returns, net of plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class	Target Allocation	Real Rate of Return
Domestic Equity	57.0%	5.00%
Corporate Fixed Income	12.0%	1.80%
Government Fixed Income	24.0%	0.90%
Real Estate	5.0%	3.40%
Cash	2.0%	0.50%
Total	100.0%	

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. For the year ended September 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.1%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Changes in the net pension liability (asset) are summarized in the following table:

(in thousands of dollars)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at October 1, 2017	\$ 27,622	\$ 24,710	\$ 2,912
Changes for the year:			
Interest	2,072	-	2,072
Difference between expected and actual experience	(108)	-	(108)
Changes of assumptions	617	-	617
Employer contributions	-	687	(687)
Net investment income	-	1,720	(1,720)
Benefit payments	(1,747)	(1,747)	-
Administrative expense	-	(140)	140
Net changes	834	520	314
Balances at September 30, 2018	\$ 28,456	\$ 25,230	\$ 3,226
Plan Fiduciary net position as a percentage of the total pension liability			88.66%

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents, as of September 30, 2018, the System's net pension liability calculated using the discount rate of 7.5%, as well as the net pension liability using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%):

(in thousands of dollars)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability	\$ 5,949	\$ 3,226	\$ 892

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Defined Benefit Pension

The System recognized pension benefit expense of approximately \$0.7 million for the year ended September 30, 2018 and pension benefit income of \$1.1 million for the year ended September 30, 2017. At September 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources:

(in thousands of dollars)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	517	-
Contributions made during the year ended September 30, 2018 not yet recognized in net fiduciary position	165	-
Total	<u>\$ 682</u>	<u>\$ -</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to defined benefit pension will be recognized in pension expense as follows:

(in thousands of dollars)

Year Ending September 30,	
2019	\$ 449
2020	176
2021	(134)
2022	27
Thereafter	-

Payable to the Defined Benefit Pension Plan

As of September 30, 2018 and 2017, there are no payables to the CCMC Plan.

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11. Commitments and Contingencies

Operating Leases

The System leases various equipment, office space and land under operating leases, which expire at various times. Total rental expense for all operating leases was approximately \$8.7 million and \$9.0 million for the years ended September 30, 2018 and 2017, respectively.

The remaining rental commitments under operating leases that have initial or remaining noncancelable lease terms in excess of one year are approximately as follows:

(in thousands of dollars)

Year Ending September 30,	
2019	\$ 2,242
2020	1,355
2021	1,099
2022	892
2023	341
Thereafter	<u>34,461</u>
	<u>\$ 40,390</u>

Professional Liability Insurance

The System is subject to various medical malpractice claims arising in the normal course of its business activities. The System is self-insured for professional liability claims and is relying on a limitation of its liability established by the Waiver of Sovereign Immunity Act of the State of Florida (the "Act"). The Act limits the amount of damages the Hospital would be required to pay up to \$100,000 per claimant or \$200,000 per incident. Effective October 1, 2011, the sovereign immunity limits in Florida have been increased to \$200,000 per claimant or \$300,000 per incident. In 1986, the Florida Supreme Court affirmed the constitutionality of the Act and its applicability to public hospitals. Various suits and claims arising in the ordinary course of business are pending against the System. Management is of the opinion that future potential uninsured losses from incidents occurring prior to September 30, 2018, if any, will not be materially different from the amounts recorded in the accompanying consolidated basic financial statements.

The System has been named as a defendant in a number of malpractice lawsuits. In the event that a claim exceeds its sovereign immunity level, the System may incur charges in excess of its established reserves that could have an adverse impact on the System's change in net position and net cash flows in the period in which it is recorded or paid. The Act provides that with regard to judgments exceeding those limits, that the plaintiff may seek enactment of a legislative claim bill by the Florida Legislature, seeking recovery of an amount in excess of those limits. A claims bill must be presented and sponsored by a Senator or Representative of the State of Florida, passed through Committee, and signed by the Governor of Florida according to Florida Statute 768.28. Without waiving its entitlement to the rights and benefits of the Florida Waiver of Sovereign Immunity Act, the System has insurance protection not to exceed \$25 million, subject to a \$5 million per claim self-insured retention. This excess insurance is written on a claims-made basis, effective August 1, 2012, with a retroactive date of May 1, 2010. In accordance with Florida law, the purchase of this insurance does not operate as a waiver of the limits on damages as described above. Management does not record a liability for estimated malpractice claims in excess of the liability established pursuant to the Act until claim is approved for settlement through the claims bill process.

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Management of the System has established a liability that provides for estimated malpractice claims identified under the System's risk management program based on several factors including the nature of each claim, past experience, advice from legal counsel and actuarial studies which reflect liabilities discounted at 4% for the years ended September 30, 2018 and 2017. The estimated claims incurred, payments on claims, and the balance of the reserve for professional liability claims for the years ended September 30, 2018 and 2017, excluding the amounts payable pursuant to the claims bill process described above, were as follows:

<i>(in thousands of dollars)</i>	2018	2017
Amount of claims liabilities at the beginning of the year	\$ 15,660	\$ 15,225
Incurred claims	5,926	4,277
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(5,492)</u>	<u>(3,842)</u>
Amount of claims liabilities at the end of the year	<u>\$ 16,094</u>	<u>\$ 15,660</u>

Cape Coral Hospital, Inc.'s and Lee Memorial Home Health, Inc.'s professional malpractice liability insurance is covered under the System's established program under the Act, effective for claims occurring on or after October 1, 2001 and January 1, 2005, respectively.

The System's Board of Directors opted to cover its nursing home for professional liability using its established program under the Act, effective for claims occurring on and after October 1, 2000.

As a provider of health care services, the System is subject to malpractice claims and litigation through the normal course of operations. Losses which are subject to the deductible provisions have been estimated and accrued in the accompanying consolidated basic financial statements. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Management believes the established reserves are adequately stated as of September 30, 2018 and 2017.

Health Insurance

The System is self-insured for group health insurance. Expenses net of employee contributions under this program amounted to approximately \$80.3 million and \$71.2 million for the years ended September 30, 2018 and 2017, respectively. The total reserve for group health insurance claims payable, including an estimate for incurred but not reported claims, was approximately \$7.7 million and \$8.3 million at September 30, 2018 and 2017, respectively. Management believes the established reserve is adequately stated as of September 30, 2018 and 2017. The estimated claims incurred, payments on claims and the balance of reserves for group health insurance claims for the years ended September 30, 2018 and 2017 were as follows:

<i>(in thousands of dollars)</i>	2018	2017
Amount of claims liabilities at the beginning of the year	\$ 8,329	\$ 8,246
Incurred claims	95,730	84,818
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(96,315)</u>	<u>(84,735)</u>
Amount of claims liabilities at the end of the year	<u>\$ 7,744</u>	<u>\$ 8,329</u>

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Workers' Compensation Insurance

The System is self-insured for workers' compensation insurance. Management of the System has established a liability for these types of claims based on actuarial evaluations in 2018 and 2017. The reserve for workers' compensation claims included in the consolidated basic financial statements was discounted at a rate of 4% for the years ended September 30, 2018 and 2017. The estimated claims incurred, payments on claims and the balance of the reserve for workers' compensation claims for the years ended September 30, 2018 and 2017 were as follows:

<i>(in thousands of dollars)</i>	2018	2017
Amount of claims liabilities at the beginning of the year	\$ 15,291	\$ 13,209
Incurred claims	2,890	3,663
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(2,811)</u>	<u>(1,581)</u>
Amount of claims liabilities at the end of the year	<u>\$ 15,370</u>	<u>\$ 15,291</u>

Other Industry Risks

The health care industry is subject to numerous complex laws and regulations imposed by federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation by both the System with respect to implementation as well as the government with respect to retrospective review. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Such investigations and allegations often take multiple years to resolve. Violations of these laws and regulations could result in significant fines and penalties, including repayments for patient services previously reimbursed.

From time to time, the System receives requests for certain information from governmental agencies, and with the assistance of legal counsel, submits the required information. Management believes that the System is in compliance with current laws and regulations. To the extent that issues with noncompliance are identified, the System's management takes the appropriate steps to correct such matters. Management of the System believes that the exposure from any such matters would not have a material effect on the consolidated basic financial statements of the System.

Litigation

The System is involved in litigation and regulatory examinations arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the System's future consolidated financial position, results of operations or cash flows.

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

September 30, 2018 and 2017

12. Related Party Transactions and Relationships

Prior to September 1, 2010, the System had a 50% membership interest in a not-for-profit organization with another local-area governmental health care system. On September 1, 2010, the System along with the other governmental health care system conveyed a combined 11.11% membership interest to a third healthcare system which resulted in a new membership interest for the System of 44.445%. The System is accounting for its interest in the not-for-profit organization under the equity method of accounting. The purpose of the membership was to develop a regional service center, LeeSar, Inc. ("LeeSar"), to meet the materials services and distribution needs of its member health care systems. The membership interest in LeeSar, which is included in long-term other assets, was approximately \$19.6 million and \$18.6 million at September 30, 2018 and 2017, respectively. Excess of revenues over expenses for LeeSar was approximately \$2.2 million for both of the years ended September 30, 2018 and 2017.

The System has a 50% membership interest in Bonita Community Health Center ("BCHC"), a not-for-profit organization. BCHC operates an urgent care center, an ambulatory surgical care center, a diagnostic imaging center and an outpatient rehabilitation center in Estero, Florida. Additionally, BCHC leases office space to physicians and other healthcare providers. The membership interest in BCHC is accounted for using the equity method. In conjunction with the issuance of long-term debt for the construction and equipping of the BCHC facility, the System has provided an unconditional guarantee to pay 50% of the obligations related to this debt should BCHC default. As of September 30, 2018 and 2017, total long-term debt outstanding net of current installments at BCHC was approximately \$18.4 million and \$19.4 million, respectively. BCHC had net losses of approximately \$2.4 million for the year ended September 30, 2018, and net losses of approximately \$1.9 million for the year ended September 30, 2017.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2018 and 2017

13. Major Component Unit Information

GASB No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, requires disclosure of condensed combining information for major blended component units, including a condensed statement of net position, a condensed statement of revenues, expenses and changes in net position, and a condensed statement of cash flows. Cape Memorial Hospital, Inc. is the System's only major component unit. A statement of net position and a statement of revenues, expenses and changes in net position are presented in the accompanying supplemental consolidating information. The condensed statement of cash flows of Cape Memorial Hospital, for the year ended September 30, 2018, is as follows:

(in thousands of dollars)

	System (excluding Cape Memorial Hospital, Inc.)	Cape Memorial Hospital, Inc.	Total
Net cash provided by (used in)			
Operating activities	\$ 104,218	\$ 57,107	\$ 161,325
Noncapital financing activities	62,792	(42,200)	20,592
Capital and related financing activities	(314,796)	(15,430)	(330,226)
Investment activities	168,091	523	168,614
	<u>20,305</u>	<u>-</u>	<u>20,305</u>
Cash and cash equivalents			
Beginning of year	12,890	-	12,890
End of year	<u>\$ 33,195</u>	<u>\$ -</u>	<u>\$ 33,195</u>

The condensed statement of cash flows of Cape Memorial Hospital, for the year ended September 30, 2017, is as follows:

(in thousands of dollars)

	System (excluding Cape Memorial Hospital, Inc.)	Cape Memorial Hospital, Inc.	Total
Net cash provided by (used in)			
Operating activities	\$ 75,900	\$ 45,077	\$ 120,977
Noncapital financing activities	54,331	(31,073)	23,258
Capital and related financing activities	(234,583)	(14,524)	(249,107)
Investment activities	73,978	520	74,498
	<u>(30,374)</u>	<u>-</u>	<u>(30,374)</u>
Cash and cash equivalents			
Beginning of year	43,264	-	43,264
End of year	<u>\$ 12,890</u>	<u>\$ -</u>	<u>\$ 12,890</u>

14. Subsequent Events

The System has assessed the impact of subsequent events through January 31, 2019, the date the audited consolidated basic financial statements were issued, and has concluded that there are no such events that require adjustment to or disclosure in the consolidated basic financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

Lee Memorial Health System

Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)

October 1, 2013 through September 30, 2018

<i>(in thousands of dollars)</i>	2018	2017	2016	2015*	2014*
Total pension liability					
Service cost	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	2,072	2,018	1,992	1,955	-
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(108)	292	416	45	-
Changes of assumptions	617	130	(402)	-	-
Benefit payments	<u>(1,747)</u>	<u>(1,718)</u>	<u>(1,586)</u>	<u>(1,458)</u>	<u>-</u>
Net change in total pension liability	834	722	420	542	-
Total pension liability – beginning	<u>27,622</u>	<u>26,900</u>	<u>26,481</u>	<u>25,939</u>	<u>-</u>
Total pension liability – ending (a)	<u>\$ 28,456</u>	<u>\$ 27,622</u>	<u>\$ 26,901</u>	<u>\$ 26,481</u>	<u>\$ 25,939</u>
Plan fiduciary net position					
Employer contributions	\$ 687	\$ 774	\$ 903	\$ 977	\$ -
Net investment income	1,720	2,561	260	463	-
Benefit payments	(1,747)	(1,718)	(1,586)	(1,458)	-
Administrative expense	<u>(140)</u>	<u>(108)</u>	<u>(105)</u>	<u>(108)</u>	<u>-</u>
Net change in plan fiduciary net position	520	1,509	(528)	(126)	-
Plan fiduciary net position – beginning	<u>24,710</u>	<u>23,201</u>	<u>23,729</u>	<u>23,855</u>	<u>-</u>
Plan fiduciary net position – ending (b)	<u>\$ 25,230</u>	<u>\$ 24,710</u>	<u>\$ 23,201</u>	<u>\$ 23,729</u>	<u>\$ 23,855</u>
Net pension liability (asset) – ending (a)-(b)	<u>\$ 3,226</u>	<u>\$ 2,912</u>	<u>\$ 3,700</u>	<u>\$ 2,752</u>	<u>\$ 2,084</u>
Plan fiduciary net position as a percentage of total pension liability	88.66%	89.46%	86.25%	89.61%	91.97%

* 2015 opening balances and 2014 ending balances established for purpose of GASB No. 68 year-one disclosure requirements effective 10/1/2014.

Notes to Schedule

Covered payroll information is not provided as the plan is frozen and contributions are not determined by current payroll as benefit accruals ceased September 30, 1995.

Lee Memorial Health System
Schedule of Employer Contributions (Unaudited)
October 1, 2013 through September 30, 2018

<i>(in thousands of dollars)</i>	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 658	\$ 774	\$ 903	\$ 949	\$ 1,062
Contributions in relation to the actuarially determined contribution	658	774	903	949	1,062
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -

Notes to Schedule

Covered payroll information is not provided as the plan is frozen and contributions are not determined by current payroll as benefit accruals ceased September 30, 1995.

Assumptions and methods used to determine those contributions vary by year, but for the most recent year are:

Valuation date	July 1
Actuarial cost method	Unit Credit with various closed amortization periods for unfunded liability
Asset valuation method	5 year smoothing
Investment rate of return	7.5% net of pension plan investment expense, including inflation
Salary increase	Not Applicable due to plan freeze
IRS Limit Increases	2.50%
Retirement age	65

Lee Memorial Health System
Schedule of Investment Returns (Unaudited)
October 1, 2014 through September 30, 2018

	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	7.1%	11.3%	1.1%	2.0%

* Reported returns for GASB No. 67 disclosure requirements effective October 1, 2014 or fiscal year 2015.

Lee Memorial Health System
Schedule of Changes in Total Other Post-Employment Benefits (“OPEB”) Liability
(Unaudited)
September 30, 2018

(in thousands of dollars)

	2018
Total OPEB liability	
Service cost	\$ 683
Interest	1,728
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(1,104)
Net change in total OPEB liability	<u>1,307</u>
Total OPEB liability – beginning	<u>52,758</u>
Total OPEB liability – ending (a)	<u>\$ 54,065</u>
Plan fiduciary net position*	
Employer contributions	\$ -
Net investment income	-
Benefit payments	-
Administrative expense	-
Net change in plan fiduciary net position	<u>-</u>
Plan fiduciary net position – beginning	<u>-</u>
Plan fiduciary net position – ending (b)	<u>\$ -</u>
Net OPEB liability (asset) – ending (a)-(b)	<u>\$ 54,065</u>
Plan fiduciary net position as a percentage of total OPEB liability	0.0%
Covered employee payroll	\$ 268,355
Net OPEB liability as a percentage of covered employee payroll	20.1%

Notes to Schedule

Changes of assumptions. In 2018, the discount rate was decreased 69 basis points from the prior valuation. Also, a salary increase assumption was added for the current valuation since it is needed for the Entry Age Normal Cost Method.

*The System is currently funding the Other Post-Employment Benefits (“OPEB”) obligation on a pay-as-you-go basis so no assets have been segregated and/or restricted to provide the postemployment benefits.

Lee Memorial Health System
Schedule of Total Other Post-Employment Benefits (“OPEB”) Contributions
(Unaudited)
September 30, 2018

(in thousands of dollars)

	2018
Actuarially determined contribution	\$ -
Contributions in relation to the actuarially determined contribution	-
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	\$ 268,355
Contributions as a percentage of covered-employee payroll	0.0%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Average remaining service life of all participants
Asset valuation method	None, no plan assets
Inflation	3.0 percent
Healthcare cost trend rates	6.5 percent initial, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent
Salary increases	3.0 percent, average, including inflation
Investment rate of return	0.0 percent, no plan assets
Retirement age	<p><i>Sunset Employees:</i> Employees who had 30 or more years of full-time (or equivalent) service as of September 30, 2009. These employees are entitled to retiree health plan coverage starting when they retire on or after age 55 or the \$2,500 subsidy on or after retiring at age 65</p> <p><i>Non-Sunset Employees:</i> Employees hired prior to July 1, 2008 who had not attained 30 or more years of full-time (or equivalent) service as of September 30, 2009. These employees are only entitled to receive the \$2,500 subsidy benefit when they retire on or after age 65</p>
Mortality	<p><i>Healthy mortality rates:</i> RP-2014 Employee and Annuitant Mortality Tables for males and females with Scape MP-2014 backed out to 2006 and then projected forward to 2066 using generational projection Scale MP-2017 for males and females</p> <p><i>Disabled mortality rates:</i> RP-2014 Disabled Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward from 2006 using generational Scale MP-2017 for males and females</p>

SUPPLEMENTAL CONSOLIDATING INFORMATION

Lee Memorial Health System
Consolidating Basic Statement of Net Position
September 30, 2018

Schedule I

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Vivida Health	Best Care Collaborative, LLC	Eliminations	Total
Assets												
Current assets												
Cash and cash equivalents	\$ 1,277	\$ -	\$ -	\$ 19	\$ -	\$ -	\$ -	\$ 29,621	\$ 304	\$ 1,974	\$ -	\$ 33,195
Short-term investments	831,879	-	-	-	-	-	-	-	-	-	-	831,879
Assets whose use is restricted	390	-	5,208	-	-	-	-	-	-	-	-	5,598
Patient accounts receivable, net	150,074	34,235	53,973	561	2,110	1,584	695	-	-	-	-	243,232
Inventories	19,143	4,208	10,251	-	214	20	111	-	-	-	-	33,947
Other current assets	30,146	536	1,805	290	334	16	-	6,537	-	-	-	39,664
Total current assets	1,032,909	38,979	71,237	870	2,658	1,620	806	36,158	304	1,974	-	1,187,515
Noncurrent assets												
Assets whose use is restricted	653	-	-	-	-	8	-	9,585	1,200	-	-	11,446
Capital assets, net	762,349	81,277	299,545	58	957	4,260	741	32	-	-	-	1,149,219
Due from subsidiaries	-	332,629	-	-	(31,322)	-	-	-	-	-	(301,307) (a)	-
Other assets, net	(b) 24,779	-	-	-	4	-	-	4,430	-	-	-	29,213
Total assets	1,820,690	452,885	370,782	928	(27,703)	5,888	1,547	50,205	1,504	1,974	(301,307)	2,377,393
Deferred outflows of resources												
Deferred loss on debt refunding	2,707	1,252	(2,035)	-	-	-	-	-	-	-	-	1,924
Deferred outflows on pension	1,026	-	-	-	-	-	-	-	-	-	-	1,026
Excess consideration provided for acquisition	3,339	7,784	87,358	-	-	-	-	-	-	-	-	98,481
Total deferred outflows of resources	\$ 7,072	\$ 9,036	\$ 85,323	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 101,431

(a) To eliminate intercompany receivables and payables.

(b) Elimination of investments in subsidiaries included in this item.

Lee Memorial Health System
Consolidating Basic Statement of Net Position
September 30, 2018

Schedule I

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Vivida Health	Best Care Collaborative, LLC	Eliminations	Total
Liabilities												
Current liabilities												
Accounts payable	\$ 58,015	\$ 1,379	\$ 1,465	\$ 586	\$ 52	\$ 40	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,537
Current installments of long-term debt	36,374	1,251	4,681	-	-	-	-	-	-	-	-	42,306
Accrued expenses												
Employee compensation	51,496	2,950	3,977	119	486	319	92	93	-	-	-	59,532
Interest	865	786	5,715	-	-	-	-	-	-	-	-	7,366
Other	31,090	4,946	6,381	9	-	431	-	37	-	967	-	43,861
Estimated third-party payor settlements	(1,062)	2,306	5,960	-	-	-	-	-	-	-	-	7,204
Total current liabilities	176,778	13,618	28,179	714	538	790	92	130	-	967	-	221,806
Noncurrent liabilities												
Long-term debt, excluding current installments	199,580	61,135	355,145	-	-	-	-	-	-	-	-	615,860
Due to subsidiaries	315,318	-	(53,600)	20	-	18,768	9,220	6,768	1,500	3,313	(301,307) (a)	-
Other liabilities	65,144	12,492	17,100	193	1,330	1,686	16	279	-	-	-	98,240
Total liabilities	756,820	87,245	346,824	927	1,868	21,244	9,328	7,177	1,500	4,280	(301,307)	935,906
Deferred inflows of resources												
Deferred inflows on pension	2,254	-	-	-	-	-	-	-	-	-	-	2,254
Deferred inflows on split interest agreements	-	-	-	-	-	-	-	360	-	-	-	360
Total deferred inflows of resources	2,254	-	-	-	-	-	-	360	-	-	-	2,614
Net position												
Restricted for												
Nonexpendable	-	-	-	-	-	-	-	6,356	-	-	-	6,356
Expendable	-	-	-	-	-	-	-	33,423	-	-	-	33,423
Net investment in capital assets	526,395	18,892	(60,282)	58	957	4,260	741	32	-	-	-	491,053
Unrestricted	(b) 542,293	355,784	169,564	(58)	(30,528)	(19,616)	(8,522)	2,857	4	(2,306)	-	1,009,472
Total net position	\$ 1,068,688	\$ 374,676	\$ 109,282	\$ -	\$ (29,571)	\$ (15,356)	\$ (7,781)	\$ 42,668	\$ 4	\$ (2,306)	\$ -	\$ 1,540,304

(a) To eliminate intercompany receivables and payables.

(b) Elimination of investments in subsidiaries included in this item.

Lee Memorial Health System
Consolidating Basic Statement of Net Position
September 30, 2017

Schedule I

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
Assets										
Current assets										
Cash and cash equivalents	\$ 7,005	\$ -	\$ -	\$ 20	\$ -	\$ 1	\$ -	\$ 5,864	\$ -	\$ 12,890
Short-term investments	958,219	-	-	-	-	-	-	-	-	958,219
Assets whose use is restricted	372	-	5,210	-	-	-	-	-	-	5,582
Patient accounts receivable, net	152,214	29,176	43,706	198	2,344	1,976	295	-	-	229,909
Inventories	17,881	4,307	10,496	-	249	19	51	-	-	33,003
Other current assets	29,833	1,730	2,173	-	392	8	-	4,302	-	38,438
Total current assets	1,165,524	35,213	61,585	218	2,985	2,004	346	10,166	-	1,278,041
Noncurrent assets										
Assets whose use is restricted	653	-	-	-	-	6	-	24,666	-	25,325
Capital assets, net	632,038	84,007	236,576	91	940	4,357	993	36	-	959,038
Due from subsidiaries	-	290,424	-	-	(24,169)	-	-	-	(266,255) (a)	-
Other assets, net	(b) 34,191	587	1,982	-	4	-	-	7,358	-	44,122
Total assets	1,832,406	410,231	300,143	309	(20,240)	6,367	1,339	42,226	(266,255)	2,306,526
Deferred outflows of resources										
Deferred loss on debt refunding	3,214	1,476	(2,179)	-	-	-	-	-	-	2,511
Deferred outflows on pension	1,026	-	-	-	-	-	-	-	-	1,026
Excess consideration provided for acquisition	3,522	8,270	89,785	-	-	-	-	-	-	101,577
Total deferred outflows of resources	\$ 7,762	\$ 9,746	\$ 87,606	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 105,114

(a) To eliminate intercompany receivables and payables.

(b) Elimination of investments in subsidiaries included in this item.

Lee Memorial Health System
Consolidating Basic Statement of Net Position
September 30, 2017

Schedule I

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
Liabilities										
Current liabilities										
Accounts payable	\$ 51,362	\$ 1,042	\$ 917	\$ 686	\$ -	\$ 272	\$ -	\$ 1	\$ -	\$ 54,280
Current installments of long-term debt	33,151	1,220	4,486	-	-	-	-	-	-	38,857
Accrued expenses										
Employee compensation	40,188	1,204	1,594	23	148	131	23	42	-	43,353
Interest	611	763	5,539	-	-	-	-	-	-	6,913
Other	26,048	4,761	5,986	9	-	424	-	42	-	37,270
Estimated third-party payor settlements	22,744	4,400	8,551	-	-	-	-	-	-	35,695
Total current liabilities	174,104	13,390	27,073	718	148	827	23	85	-	216,368
Noncurrent liabilities										
Long-term debt, excluding current installments	218,943	62,386	360,023	-	-	-	-	-	-	641,352
Due to subsidiaries	333,098	-	(88,018)	(634)	-	14,263	6,120	1,426	(266,255) (a)	-
Other liabilities	63,443	11,337	13,804	224	1,312	1,322	92	266	-	91,800
Total liabilities	789,588	87,113	312,882	308	1,460	16,412	6,235	1,777	(266,255)	949,520
Deferred inflows of resources										
Deferred inflows on pension	2,912	-	-	-	-	-	-	-	-	2,912
Total deferred inflows of resources	2,912	-	-	-	-	-	-	-	-	2,912
Net position										
Restricted for										
Nonexpendable	-	-	-	-	-	-	-	6,269	-	6,269
Expendable	-	-	-	-	-	-	-	31,855	-	31,855
Net investment in capital assets	379,943	20,401	(127,934)	91	942	4,358	993	36	-	278,830
Unrestricted	(b) 667,725	312,463	202,802	(91)	(22,642)	(14,403)	(5,889)	2,289	-	1,142,254
Total net position	\$ 1,047,668	\$ 332,864	\$ 74,868	\$ -	\$ (21,700)	\$ (10,045)	\$ (4,896)	\$ 40,449	\$ -	\$ 1,459,208

(a) To eliminate intercompany receivables and payables.

(b) Elimination of investments in subsidiaries included in this item.

Lee Memorial Health System
Consolidating Basic Statement of Revenues, Expenses and Changes in Net Position
September 30, 2018

Schedule II

(in thousands of dollars)

	Lee Memorial Hospital	Physicians	Others	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Vivida Health	Best Care Collaborative, LLC	Total
Operating revenues														
Net patient service revenue	\$ 917,674	\$ 134,636	\$ 88	\$ 1,052,398	\$ 260,628	\$ 392,173	\$ 2,756	\$ 21,045	\$ 16,180	\$ 5,314	\$ -	\$ -	\$ -	\$ 1,750,494
Other revenue	11,721	2,778	11,511	26,010	3,105	2,643	470	2,155	20	-	5,085	-	-	39,488
Total operating revenues	929,395	137,414	11,599	1,078,408	263,733	394,816	3,226	23,200	16,200	5,314	5,085	-	-	1,789,982
Operating expenses														
Salaries, wages and benefits	460,058	184,473	5,615	650,146	112,655	166,564	6,253	17,154	14,609	6,667	2,562	-	-	976,610
Supplies and other services	236,077	23,340	3,081	262,498	58,067	111,932	129	11,342	3,774	888	1,408	-	187	450,225
Purchased services	96,980	14,733	245	111,958	32,930	40,975	(4,658)	1,775	1,898	508	456	-	2,100	187,942
Depreciation and amortization	53,916	7,385	561	61,862	12,659	24,414	33	477	737	118	40	-	26	100,366
Total operating expenses	847,031	229,931	9,502	1,086,464	216,311	343,885	1,757	30,748	21,018	8,181	4,466	-	2,313	1,715,143
Operating income (loss)	82,364	(92,517)	2,097	(8,056)	47,422	50,931	1,469	(7,548)	(4,818)	(2,867)	619	-	(2,313)	74,839
Nonoperating items														
Interest expense	(6,047)	(1,508)	-	(7,555)	(1,946)	(11,483)	-	23	16	(18)	(33)	-	-	(20,996)
Investment income, including realized and unrealized gains on investments	42,065	-	120	42,185	37	174	-	-	-	-	114	4	7	42,521
Contributions and grants	-	-	(6)	(6)	-	-	-	-	-	-	1,141	-	-	1,135
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	515	-	-	515
Loss on sale of capital assets	(564)	(6)	(15)	(585)	(148)	(125)	-	(29)	(20)	-	-	-	-	(907)
Other	6,319	1	(878)	5,442	47	-	(1,469)	-	-	-	(88)	-	-	3,932
Total nonoperating income (loss)	41,773	(1,513)	(779)	39,481	(2,010)	(11,434)	(1,469)	(6)	(4)	(18)	1,649	4	7	26,200
Increase (decrease) in net position	\$ 124,137	\$ (94,030)	\$ 1,318	31,425	45,412	39,497	-	(7,554)	(4,822)	(2,885)	2,268	4	(2,306)	101,039
Net position														
Beginning of year, as reported				1,047,668	332,864	74,868	-	(21,700)	(10,045)	(4,896)	40,449	-	-	1,459,208
Adoption of GASB No. 75 (see Note 1)				(10,405)	(3,600)	(5,083)	-	(317)	(489)	-	(49)	-	-	(19,943)
Beginning of year, as restated				1,037,263	329,264	69,785	-	(22,017)	(10,534)	(4,896)	40,400	-	-	1,439,265
End of year				\$ 1,068,688	\$ 374,676	\$ 109,282	\$ -	\$ (29,571)	\$ (15,356)	\$ (7,781)	\$ 42,668	\$ 4	\$ (2,306)	\$ 1,540,304

* For purposes of the consolidating basic statement of revenues, expenses and changes in net position, "Total Lee Memorial Hospital" is comprised of Lee Memorial Hospital, Physicians, and Others and is shown separately for Agency for HealthCare Administration reporting purposes only.

Lee Memorial Health System
Consolidating Basic Statement of Revenues, Expenses and Changes in Net Position
September 30, 2017

Schedule II

(in thousands of dollars)

	Lee Memorial Hospital	Physicians	Others	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Total
Operating revenues												
Net patient service revenue	\$ 855,884	\$ 188,474	\$ 1,161	\$ 1,045,519	\$ 242,400	\$ 369,017	\$ 1,618	\$ 19,922	\$ 15,327	\$ 1,648	\$ -	\$ 1,695,451
Other revenue	11,516	2,941	9,687	24,144	4,080	3,672	594	1,969	35	825	4,423	39,742
Total operating revenues	867,400	191,415	10,848	1,069,663	246,480	372,689	2,212	21,891	15,362	2,473	4,423	1,735,193
Operating expenses												
Salaries, wages and benefits	389,605	230,656	5,935	626,196	113,004	165,624	6,138	18,280	13,393	3,563	2,328	948,526
Supplies and other services	222,816	27,661	2,832	253,309	54,567	104,904	127	9,672	3,283	396	1,381	427,639
Purchased services	69,602	56,019	610	126,231	19,723	28,949	(6,930)	2,055	1,984	459	396	172,867
Depreciation and amortization	51,526	6,344	568	58,438	12,033	24,161	39	501	658	139	34	96,003
Total operating expenses	733,549	320,680	9,945	1,064,174	199,327	323,638	(626)	30,508	19,318	4,557	4,139	1,645,035
Operating income (loss)	133,851	(129,265)	903	5,489	47,153	49,051	2,838	(8,617)	(3,956)	(2,084)	284	90,158
Nonoperating items												
Interest expense	(3,950)	(1,455)	-	(5,405)	(2,044)	(13,942)	-	(3)	(1)	(19)	-	(21,414)
Investment income, including realized and unrealized gains on investments	87,090	-	108	87,198	34	104	-	2	-	-	212	87,550
Contributions and grants	(2)	-	-	(2)	-	-	-	-	-	-	(27,061)	(27,063)
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	961	961
Loss on sale of capital assets	(70)	(6)	(25)	(101)	(42)	(271)	-	-	(3)	-	-	(417)
Other	42,049	-	466	42,515	-	1	(2,838)	-	-	-	(179)	39,499
Total nonoperating income (loss)	125,117	(1,461)	549	124,205	(2,052)	(14,108)	(2,838)	(1)	(4)	(19)	(26,067)	79,116
Increase (decrease) in net position	\$ 258,968	\$ (130,726)	\$ 1,452	129,694	45,101	34,943	-	(8,618)	(3,960)	(2,103)	(25,783)	169,274
Net position												
Beginning of year				917,974	287,763	39,925	-	(13,082)	(6,085)	(2,793)	66,232	1,289,934
End of year				\$ 1,047,668	\$ 332,864	\$ 74,868	\$ -	\$ (21,700)	\$ (10,045)	\$ (4,896)	\$ 40,449	\$ 1,459,208

* For purposes of the consolidating basic statement of revenues, expenses and changes in net position, "Total Lee Memorial Hospital" is comprised of Lee Memorial Hospital, Physicians, and Others and is shown separately for Agency for HealthCare Administration reporting purposes only.

Note to Supplemental Consolidating Information

The accompanying consolidating information presents the financial position and results of operations of each of the significant component operating units and affiliates of the System as of September 30, 2018 and 2017 and for the years then ended, in conformity with accounting principles generally accepted in the United States of America, including applicable statements of the GASB, on the accrual basis of accounting. The accompanying consolidating information presents adjustments necessary to eliminate significant intercompany accounts and transactions. The accompanying consolidating information is presented for purposes of additional analysis of the consolidated basic financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated basic financial statements.

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

SUPPLEMENTAL SCHEDULES

Lee Memorial Health System
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA#	Pass-Through Entity Identification Number	Federal Expenditures
U.S. Department of Health and Human Services:			
<i>Passed through from the Healthy Start Coalition of Southwest Florida, Inc.:</i>			
Medicaid Cluster:			
Care Coordination	93.778	N/A	\$ 823,135
Prenatal Care	93.778	N/A	5,212
Momcare/SOBRA	93.778	N/A	7,462
Initial Contact	93.778	N/A	25,124
Subtotal Medicaid Cluster			<u>860,933</u>
Nurse-Family Partnership	93.505	N/A	<u>146,493</u>
Total Passed through from the Healthy Start Coalition of Southwest Florida, Inc.			<u>1,007,426</u>
Network			
Department of Children & Families	93.558	QB022-16	<u>10,573</u>
Total Passed through the Central Florida Behavioral Health			<u>10,573</u>
Children's Health Insurance Program (CHIP)	93.767	6414-1078-00-C	30,000
Kids oughta be covered (KOBC)	93.767	6414-1078-00-C	7,500
Total Passed through the University of South Florida Board of Trustees			<u>37,500</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,055,499</u>

The accompanying note is an integral part of this Schedule of Expenditures of Federal Awards.

Lee Memorial Health System

Notes to Schedule of Expenditures of Federal Awards

September 30, 2018

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes federal grant activity of Lee Memorial Health System (the "System"), and is presented on the accrual basis of accounting.

The information on this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net position, or cash flows of the System. The purpose of the Schedule is to present a summary of those activities of the System for the year ended September 30, 2018, which have been financed by federal governments. For purposes of the Schedule, Federal awards includes any assistance provided by a Federal agency, directly or indirectly, in the form of grants and contracts.

Direct and indirect costs do not use the 10% de minimis rate. Direct and indirect costs are charged to awards in accordance with cost principles contained in the Department of Health and Human Services, Office of the Assistant Secretary Comptroller ("OASC"), OASC-3, *A Guide for Hospitals*. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.



Report of Independent Auditors 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 Memorial Health System

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 consolidated basic financial statements of Lee Memorial Health System (the "System"), which comprise the consolidated basic statements of net position as of September 30, 2018, and the related consolidated basic statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the consolidated basic financial statements, and have issued our report thereon dated January 31, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated basic financial statements, we considered the System'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 consolidated basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

PricewaterhouseCoopers L.L.P.

January 31, 2019



Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance

To the Board of Directors of
Lee Memorial Health System

Report on Compliance for Each Major Federal Program

We have audited Lee Memorial Health System's (the "System") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended September 30, 2018. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers L.L.P.

January 31, 2019

FINDINGS

**Lee Memorial Health System
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to the financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over federal awards:		
Material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Significant deficiencies identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported

Type of auditor’s report issued on compliance for federal awards:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with CFR200.516(a)	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Identification of major federal awards programs:

Federal Awards:
CFDA Number
 93.778

Name of Federal Program or Cluster
 Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk pursuant to the Single Audit Act of the State of Florida?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
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Lee Memorial Health System
Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section II: Financial Statement Findings

None noted.

Section III: Federal Awards Programs Findings and Questioned Costs

None noted.

**Lee Memorial Health System
Schedule of Prior Year Audit Findings
Year Ended September 30, 2018**

None noted.



Report of Independent Accountants

To the Board of Directors of
Lee Memorial Health System

We have examined Lee Memorial Health System's (the "System") compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2018. Management of the System is responsible for the System's compliance with the specified requirements. Our responsibility is to express an opinion on the System's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the System complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether the System complied, in all material respects, with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2018.

This report is intended solely for the information and use of System and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers L.L.P.

Tampa, Florida
January 31, 2019