Lee County Trauma Services District

Letter of Comments and Recommendations
September 30, 2020

pwc

January 28, 2021

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, 2020, 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.

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 28, 2021, 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 2019 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 28, 2021

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, 2019, 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, 2019. 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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I. Business Recommendations

No comments or recommendations were noted in connection with our audit of the District’s basic financial statements as of and for the year ended September 30, 2020.

II. Status of Prior Year's Recommendations

In connection with our audit of the District’s September 30, 2019 basic financial statements, we made no comments or recommendations.

Lee County Trauma Services District

Basic Financial Statements
September 30, 2020

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Introduction

This section of the annual financial report of Lee County Trauma Services District (hereinafter referred to as "Trauma District" or the "District") presents management's discussion and analysis of the financial position and performance of the District for the year ended September 30, 2020. This discussion has been prepared along with the basic financial statements and related notes to the basic financial statements, and they should be read in conjunction therewith. This discussion, the basic financial statements and notes 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.

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, 2020
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, 2020
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, 2020.

For fiscal year 2020, 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 2020 includes a credit adjustment of approximately $4.4 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, which contributed to the operating loss of approximately $514,000 as displayed in the Basic Statement of Operations and Changes in Net Position.

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, 2020.

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, 2020

	Unaudited Internal Basic Financial Statements	Adjustments		Audited Basic Financial Statements
Operating revenues				
Net patient service revenue, net of provision for doubtful accounts of $2,194,124	$ 1,988,239			$ 1,988,239
Other revenue	497,246	(118,081)	(a)	379,165
Total operating revenues	2,485,485	(118,081)		2,367,404
Operating expenses				
Salaries, wages and benefits	5,320,840			5,320,840
Supplies and other	116,339	8,236	(b)	124,575
Purchased services	1,807,089	19,531	(c)	1,826,620
Corporate allocation from Lee Memorial Health System	(7,422,272)	2,991,157	(d)	(4,431,115)
Depreciation	40,286			40,286
Total operating expenses	(137,718)	3,018,924		2,881,206
Operating loss	2,623,203	(3,137,005)		(513,802)
Interest income	18			18
Transfers from Lee Memorial Health System	-	513,784	(e)	513,784
Change in net position	$ 2,623,221	$ (2,623,221)		$ -

(a) Reclassification of payment received not related to Trauma District
(b) Accrual of invoices at year-end
(c) Physician stipends additional accrual
(d) Adjust to total of approximately $4.4 million credit, which represents Hospital's gain on Trauma patients
(e) To eliminate the total impact on net position

Capital Assets
At September 30, 2020, the Trauma District had $154,100 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.

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.

COVID-19 Pandemic
The Trauma District's operations and financial condition have been impacted by the emergence of a novel coronavirus ("COVID-19"), which has evolved into a global pandemic. A number of measures were enhanced to safeguard the health of patients, visitors and caregivers. These measures will continue for the foreseeable future as management works with epidemiologists and infectious disease experts, considers the Centers for Disease Control and Prevention and Florida Department of Health guidelines, and makes adjustments as indicated by the burden of the disease and the state of the science.

Management anticipates that the extent of COVID-19's adverse impact on the Trauma District's operating results and financial position will be driven by many factors, most of which are beyond management's control and ability to forecast. The ultimate impact on operating results will be a function of the duration and scope of the COVID-19 outbreak in areas served by the Trauma District and its effect on patient volumes. As a result, at this time, management cannot reasonably estimate the future impact on operations of a prolonged continuation of the COVID-19 pandemic.

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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, 2020, and the related basic statements of operations and changes in net position and 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, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2021 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 28, 2021

Lee County Trauma Services District
Basic Statement of Net Position
September 30, 2020

Assets	
Current assets	
Assets whose use is restricted	$ 2,003
Accounts receivable from patients, net of allowance for estimated uncollectibles of $407,696	547,353
Other current assets	160,236
Total current assets	709,592
Noncurrent assets	
Capital assets, net	154,100
Due from Lee Memorial Health System	12,812
Total assets	$ 876,504
Liabilities and Net Position	
Current liabilities	
Accrued payroll	$ 187,192
Other accrued liabilities	368,978
Total current liabilities	556,170
Noncurrent liabilities	
Other liabilities	320,334
Total liabilities	876,504
Net position	
Unrestricted	-
Total liabilities and net position	$ 876,504

The accompanying notes are an integral part of the basic financial statement.

Lee County Trauma Services District
Basic Statement of Operations and Changes in Net Position
Year Ended September 30, 2020

Operating revenues	
Net patient service revenue, net of provision for doubtful accounts of $2,194,124	$ 1,988,239
Other revenue	379,165
Total operating revenues	2,367,404
Operating expenses	
Salaries, wages and benefits	5,320,840
Supplies and other	124,575
Purchased services	1,826,620
Corporate allocation from Lee Memorial Health System	(4,431,115)
Depreciation	40,286
Total operating expenses	2,881,206
Operating loss	(513,802)
Other changes in net position	
Interest income	18
Transfers from Lee Memorial Health System	513,784
Change in net position	-
Net position	
Beginning of year	-
End of year	$ -

The accompanying notes are an integral part of the basic financial statement.

Lee County Trauma Services District
Basic Statement of Cash Flows
Year Ended September 30, 2020

Cash flows from operating activities	
Received from patient care services	$ 1,896,523
Payments to employees	(5,220,516)
Payments to suppliers	(1,867,642)
Corporate allocation from Lee Memorial Health System	4,431,115
Other receipts	379,165
Net cash used in operating activities	(381,355)
Cash flows from noncapital financing activities	
Change in due from Lee Memorial Health System	21,554
Transfers from Lee Memorial Health System	513,784
Changes in assets whose use is restricted	(1,171)
Net cash provided by noncapital financing activities	534,167
Cash flows from capital and related financing activities	
Purchases/transfers of capital assets	(152,830)
Receipts (payments) of interest	18
Net cash used in capital and related financing activities	(152,812)
Change in cash and cash equivalents	-
Cash and cash equivalents	
Beginning of year	-
End of year	$ -
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (513,802)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	40,286
Provision for bad debts	2,194,124
Changes in	
Accounts receivable from patients	(2,285,840)
Other assets	8,474
Accrued payroll	100,324
Other accrued liabilities	23,500
Other liabilities	51,579
Net cash used in operating activities	$ (381,355)

The accompanying notes are an integral part of the basic financial statement.

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 a loss from operations of $513,802 for the year ended September 30, 2020. 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 from the System were $513,784 for the year ended September 30, 2020.

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.

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	2–15 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.

Other Operating Revenue
An additional 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. This is recognized as other operating revenue. Other current assets within the basic statement of net position represents a receivable for red light grant payments from the State of Florida as of September 30, 2020.

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.

Accounting Pronouncements
In May 2020, the GASB issued GASB Statement No. 95*, Postponement of the Effective Dates of Certain Authoritative Guidance* ("GASB No. 95"). GASB No. 95 provides temporary relief to governments, in light of a global pandemic brought about by the emergence of a novel coronavirus ("COVID-19"), by extending the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were effective for reporting periods or fiscal years beginning after June 15, 2018. This includes postponing the effective date of the following: GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 87, *Leases*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*,

GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, GASB Statement No. 91, *Conduit Debt Obligations*, certain provisions of GASB Statement No. 92, *Omnibus 2020* and certain provisions of GASB Statement No. 93, *Replacement of Interbank Offered Rates*. GASB No. 95 is effective immediately.

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. The effective date, as amended by GASB No. 95, is for reporting periods beginning after December 15, 2019. The District is currently evaluating the impact GASB No. 84 will have on its 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. The effective date, as amended by GASB No. 95, is for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The District is currently evaluating the impact GASB No. 87 will have on its 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. The effective date, as amended by GASB No. 95, is for periods beginning after December 15, 2020. The District is currently evaluating the impact GASB No. 89 will have on its basic financial statements.

Concentrations of Credit Risk

Financial instruments that 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, 2020 is as follows:

Medicare	8 %
Medicaid	5 %
Managed care	7 %
Insurance	37 %
Self-pay and other	43 %
	100 %

Fair Value of Financial Instruments

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

2. Net Patient Service Revenue

Net patient service revenue for the year ended September 30, 2020 consists of the following:

Gross patient service revenue	$ 8,598,788
Third-party payor and other contractual adjustments	(4,416,425)
Provision for doubtful accounts	(2,194,124)
Net patient service revenue	$ 1,988,239

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, 2015. 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 $7,272,035 were paid during the year ended September 30, 2020 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 $4,431,115 for the year ended September 30, 2020.

At September 30, 2020, the District had a receivable due from the System of $12,812.

4. Capital Assets

Capital asset additions, transfers and retirements, and balance for the year ended September 30, 2020 were as follows:

	Balance at September 30, 2019	Additions and Transfers	Retirements and Transfers	Balance at September 30, 2020
Buildings and improvements	$ 129,452	$ -	$ -	$ 129,452
Equipment, furniture and fixtures	475,684	10,890	(22,324)	464,250
Totals at historical cost	605,136	10,890	(22,324)	593,702
Less: Accumulated depreciation	(563,578)	(22,979)	22,324	(564,233)
Construction-in-progress	-	124,631	-	124,631
Capital assets, net	$ 41,558	$ 112,542	$ -	$ 154,100

Depreciation expense was $40,286 for the year ended September 30, 2020.

5. COVID-19 Pandemic

The District's operations and financial condition have been impacted by the emergence of a novel coronavirus ("COVID-19"), which has evolved into a global pandemic. A number of measures were enhanced to safeguard the health of patients, visitors and caregivers. These measures will continue for the foreseeable future as management works with epidemiologists and infectious disease experts, considers the Centers for Disease Control and Prevention and Florida Department of Health guidelines, and makes adjustments as indicated by the burden of the disease and the state of the science.

Management anticipates that the extent of COVID-19's adverse impact on the District's operating results and financial position will be driven by many factors, most of which are beyond management's control and ability to forecast. The ultimate impact on operating results will be a function of the duration and scope of the COVID-19 outbreak in areas served by the District and its effect on patient volumes. As a result, at this time, management cannot reasonably estimate the future impact on operations of a prolonged continuation of the COVID-19 pandemic.

6. Subsequent Events

The District has assessed the impact of subsequent events through January 28, 2021, 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, 2020, and the related basic statements of operations and changes in net position and 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 28, 2021.

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") as a basis for designing 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.

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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 basic financial statements. 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.

Tampa, Florida
January 28, 2021

Lee Memorial Health System

Reports on Major Federal Programs in Accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

September 30, 2020

EIN: 59-0714812

Lee Memorial Health System
Index
September 30, 2020 and 2019

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, 2020 with comparative information as of and for the years ended September 30, 2019 and 2018. 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 1,812 acute care hospital beds located at four campuses, which includes a 134-bed designated children's hospital, a 60-bed rehabilitation hospital, a 75-bed skilled nursing unit, 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."

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)	2020	2019	2018
Operating revenues	$ 2,063,231	$ 1,973,863	$ 1,789,982
Operating expenses	2,031,056	1,871,602	1,715,143
Operating income	32,175	102,261	74,839
Nonoperating items	24,710	14,162	25,065
Federal and state appropriations	61,218	-	-
Contributions and grants	10,916	821	1,135
Total nonoperating income	96,844	14,983	26,200
Increase in net position	$ 129,019	$ 117,244	$ 101,039

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

	2020	2019	2018	% Variance 2019-2020	% Variance 2018-2019
Salaries, wages and benefits	55.5%	52.9%	54.6%	4.9%	-3.1%
Supplies and other services	25.8%	24.5%	25.2%	5.3%	-2.8%
Purchased services	10.8%	11.6%	10.5%	-6.9%	10.5%
Capital costs (depreciation, amortization and interest expense)	7.8%	7.0%	6.8%	11.4%	2.9%

Operating Revenues

Total operating revenues increased in 2020 and 2019 by $89.4 million, or 4.5%, and $183.9 million, or 10.3%, respectively. In 2020, net patient service revenue increased by $63.5 million, or 3.4%, reflecting a decrease in adjusted admissions of 2.6% and an average rate increase of 5.4% with favorable payor mix changes. In 2019, net patient service revenue increased by $143.0 million, or 8.2%, reflecting an increase in adjusted admissions of 2.8% and an average rate increase of 5.0% with favorable payor mix changes.

Other operating revenue increased by $25.9 million, or 32.2%, in 2020 due primarily to revenue received from the System's Provider Service Network ("PSN") contract with the Florida Agency for Health Care Administration and Florida Medicaid, as well as the opening of new specialty pharmacy services at the Lee Health Coconut Point facility.

Other operating revenue increased by $40.9 million, or 103.5%, in 2019 due primarily to revenue received from two of the System's population health initiatives, the PSN contract with the Florida Agency for Health Care Administration and Florida Medicaid, and a Medicare Next Generation Accountable Care Organization ("ACO") contract with the Centers for Medicare and Medicaid Services ("CMS").

Operating Expenses

Total operating expenses increased in fiscal year 2020 by $159.5 million, or 8.5%. Salaries, wages and benefits increased by approximately $100.6 million, or 9.6%. The increase in salaries and wages is primarily due to an increase in average hourly rate of 7.2%. This increase was driven by staffing needs related to the COVID-19 pandemic, which required the use of more premium labor to meet staffing needs. Another driver of the increase was the System's Voluntary Exit Program, which was one of many strategies the System implemented to quickly adjust staffing levels to volume fluctuations due to the pandemic (see "COVID-19 Pandemic"). Continued expansion in outpatient services and other programs aimed at improving community health and patient access has also contributed to the increase in staff. Benefit costs increased by $0.9 million, or 0.6%, and decreased from 2019 as a percent of salaries and wages to 13.7%. Salaries, wages and benefits, as a percent of total net operating revenues, increased by 2.6% to 55.5%. Supplies and other services expenses increased by $50.0 million, or 10.4% in fiscal year 2020, due mostly to an increase in supply cost per adjusted admission of 9.1%, as costs for supplies related to the COVID-19 pandemic increased significantly and drove supply utilization higher, despite a decrease in patient volumes of 2.6%. Purchased services decreased by $6.8 million, or 2.9%, due primarily to decreased expenses related to the System's population health initiatives.

Total operating expenses increased in fiscal year 2019 by $156.5 million, or 9.1%. Salaries, wages and benefits increased by approximately $67.2 million, or 6.9%. The increase in salaries and wages is due to an increase in average hourly rate of 3.2%, staffing increases due to an increase in patient volumes of 2.8%, as well as continued expansion in outpatient services and other programs aimed at improving community health and patient access. Benefit costs increased by $18.3 million, or 13.4%, and increased from 2018 as a percent of salaries and wages to 14.5%. Salaries, wages and benefits, as a percent of total net operating revenues, decreased by 3.1% to 52.9%. Supplies and other services expenses increased by $32.4 million, or 7.2%, due mostly to an increase in supply cost per adjusted admission of 2.9%, as costs for pharmaceuticals and medical supplies continue to grow, as well as an increase in patient volumes of 2.8%, which drove additional supply utilization compared to the prior year. Purchased services increased by $41.7 million, or 22.2%, due primarily to increased expenses related to the System's population health initiatives.

Capital costs, which include depreciation and amortization, increased to $131.2 million in fiscal year 2020, a $15.6 million increase over the prior year. Capital costs, expressed as a percentage of total operating revenues, increased to 6.4%. In 2019, capital costs increased to $115.6 million, a $15.2 million increase over the prior year. Capital costs, expressed as a percentage of total operating revenues, were 5.9% in fiscal year 2019.

Nonoperating items, net
Nonoperating items increased in 2020 by $81.9 million, or 546.4%. 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 $41.9 million. During fiscal year 2020, there were unrealized gains of $43.9 million from financial market performance, coupled with interest income and realized gains of $31.7 million. Realized gains and interest earned on investments decreased by $2.4 million. The increase in federal and state appropriations was due to the receipt of $81.2 million in Provider Relief Funds as part of the CARES Act (see "COVID-19 Pandemic"). Management is aware that the Provider Relief Funds are subject to audit, and certain amounts could be at risk of being paid back in the future. Management recognized only $61.2 million as nonoperating revenue in the year ended September 30, 2020 with a liability recorded in the consolidated basic statement of net position as of September 30, 2020 for the remaining $20 million for amounts at risk for potential payback based on the eligibility criteria published by the United States of America ("U.S.") Department of Health and Human Services ("HHS") as of September 30, 2020. Interest expense increased by $7.0 million, largely due to interest incurred for the issuance of additional debt of $154.0 million in fiscal year 2020. In 2019, nonoperating items decreased by $11.2 million, or 42.8%. 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 $8.8 million. During fiscal year 2019, there were unrealized losses of $0.3 million from financial market performance, coupled with interest income and realized gains of $34.1 million. Realized gains and interest earned on investments increased by $12.2 million. Interest expense increased by $1.6 million, largely due to interest incurred for the issuance of additional debt of $150 million included in the 2019 Series A and B Bonds.

The System's net position, as of the fiscal year ended September 30, 2020, increased by $129.0 million, resulting in a profit margin of 6.3%. In 2019, the increase in net position over the previous year was approximately $117.2 million, resulting in a profit margin of 5.9%.

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

	2019 Moody's Median	FYE 2020	FYE 2019	FYE 2018
Profitability Ratios				
Operating margin (%)	2.7%	0.1%	4.0%	3.0%
Excess margin (%)	5.2%	5.9%	5.8%	5.5%
EBITDA margin (%)	8.7%	7.9%	11.0%	9.8%
Liquidity Ratios				
Days cash on hand	215.1	280.1	219.4	195.6
Cushion ratio	23.5	18.5	14.6	13.1
Cash-to-debt (%)	176.8%	162.6%	135.9%	133.2%
Capitalization Ratios				
Debt to capitalization (%)	30.9%	34.4%	32.7%	30.5%
Annual debt service coverage	5.5	3.3	3.7	3.1
Debt to cash flow	2.7	4.2	3.4	3.6

* 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 operating margin, EBITDA margin, cushion ratio, cash-to-debt, debt to capitalization, annual debt service coverage, and debt to cash flow ratios fall outside the range of the Moody's 2019 Medians.

Cash Flows

Cash and cash equivalents increased $141.5 million in fiscal year 2020.

Net cash provided by operating activities was $392 million for fiscal year 2020 and $259.9 million for the prior year. The main factors contributing to the $132.1 million increase in operating cash flow during fiscal year 2020 as compared to fiscal year 2019 are as follows:

- $264.8 million in additional cash received from patient care services, offset by
- $110.5 million in additional cash payments made to employees, and
- $47.6 million in additional payments to suppliers.

Net cash provided by noncapital financing activities was $68.3 million for fiscal year 2020 compared to $5.4 million provided by noncapital financing activities in the prior year. The main factor contributing to the increase in noncapital financing is the $81.2 million received from federal and state appropriations due to the COVID-19 pandemic, which is partially offset by a decrease in miscellaneous nonoperating items of $20.2 million.

Net cash used in capital and related financing activities was $130.3 million in fiscal year 2020 and $108.6 million in fiscal year 2019. This $21.6 million change in the use of cash is primarily the result of net borrowings of long-term debt of $127 million in 2020 compared to $108.1 million in 2019 offset by the purchase of the remaining interest in Bonita Community Health Center and the acquisition of a business that resulted in a use of cash of $44.1 million in fiscal year 2020. In addition, the System had a decrease in the purchase of capital assets of $9.6 million with $181.6 million in fiscal year 2020 compared to $191.3 million in fiscal year 2019.

Net cash used in investing activities was $188.6 million for fiscal year 2020 compared to $68.7 million in the prior year. The majority of the change in the cash used in investing activities was due to the change in investments from 2019 to 2020 of $120.4 million with $220.7 million in fiscal year 2020 compared to $100.4 million in fiscal year 2019. For fiscal year 2020, $32.4 million in investment income was received through interest earnings and realized gains. For fiscal year 2019, $33.1 million in investment income was received through interest earnings and realized gains.

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 64.8% 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.

	2020	**2019**	**2018**
Medicare	52.2%	52.4%	52.1%
Medicaid	12.6%	13.4%	13.6%
Commercial	23.8%	24.0%	23.8%
Other	11.4%	10.2%	10.5%
	100.0%	100.0%	100.0%

Capital Assets

At September 30, 2020, the System had $1,323.5 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 $66.9 million over the prior year's net capital assets of $1,256.6 million.

The System expects to make total capital expenditures of $185.3 million in fiscal year 2021. Of this amount, an estimated $67.5 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.

Debt Outstanding

As of September 30, 2020, the System had $908.2 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 2020, ninety-four (94%) of the System's total debt outstanding has fixed interest rates, while ninety-one (91%) of the System's bonds outstanding have fixed interest rates. As of September 30, 2019, the System had $786.7 million in debt (bonds, notes, etc.) outstanding. In 2019, ninety-four (94%) of the System's total debt outstanding has fixed interest rates, while ninety-one (91%) of the System's bonds outstanding have fixed interest rates.

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 $68.9 million for fiscal year 2020, $77.1 million for fiscal year 2019 and $52.9 million for fiscal year 2018. 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 were $481.9 million in fiscal year 2020, $531.7 million in fiscal year 2019 and $470.1 million in fiscal year 2018. This community benefit consists of charity care provided to patients who might not have access to health care, low income services that are provided at less than cost (e.g., Medicaid), and other services that are provided at a loss such as community wellness and health education programs.

The System's commitment to the community is summarized into the following community benefit categories for the years ended September 30, 2020, 2019 and 2018 as follows:

(in thousands of dollars)	**2020**	**2019**	**2018**
Cost of charity care for low income patients	$ 72,800	$ 69,986	$ 63,592
Cost of community outreach and educational programs and one-of-a-kind medical services	59,129	70,050	58,445
Cost of unpaid Medicaid services	77,425	100,171	91,449
Cost of unpaid Medicare and other government programs	272,551	291,477	256,607
	$ 481,905	$ 531,684	$ 470,093

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.

COVID-19 Pandemic

The System's operations and financial condition have been significantly impacted by the emergence of a novel coronavirus ("COVID-19") that evolved into a global pandemic. On March 13, 2020, President Trump declared a national emergency in response to the COVID-19 pandemic. Shortly thereafter, President Trump and CMS recommended health care providers limit all "non-essential" elective medical and surgical procedures. On March 20, 2020, Florida Governor DeSantis issued Executive Order 20-72, which prohibited "any medically unnecessary, non-urgent or non-emergency procedure or surgery which, if delayed, does not place a patient's immediate health, safety, or well-being at risk…" The System immediately complied with Executive Order 20-72 by canceling all elective procedures and began preparing for an anticipated surge in COVID-19 patients. The financial impact of the COVID-19 pandemic has been driven by lost revenue, due to sharp declines in patient volume resulting from Executive Order 20-72, and increased expenses due to an increased need for personal protective equipment for caregivers and visitors, and materials and staffing necessary for COVID-19 testing (i.e. swabs, collection kits, reagents, etc.). Management estimates that net patient service revenue was negatively impacted by over $43.1 million and operating expenses of $61.3 million can be directly attributed to the effects of the COVID-19 pandemic. In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills, which have provided certain financial benefits to the System. The following is a summary of the key benefits provided to the System as part of the various stimulus funding packages passed by Congress:

- The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted on March 27, 2020 and authorized $100 billion in direct funding to hospitals and other healthcare providers. The authorized funding was later increased to $175 billion. This funding (referred to as "Provider Relief Funds") is intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and is not required to be repaid, provided recipients attest to and comply with certain terms and conditions. In April 2020, HHS made general distributions totaling $50 billion (in two tranches of $30 billion and $20 billion) to all health care providers in proportion to providers' share of 2018 net patient service revenue. In May 2020, HHS provided $22 billion to high impact COVID-19 providers along with $4.9 billion for Skilled Nursing Facilities. In the year ended September 30, 2020, the System received approximately $81.2 million in Provider Relief Funds comprised of approximately $37.8 million from the general distribution, approximately $42.7 million in targeted high-impact funds and approximately $0.7 million in other funds. Of the $81.2 million received, $61.2 million was recorded as nonoperating grant revenue within federal and state appropriations in the consolidated basic statement of revenues, expenses and changes in net position with a liability recorded in the consolidated basic statement of net position as of September 30, 2020 for the remaining $20 million for amounts at risk for potential payback based on the eligibility criteria published by HHS as of September 30, 2020. Since the initial general distribution, HHS has made various "targeted" distributions from Provider Relief Funds directing funding to COVID-19 high impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. On September 19, 2020, HHS released updated guidance on reporting the appropriate use of Provider Relief Funds received under the CARES Act. Based on this guidance, recipients may use Provider Relief Funds for health care related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, and then for lost operating income related to health care services measured through December 31, 2020, and then if necessary, through June 30, 2021. Management is aware that the Provider Relief Funds received are subject to audit, and certain amounts could be at risk of being paid back in the future. However, based on the estimated financial impact of COVID-19 through September 30, 2020, management does not believe such amounts, if any, would be material to the consolidated basic financial statements. Subsequent to September 30, 2020, HHS has continued to release updated guidance on reporting the appropriate use of Provider Relief Funds received under the CARES Act, which will be accounted for in fiscal year 2021.

- The CARES Act also expanded the Medicare Accelerated and Advance Payment Program as a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. Acute care hospitals may request accelerated payments of up to 100% of their total Medicare payment amount for a six-month period based on the last six months of 2019. As of September 30, 2020, such accelerated payments are interest free for 12 months, and the program currently requires CMS to recoup the payments beginning 120 days after receipt for most providers, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. The Continuing Appropriations Act, 2021 and Other Extensions Act was signed into law on October 1, 2020 and resulted in the accelerated payments being interest free if paid back within 30 months of the payment receipt, which for the System was April 2020. Therefore, beginning in April 2021, Medicare will begin withholding 25% of all Medicare remittance advice payments for 11 months and then 50% for the next 6 months if not fully recovered with the 25%. The System does not anticipate any issue with repaying all of the funds before interest would begin to accrue in September 2022. In the year ended September 30, 2020, the System received Medicare advances totaling $162.6 million as part of the expanded Accelerated and Advance Payment Program under the CARES Act. As the change in repayment obligation is an unrecognized subsequent event, these amounts are recorded as current liabilities and are included in Medicare advance payments in the consolidated basic statement of net position.

On April 29, 2020, Governor DeSantis issued Executive Order 20-112, with an effective date of May 4, 2020, lifting the prohibition on elective procedures established by Executive Order 20-72. On May 4, 2020, the System resumed elective surgeries and procedures at all of its inpatient and outpatient facilities. A number of measures were enhanced to safeguard the health of patients, visitors and caregivers. These measures, including conducting COVID-19 testing for all patients admitted, will continue for the foreseeable future as management works with epidemiologists and infectious disease experts, considers the Centers for Disease Control and Prevention and Florida Department of Health guidelines, and makes adjustments as indicated by the burden of the disease and the state of the science.

Management anticipates that the extent of COVID-19's adverse impact on the System's operating results and financial position will be driven by many factors, most of which are beyond management's control and ability to forecast. The ultimate impact on operating results will be a function of the duration and scope of the COVID-19 outbreak in areas served by the System and its effect on patient volumes. As a result, at this time, management cannot reasonably estimate the future impact on operations of a prolonged continuation of the COVID-19 pandemic.

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, 2020 and 2019, 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 audits. We conducted our audits 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.

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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, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis (unaudited) on pages 1 through 10, the schedule of changes in the net pension liability and related ratios (unaudited) on page 59, the schedule of employer contributions (unaudited) on page 60, the schedule of investment returns (unaudited) on page 61, the schedule of changes in total other post-employment benefits ("OPEB") liability (unaudited) on page 62 and the schedule of total other post-employment benefits ("OPEB") contributions (unaudited) on page 63 be presented 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's consolidated basic financial statements. The supplemental consolidating information on pages 64 through 69 is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2020 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.

The accompanying supplemental consolidating information and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. Such 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 and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2021, except with respect to the opinion on the schedule of expenditures of federal awards as to which the date is September 28, 2021, 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, 2020. 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 28, 2021, except with respect to the opinion on the schedule of expenditures of federal awards as to which the date is September 28, 2021

Lee Memorial Health System
Consolidated Basic Statements of Net Position
September 30, 2020 and 2019

(in thousands of dollars)

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 262,562	$ 121,106
Short-term investments	1,201,742	937,343
Assets whose use is restricted	1,943	1,656
Patient accounts receivable, net of allowance for estimated uncollectibles of $88,434 in 2020 and $99,432 in 2019	226,521	252,670
Inventories	37,675	33,441
Other current assets	43,798	38,775
Total current assets	1,774,241	1,384,991
Noncurrent assets		
Assets whose use is restricted	12,294	10,616
Capital assets, net	1,323,478	1,256,531
Other assets, net	35,579	29,740
Total assets	3,145,592	2,681,878
Deferred outflows of resources		
Deferred loss on debt refunding	871	1,401
Deferred outflows on pension	5,286	310
Excess consideration provided for acquisition	108,238	100,306
Total deferred outflows of resources	114,395	102,017
Liabilities		
Current liabilities		
Accounts payable	93,819	73,743
Current installments of long-term debt	44,731	41,210
Accrued expenses		
Employee compensation	62,766	59,333
Interest	12,847	11,302
Other	80,599	62,599
Medicare advance payments	162,574	-
Estimated third-party payor settlements	25,007	14,563
Total current liabilities	482,343	262,750
Noncurrent liabilities		
Long-term debt, excluding current installments	863,442	745,483
Other liabilities	122,782	108,841
Total liabilities	1,468,567	1,117,074
Deferred inflows of resources		
Deferred gain on debt refunding	3,277	3,506
Deferred inflows on pension	1,277	5,407
Deferred inflows on split interest agreements	299	360
Total deferred inflows of resources	4,853	9,273
Commitments and contingencies		
Net position		
Restricted for		
Nonexpendable	8,669	7,243
Expendable	43,365	33,977
Net investment in capital assets	415,307	469,837
Unrestricted	1,319,226	1,146,491
Total net position	$ 1,786,567	$ 1,657,548

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, 2020 and 2019

(in thousands of dollars)

	2020	2019
Operating revenues		
Net patient service revenue, net of provision for doubtful accounts of $235,152 in 2020 and $244,287 in 2019	$ 1,956,992	$ 1,893,487
Other revenue	106,239	80,376
Total operating revenues	2,063,231	1,973,863
Operating expenses		
Salaries, wages and benefits	1,144,341	1,043,759
Supplies and other services	532,636	482,630
Purchased services	222,872	229,627
Depreciation and amortization	131,207	115,586
Total operating expenses	2,031,056	1,871,602
Operating income	32,175	102,261
Nonoperating items		
Interest expense	(29,531)	(22,546)
Investment income, including realized and unrealized gains on investments	75,659	33,769
Contributions and grants	10,916	821
Investment activity on restricted nonexpendable investments	(932)	424
Loss on sale of capital assets	(5,232)	(293)
Federal and state appropriations	61,218	-
Other	(15,254)	2,808
Total nonoperating income	96,844	14,983
Increase in net position	129,019	117,244
Net position		
Beginning of year	1,657,548	1,540,304
End of year	$ 1,786,567	$ 1,657,548

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, 2020 and 2019

(in thousands of dollars)

	2020	2019
Cash flows from operating activities		
Received from patient care services	$ 2,156,158	$ 1,891,408
Salaries and benefits paid to employees	(1,148,940)	(1,038,476)
Payments to suppliers	(720,778)	(673,134)
Other receipts from operations	105,545	80,056
Net cash provided by operating activities	391,985	259,854
Cash flows from noncapital financing activities		
Restricted gifts received (noncapital related)	3,064	1,644
Assets donated via Lee Memorial Health System Foundation, Inc.	1,375	877
Federal and state appropriations	81,218	-
Miscellaneous nonoperating items	(17,350)	2,896
Net cash provided by noncapital financing activities	68,307	5,417
Cash flows from capital and related financing activities		
Proceeds from long-term borrowings	166,184	532,660
Purchases of capital assets	(181,647)	(191,253)
Proceeds from sale of capital assets	54	43
Interest payments	(31,688)	(25,679)
Repayment of long-term debt	(39,191)	(424,532)
Restricted gifts received (capital related)	139	113
Purchase of remaining interest in Bonita Community Health Center	(23,623)	-
Acquisition of a business	(20,500)	-
Net cash used in capital and related financing activities	(130,272)	(108,648)
Cash flows from investing activities		
Investment income received	32,428	33,143
Increase in investments	(220,742)	(100,387)
Joint venture funding and activity	(250)	(1,468)
Net cash used in investing activities	(188,564)	(68,712)
Increase in cash and cash equivalents	141,456	87,911
Cash and cash equivalents		
Beginning of year	121,106	33,195
End of year	$ 262,562	$ 121,106
Disclosure of supplemental cash flow information		
Capital assets financed through capital lease obligations	$ 1,890	$ 25,647

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

(in thousands of dollars)

	2020	2019
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 32,175	$ 102,261
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	131,207	115,586
Provision for bad debts	235,152	244,287
Changes in		
Patient accounts receivable	(209,003)	(253,725)
Inventories	(4,234)	506
Other assets	(13,927)	2,234
Accounts payable	20,076	12,206
Accrued expenses	21,433	18,539
Estimated third-party payor settlements	10,444	7,359
Medicare advance payments	162,574	-
Other liabilities	6,088	10,601
Net cash provided by operating activities	$ 391,985	$ 259,854

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

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 134-bed designated children's hospital, a 60-bed rehabilitation hospital, an 18-bed skilled nursing unit, a 75-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 primarily 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.

The accompanying consolidated basic financial statements include the accounts of the System and its subsidiaries (referred to as "System" throughout these notes to the consolidated basic financial statements). Other System operations are carried out through subsidiary corporations, as follows, which are blended in the consolidated basic financial statements:

- 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 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 of America ("U.S.") Department of Health and Human Services ("HHS"), 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.

- The System has population health services ("Population Health") aimed at furthering the System's mission to be a trusted partner empowering healthier lives through care and compassion.

  - Best Care Assurance, LLC (d/b/a Vivida Health) holds the Provider Service Network ("PSN") contract with the Florida Agency for Health Care Administration and Florida Medicaid.

  - Best Care Collaborative, LLC holds the Medicare Next Generation Accountable Care Organization ("ACO") contract with the Centers for Medicare and Medicaid Services ("CMS").

  - Best Care Partners, Inc. holds the Clinically Integrated Network ("CIN") of providers as well as the provider-led Medicare Advantage and/or a commercial employer health insurance plan.

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 that are valued at the lower of net realizable value, on a first-in first-out basis, or market.

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 acquisition 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	2–15 years

Impairment of Long-Lived Assets
Long-lived assets are evaluated for recoverability whenever adverse events or changes in business climate indicate a decline in service utility of the capital asset. For the years ended September 30, 2020 and 2019, 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.

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, 2020 and 2019 consisted of foregone revenues of approximately $344.8 million and $324.1 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, 2020 and 2019, the System's investments in companies deemed to be alternative investment funds and the approximate ownership interest in each company were as follows:

	2020	2019
SEI Core Property Fund, LP ("Core Property Fund")	3.11%	2.99%
SEI Special Situations Fund, Ltd. ("Special Situations Fund")	6.39%	6.46%
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. Each partnership agreement 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.

Business Structures
The System has formed various legal entities that enable the System to participate in business relationships that provide investment opportunities and increase the provision of health care services throughout the community.

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. A combination of commercial insurance and self-administered, self-funded programs provide coverage for claims arising from such matters. Settled claims have not exceeded the commercial coverage in the current or preceding year.

As a public agency, the System is protected by the provisions of Florida's Waiver of Sovereign Immunity Act that limits liability to $200,000 for an individual and $300,000 for all individuals whose claim arises out of the same event.

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.

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 $230.5 million and $55.7 million as of September 30, 2020 and 2019, respectively. These deposits may be 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, 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:

	2020	2019
Medicare	33%	25%
Medicaid	9%	16%
Managed care	24%	23%
Commercial insurance	8%	8%
Self-pay and other	26%	28%
	100%	100%

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 the table below. The System recognized approximately $3.3 million and $3.1 million in amortization expense for the years ended September 30, 2020 and 2019, respectively, with such amounts being included as a component of 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)

	2020 Balance	Annual Amortization	Amortization Period (in years)
Lee Memorial Hospital	$ 18,922	$ 424	20
Gulf Coast Medical Center	82,505	2,427	40
Cape Coral Hospital	6,811	486	20
Total	$ 108,238	$ 3,337	

Accounting Pronouncements
In May 2020, the GASB issued GASB Statement No. 95*, Postponement of the Effective Dates of Certain Authoritative Guidance* ("GASB No. 95"). GASB No. 95 provides temporary relief to governments, in light of a global pandemic brought about by the emergence of a novel coronavirus ("COVID-19"), by extending the effective dates of certain accounting and financial reporting provisions in Statements and Implementation Guides that were effective for reporting periods or fiscal years beginning after June 15, 2018. This includes postponing the effective date of the following: GASB Statement No. 84, *Fiduciary Activities*, GASB Statement No. 87, *Leases*, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*, GASB Statement No. 91, *Conduit Debt Obligations*, certain provisions of GASB Statement No. 92, *Omnibus 2020* and certain provisions of GASB Statement No. 93, *Replacement of Interbank Offered Rates*. GASB No. 95 is effective immediately.

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. The effective date, as amended by GASB No. 95, is for reporting periods beginning after December 15, 2019. 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. The effective date, as amended by GASB No. 95, is for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The System is currently evaluating the impact GASB No. 87 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. The effective date, as amended by GASB No. 95, is for periods beginning after December 15, 2020. 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-an amendment of GASB Statements No. 14 and No. 61* ("GASB No. 90"). The primary objective of GASB No. 90 is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The effective date, as amended by GASB No. 95, is for reporting periods beginning after December 15, 2019. The System is currently evaluating the impact GASB No. 90 will have on its consolidated basic financial statements.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations* ("GASB No. 91"). GASB No. 91 clarifies the existing definition of a conduit debt obligation, establishes that a conduit debt obligation is not a liability of the issuer, and establishes standards for accounting and financial reporting of additional and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations. The effective date, as amended by GASB No. 95, is for reporting periods beginning after December 15, 2021. The System is currently evaluating the impact GASB No. 91 will have on its consolidated basic financial statements.

In January 2020, the GASB issued GASB Statement No. 92, *Omnibus 2020* ("GASB No. 92"). GASB No. 92 establishes accounting and financial reporting requirements for specific issues related to leases, intra-equity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance related activities of public equity risk pools, fair value measurements, and derivative instruments. The effective date of paragraphs 6 and 7 of GASB No. 92, as amended by GASB No. 95, is for fiscal years beginning after June 15, 2021. The effective date of paragraphs 8, 9, 10 and 12 of GASB No. 92, as amended by GASB No. 95, is for reporting periods beginning after June 15, 2021. The effective date of all remaining provisions of GASB No. 92 is for reporting periods beginning after June 15, 2021. The System is currently evaluating the impact GASB No. 92 will have on its consolidated basic financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates* ("GASB No. 93"). GASB No. 93 establishes accounting and financial reporting requirements related to the replacement of certain interbank offered rates - most notably the London Interbank Offered Rate ("LIBOR") - in hedging derivative instruments and leases, and identifies appropriate benchmark interest rates for hedging derivative instruments. LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. The effective date of paragraphs 13 and 14 of GASB No. 93, as amended by GASB No. 95, is for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The effective date of all other provisions of GASB No. 93 is for reporting periods beginning after

June 15, 2020. The System is currently evaluating the impact GASB No. 93 will have on its consolidated basic financial statements.

In March 2020, the GASB issued GASB Statement No. 94*, Public-Private and Public-Public Partnerships and Availability Payment Arrangements* ("GASB No. 94"). The primary objective of GASB No. 94 is to improve financial reporting and address certain issues related to public-private and public-public partnership arrangements ("PPP") and to provide guidance for accounting and financial reporting for availability payment arrangements ("APA"). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. GASB No. 94 is effective for fiscal years beginning after June 15, 2022. The System is currently evaluating the impact GASB No. 94 will have on its consolidated basic financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* ("GASB No. 96"). GASB No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITA") for government end users. A SBITA is defined as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB No. 96 establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability, and requires additional disclosures regarding a SBITA. GASB No. 96 is effective for fiscal years beginning after June 15, 2022. The System is currently evaluating the impact GASB No. 96 will have on its consolidated basic financial statements.

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* ("GASB No. 97"). The primary objective of GASB No. 97 is to increase the consistency and comparability of reporting fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform for certain defined contribution pension plans, defined contribution other postemployment benefit plans, and other employee benefit plans. This Statement also enhances the relevance and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans. Paragraphs 4 and 5 of GASB No. 97 are effective immediately. The requirements in paragraphs 6 - 9 are effective for fiscal years beginning after June 15, 2021 and the remainder of GASB No. 97 is effective for reporting periods beginning after June 15, 2021. The adoption of paragraphs 4 and 5 of GASB No. 97 did not have a material impact on the consolidated basic financial statements, and the System is currently evaluating the impact the remaining provisions of GASB No. 97 will have on its consolidated basic financial statements.

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 is as 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, 2015. 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.

3. Net Patient Service Revenue

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

(in thousands of dollars)	2020	2019
Gross patient service revenue	$ 9,117,775	$ 8,891,189
Third-party payor and other contractual adjustments	(6,925,631)	(6,753,415)
Provision for doubtful accounts	(235,152)	(244,287)
Net patient service revenue	$ 1,956,992	$ 1,893,487

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:

(in thousands of dollars)	2020	2019
Held by trustee under bond indenture agreements	$ 1,529	$ 1,260
Held by Board of Directors for future use	413	396
Held in trust for other uses	654	902
Designated by donors for specific purposes	11,641	9,714
Total assets whose use is restricted	14,237	12,272
Less: Amounts required to meet current obligations	(1,943)	(1,656)
Assets whose use is restricted, net of amounts required to meet current obligations	$ 12,294	$ 10,616

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 nonoperating 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.

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, 2020 is as follows:

(in thousands of dollars)	Fair Value Measurement of Investments 2020			
	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	$ 269,837	$ 269,837	$ -	$ -
International equity mutual funds	260,147	260,147	-	-
Domestic fixed income mutual funds	447,217	447,217	-	-
Total Investments by Fair Value Level	$ 977,201	$ 977,201	$ -	$ -
Investments Measured at the Net Asset Value (NAV) level				
SEI Core Property Fund, LP	$ 78,214			
SEI Special Situations Fund, Ltd.	55,028			
Total Investments Measured at NAV	$ 133,242			
Other				
Commercial paper and money market funds	105,536			
	$ 1,215,979			

The recurring fair value measurement of investments at September 30, 2019 is as follows:

(in thousands of dollars)	Fair Value Measurement of Investments 2019			
	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	$ 214,605	$ 214,605	$ -	$ -
International equity mutual funds	206,312	206,312	-	-
Domestic fixed income mutual funds	354,051	354,051	-	-
Total Investments by Fair Value Level	$ 774,968	$ 774,968	$ -	$ -
Investments Measured at the Net Asset Value (NAV) level				
SEI Core Property Fund, LP	$ 65,821			
SEI Special Situations Fund, Ltd.	42,216			
Total Investments Measured at NAV	$ 108,037			
Other				
Commercial paper and money market funds	66,610			
	$ 949,615			

The System has an investment management agreement with SEI Investments Company ("SEI") to manage approximately 99.8% 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 Fund, LP and SEI Special Situations Funds, Ltd., the System can liquidate funds within the trade date plus one business day. SEI requires 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, 2020 and 2019, these investments in hedge funds made up approximately 11.0% and 11.4%, respectively, of total investments in the accompanying consolidated basic statements of net position.

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, 2020 and 2019, 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 that are measured by Moody's Investors Services and Standard & Poor's. These rating agencies do not provide credit risk rating of mutual funds.

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, 2020 is as follows:

(in thousands of dollars)	Investment Maturities for 2020					
	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	$ 105,536	$ -	$ -	$ -	$ -	$ 105,536
Mutual funds	977,201	-	-	-	-	977,201
External investment pools	133,242	-	-	-	-	133,242
	$ 1,215,979	$ -	$ -	$ -	$ -	$ 1,215,979

The distribution of the System's short-term investments and assets whose use is restricted by maturity as of September 30, 2019 is as follows:

(in thousands of dollars)	Investment Maturities for 2019					
	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	$ 66,610	$ 64	$ -	$ -	$ -	$ 66,546
Mutual funds	774,968	-	-	-	-	774,968
External investment pools	108,037	-	-	-	-	108,037
	$ 949,615	$ 64	$ -	$ -	$ -	$ 949,551

During the years ended September 30, 2020 and 2019, the System recorded net realized gains of approximately $7.5 million and $6.0 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 have been held for more than one fiscal year and sold in the current year may have unrealized gains and losses recognized in the prior year due to a change in the fair value of the investments.

The net increase in the fair value of investments for the year ended September 30, 2020 was approximately $44.1 million compared to a net decrease in the fair value of investments of $0.3 million for the year ended September 30, 2019. 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, 2020 and 2019 were approximately $158.3 million and $114.2 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.

6. Capital Assets

Capital asset additions, retirements and balances for the years ended September 30, 2020 and 2019 were as follows:

(in thousands of dollars)	Balance at September 30, 2019	Additions and Transfers	Retirements and Transfers	Balance at September 30, 2020
Land	$ 137,931	$ 6,631	$ -	$ 144,562
Buildings and improvements	912,977	184,249	(11,658)	1,085,568
Equipment	1,044,979	130,022	(17,324)	1,157,677
Totals at historical cost	2,095,887	320,902	(28,982)	2,387,807
Less: Accumulated depreciation	(1,061,050)	(127,653)	21,812	(1,166,891)
Construction-in-progress	221,694	123,169	(242,301)	102,562
Capital assets, net	$ 1,256,531	$ 316,418	$ (249,471)	$ 1,323,478

(in thousands of dollars)	Balance at September 30, 2018	Additions and Transfers	Retirements and Transfers	Balance at September 30, 2019
Land	$ 137,938	$ (7)	$ -	$ 137,931
Buildings and improvements	775,970	145,973	(8,966)	912,977
Equipment	981,380	92,596	(28,997)	1,044,979
Totals at historical cost	1,895,288	238,562	(37,963)	2,095,887
Less: Accumulated depreciation	(983,655)	(112,418)	35,023	(1,061,050)
Construction-in-progress	237,586	216,415	(232,307)	221,694
Capital assets, net	$ 1,149,219	$ 342,559	$ (235,247)	$ 1,256,531

Construction-in-progress ("CIP") at September 30, 2020 consists primarily of expenditures for computer equipment, surgical equipment and building renovations and improvements. There were numerous projects underway at September 30, 2020, 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, 2020 and 2019, the System capitalized interest of approximately $0 and $5.8 million, respectively.

Depreciation expense was approximately $127.7 million and $112.4 million for the years ended September 30, 2020 and 2019, respectively.

7. Other Assets

Other assets as of September 30 consist of the following:

(in thousands of dollars)	2020	2019
Deposits and other	$ 14,852	$ 3,704
Investments in joint ventures	20,727	26,036
Other assets, net	$ 35,579	$ 29,740

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.

(in thousands of dollars)	2020	2019
Business-Type Activities		
Bonds		
Hospital Revenue Bonds, 2019 Series A ("2019 Series A Bonds"), payable in variable annual installments beginning April 2020 through April 2049. Net of unamortized premium of approximately $55,547 and $59,249 in 2020 and 2019, respectively	$ 465,457	$ 480,659
Hospital Revenue Bonds, 2019 Series B ("2019 Series B Bonds"), payable in variable annual installments beginning April 2038 through April 2049	50,315	50,315
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
Total Bonds	557,772	572,974
Direct Borrowings		
2020 TD Bank Loan, payable in variable annual installments beginning April 2021 through June 2035	$ 102,000	$ -
2020 JP Morgan Chase Loan, payable in fixed annual installments beginning April 2021 through April 2032	52,000	-
2016 BAPCC Loan, payable in variable monthly installments beginning July 2016 through June 2023	10,146	13,730
2015 BAPCC Loan, payable in variable monthly installments beginning October 2015 through September 2025	26,227	31,170
2015 Bank of America Loan, payable in variable annual installments beginning April 2016 through April 2024	49,540	49,765
2013 BAPCC Loan, payable in variable monthly installments beginning July 2013 through June 2020	-	5,625
2012 JP Morgan Chase Loan, payable in variable annual installments beginning April 2013 through April 2020	-	2,815
2010 Bank Qualified Loan, payable in variable annual installments beginning April 2011 through April 2020	-	3,215
Total notes from Direct Borrowings	239,913	106,320
Other Direct Borrowings	71,305	62,890
Capital Leases	39,183	44,509
	908,173	786,693
Less: Current installments	(44,731)	(41,210)
	$ 863,442	$ 745,483

Long-term debt activity for the years ended September 30, 2020 and 2019 were as follows:

(in thousands of dollars)	Balance at September 30, 2019	Increases	Decreases	Balance at September 30, 2020	Due Within One Year
Business-type activities:					
Bonds					
2019 Series A Bonds	$ 480,659	$ -	$ (15,202)	$ 465,457	$ 8,105
2019 Series B Bonds	50,315	-	-	50,315	-
2010 Series A Bonds	42,000	-	-	42,000	-
Total bonds	572,974	-	(15,202)	557,772	8,105
Notes from direct borrowings					
2020 TD Bank Loan	$ -	$ 102,000	$ -	$ 102,000	$ 2,300
2020 JP Morgan Chase Loan	-	52,000	-	52,000	4,333
2016 BAPCC Loan	13,730	-	(3,584)	10,146	3,640
2015 BAPCC Loan	31,170	-	(4,943)	26,227	5,041
2015 Bank of America Loan	49,765	-	(225)	49,540	9,530
2013 BAPCC Loan	5,625	-	(5,625)	-	-
2012 JP Morgan Chase Loan	2,815	-	(2,815)	-	-
2010 Bank Qualified Loan	3,215	-	(3,215)	-	-
Total notes from direct borrowings	106,320	154,000	(20,407)	239,913	24,844
Other Direct Borrowings	62,890	12,184	(3,769)	71,305	6,972
Capital Leases	44,509	1,891	(7,217)	39,183	4,810
Total	$ 786,693	$ 168,075	$ (46,595)	$ 908,173	$ 44,731

(in thousands of dollars)	Balance at September 30, 2018	Increases	Decreases	Balance at September 30, 2019	Due Within One Year
Business-type activities:					
Bonds					
2019 Series A Bonds	$ -	$ 480,659	$ -	$ 480,659	$ 11,500
2019 Series B Bonds	-	50,315	-	50,315	-
2010 Series A Bonds	42,000	-	-	42,000	-
2007 Series A Bonds	167,314	-	(167,314)	-	-
Total bonds	209,314	530,974	(167,314)	572,974	11,500
Notes from direct borrowings					
2017 BAPCC Loan	101,290	-	(101,290)	-	-
2016 BAPCC Loan	17,258	-	(3,528)	13,730	3,584
2015 BAPCC Loan	36,017	-	(4,847)	31,170	4,943
2015 Bank of America Loan	49,980	-	(215)	49,765	225
2014 JP Morgan Chase Loan	13,800	-	(13,800)	-	-
2013 BAPCC Loan	13,022	-	(7,397)	5,625	5,625
2012 BAPCC Loan	35,445	-	(35,445)	-	-
2012 JP Morgan Chase Loan	5,485	-	(2,670)	2,815	2,815
2011 Bank of America Loan	77,011	-	(77,011)	-	-
2010 Bank Qualified Loan	6,515	-	(3,300)	3,215	3,215
Total notes from direct borrowings	355,823	-	(249,503)	106,320	20,407
Other Direct Borrowings	66,441	-	(3,551)	62,890	3,769
Capital Leases	26,588	25,647	(7,725)	44,509	5,534
Total	$ 658,166	$ 556,621	$ (428,093)	$ 786,693	$ 41,210

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)	Business-Type Activities					
	Bonds		Notes from Direct Borrowings and Other Direct		Capital Leases	
Years Ending September 30,	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2021	$ 8,105	$ 22,738	$ 31,816	$ 8,588	$ 4,810	$ 3,275
2022	8,895	22,332	32,469	7,706	4,569	3,597
2023	4,710	21,888	37,817	6,900	4,445	3,873
2024	5,420	21,652	33,041	5,953	4,180	3,947
2025	21,860	21,381	15,474	5,058	3,634	3,823
2026-2030	117,315	89,718	56,573	19,600	8,574	10,230
2031-2035	127,755	60,723	43,626	8,936	5,500	8,938
2036-2040	94,830	28,075	17,600	5,023	3,471	6,439
2041-2045	58,320	14,908	20,000	3,242	-	-
2046-2050	55,015	4,152	22,800	1,221	-	-
	$ 502,225	$ 307,567	$ 311,216	$ 72,227	$ 39,183	$ 44,122

The System's outstanding bonds are secured by the Master Trust Indenture ("MTI") formed by the Obligated Group composed of entities within the System. The following information summarizes finance-related consequences. The MTI is available on the EMMA (Electronic Municipal Market Access) website for full disclosure.

Per the MTI, the following are considered financial events of default:

1. Inability of the Obligated Group to make payment of principal, premium or interest;
2. Failure of any member of the combined group to comply with any covenant or agreement under the MTI for a period of 30 days within written notice of such failure;
3. Failure of any member of the Obligated Group to make any required payment with respect to indebtedness, which indebtedness is in an aggregate principal amount greater than 1% of total revenues for the most recent fiscal year; or
4. Consent of petition seeking reorganization, arrangement adjustment or composition under the U.S. Bankruptcy Code.

In the event of default, the Master Trustee may declare all obligations outstanding immediately due and payable in an amount equal to the total principal amount of all determined obligations, plus all interest accrued to the date of acceleration. The Master Trustee shall enforce its rights and the rights of the holders by enforcing payment of amounts due or becoming due under the obligations; suit upon all or any part of the obligations; or civil action to require any person holding moneys, documents, or other property pledged to secure payment of amounts due or becoming due on the obligations.

The System's direct borrowings primarily require compliance with the MTI and, in some (but not all) cases, are secured by the MTI. In addition, the loan or lease agreements underlying the direct borrowings may contain additional and/or more restrictive covenants and additional events of default than are contained in the MTI and, in the case of the leases, different remedies upon default, as noted in the individual descriptions of the direct borrowings below.

Bonds

2019 Series A Bonds

In April 2019, the System issued Hospital Revenue Bonds, 2019 Series A, in the amount of $421.4 million. The proceeds of the bonds were used to finance capital improvements to the health care facilities of the system as well as refund the 2007 Series A Bonds, 2017 BAPCC Loan, 2014 JP Morgan Chase Loan, 2012 BAPCC Loan and the 2011 Bank of America Loan. Costs of bond issuance were covered through proceeds of the bond. The 2019 Series A Bonds were issued in two interest rate modes: (1) 2019 Series A-1 as fixed rate and (2) 2019 Series A-2 as term rate. Both modes are paid semi-annually on April 1 and October 1 each year with the term rate of 5.0%. The refunding of the 2007 A Series Bonds resulted in a gain of approximately $3.5 million, attributable to the derecognition of the related bond premium established at issuance. The issuance of the 2019 Series A Bonds resulted in a premium of $60.9 million to be amortized over the life of the bonds and bond issuance costs of $3.0 million.

2019 Series B Bonds

In April 2019, the System issued Hospital Revenue Bonds, 2019 Series B, in the amount of $50.3 million. The proceeds of the 2019 Series B Bonds were used to finance capital improvements to the health care facilities of the system. Costs of bond issuance were covered through proceeds of the bonds. The 2019 Series B Bonds were issued as variable in the R-FLOATS mode with interest rates reset weekly and payable monthly. Weekly rates are determined by the remarketing agent based off of current relevant market conditions and credit rating factors. If the remarketing agent fails to determine the weekly rate, an alternate rate based off of the Securities Industry and Final Markets Association ("SIFMA") index is utilized. Principal is paid annually in April. No premiums or discounts were recognized in the issuance of this debt.

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 32.935% interest paid rebate from the Internal Revenue Service, which becomes an effective rate of 4.883%.

2007 Series A Bonds
In April 2019, the System refunded the 2007 Series A Bonds with the issuance of the 2019 Series A-1 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. The 2007 Series A Bonds were fully refunded in the year ended September 30, 2019.

Direct Borrowings
2020 TD Bank Loan
In March 2020, the System's Board of Directors approved the issuance of the new direct bank loan in the amount of $102 million to reimburse the System for prior capital expenditures. The 2020 TD Bank Loan closed June 25, 2020 and is secured by Obligation No. 33 issued under the MTI. Principal payments are paid annually in April and amortized over 30 years with a mandatory purchase date of June 25, 2035. Interest is payable quarterly accruing at a fixed rate of 1.88% per annum and is subject to adjustments. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 33 is an accelerable instrument upon an event of default. Obligation No. 33 and the loan agreement is located on the EMMA website for full disclosure. Issuance costs were paid with internal funds.

2020 JP Morgan Chase Loan
In January 2020, the System's Board of Directors approved the issuance of the new direct bank loan in the amount of $52 million to reimburse the System for prior capital expenditures related to the expansion of Gulf Coast Medical Center. The 2020 JP Morgan Chase Loan (DNT Asset Trust) closed March 3, 2020 and is secured by Obligation No. 32 under the MTI. Principal payments are paid annually in April with the loan set to mature in April 2032. Interest is payable semi-annually in October and April accruing at a fixed rate of 1.68% per annum. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 32 is an accelerable instrument upon an event of default. Obligation No. 32 and the loan agreement is located on the EMMA website for full disclosure. Issuance costs were paid with internal funds.

2017 BAPCC Loan
In April 2019, the System refunded the 2017 BAPCC Loan through the issuance of the 2019 Series A Bonds. 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 was to be paid annually beginning April 2021 and was 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. The 2017 BAPCC Loan was fully refunded in the year ended September 30, 2019.

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 lease under a master lease agreement. 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. If the System is unable to make payment within 30 days of written notice, it will be considered in default. The lessor may terminate the lease, demand payment of all amounts up to the original term and any contemplated renewal terms and require the return of all equipment under the lease.

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 lease under a master lease agreement. 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. If the System is unable to make payment within 30 days of written notice, it will be considered in default. The lessor may terminate the lease, demand payment of all amounts up to the original term and any contemplated renewal terms and require the return of all equipment under the lease.

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. Inability to make debt service payments for this loan or any general debt obligations, or the inability to meet specified debt covenants will be considered an event of default. If such events occur, at the discretion of the lender, the balance outstanding of this loan along with other obligations of the System to the lender, become immediately due and payable within 15 days of declaration and/or the rate of interest on the unpaid principal shall be increased at the lenders discretion, to the lesser of the prime rate plus 3% per annum, or the maximum rate permitted by law. Unpaid interest or fees, for the purpose of calculating interest, may become part of the principal balance and compounded on a daily basis until the entire outstanding principal and interest balance is paid.

2014 JP Morgan Chase Loan
In April 2019, the System refunded the 2014 JP Morgan Chase Loan through the issuance of the 2019 Series A. 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 were paid annually in April while the interest payments were 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 was 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. The 2014 JP Morgan Chase Loan was fully refunded in the year ended September 30, 2019.

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 in the amount of $50 million. The 2013 BAPCC Loan had a fixed interest rate of 1.58%. The 2013 BAPCC Loan matured and was paid in full in June 2020. Issuance costs were paid with internal funds.

2012 BAPCC Loan
In April 2019, the System refunded the 2012 BAPCC Loan through the issuance of the 2019 Series A Bonds. 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 were paid annually in April while the interest payments were paid quarterly. Interest payments were 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 had a variable interest rate of 67% of LIBOR plus 95 basis points and matured 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 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. The 2012 BAPCC Loan was fully refunded in the year ended September 30, 2019.

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 JP Morgan Chase Loan paid a fixed interest rate of 1.92%. The 2012 JP Morgan Chase Loan matured and was paid in full 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
In April 2019, the System refunded the 2011 Bank of America Loan through the issuance of the 2019 Series A Bonds. 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 had a variable interest rate of 65.1% of LIBOR plus 72 basis points and matured 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 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. The 2011 Bank of America Loan was fully refunded in the year ended September 30, 2019.

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 paid a fixed interest rate of 2.794%. The 2010 Bank Qualified Loan matured and was paid in full 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.

Other Direct Borrowings
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, 2020 and 2019, the value included in capital assets, net of accumulated depreciation, amounted to approximately $22.6 million and $22.7 million, respectively, for the Sanctuary Regional Cancer Center, and the total outstanding debt amounted to approximately $22.6 million and $23.4 million, respectively. At September 30, 2020 and 2019, the value included in capital assets, net of accumulated depreciation, amounted to approximately $25.6 million and $25.7 million, respectively, for the Sanctuary Outpatient Center, and the total outstanding debt amounted to approximately $30.4 million and $31.3 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 2020 was 0.99% 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. If principal or interest payments are not made within 30 days of the due date, the System will be considered in default. In the event of default, interest on principal outstanding shall be computed at the rate of 10% per annum, but not in excess of the maximum rate permitted by Florida law. The holder may, at its option and without notice, require full payment of principal and accrued interest outstanding.

In November 2018, the System entered into a 20-year lease agreement with Plantation Medical Center SNU, LLC, a Florida Limited Liability Company. The System utilizes the 57,650 square foot facility as the Skilled Nursing Unit at GCMC. The System has accounted for the debt obligation in its consolidated basic financial statements with a total value of $22.0 million and the remaining balance of $20.0 million as of September 30, 2020. There is a 2.5% annual increase to the rent obligation each November until the 11th year of the agreement, at which point the rent is adjusted to the Market Lease Rate as determined by an appraiser. The rate will continue to increase annually by 2.5% for the remainder of the lease. The System has the option to purchase the premises at year ten and every five years thereafter.

In February 2020, the System entered into a promissory note with Lee Healthcare Resources, a Florida not-for-profit corporation, in the amount of $12.2 million for the purchase of land and medical offices that the System had been previously leasing. The Pine Island/Bass Road Note is payable in equal payments of $3.2 million each over four years beginning February 20, 2021, including interest accruing at a fixed rate of 1.75% per annum. The Pine Island/Bass Road Note is not secured by the MTI. If principal or interest payments are not made within 30 days of the due date, the System will be considered in default. In the event of default, interest on principal outstanding shall be computed at the rate of 10% per annum, but not in excess of the maximum rate permitted by Florida law. Upon an event of default, the holder may, at its option and without notice, require full payment of principal and accrued interest outstanding.

The MTI and direct borrowing loan and lease 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, 2020 and 2019. The nonobligated group members include Lee County Trauma Services District, Lee Memorial Home Health, Inc., HealthPark Care Center, Inc., Lee Memorial Health System Foundation, Inc., Lee Community Healthcare, Inc., Best Care Assurance, LLC., Best Care Collaborative, LLC, Best Care Partners, Inc., Bonita Community Health Centers, Inc., Paramount Surgery Center, LLC.

9. Capital Lease Obligations

At September 30, 2020 and 2019, assets under capital leases included in capital assets were approximately $58.0 million and $64.9 million, respectively. The accumulated amortization for these assets was approximately $20.4 million and $24.7 million as of September 30, 2020 and 2019, respectively. Amortization expense of approximately $5.2 million and $5.1 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, 2020 and 2019, respectively. At September 30, 2020 and 2019, an approximate obligation of $39.2 million and $35.2 million, respectively, was outstanding under the capital leases. During the years ended 2020 and 2019, interest expense of approximately $3.3 million and $4.2 million, respectively, was incurred.

Future minimum lease payments are as follows:

(in thousands of dollars)	
Years Ending September 30,	
2021	$ 8,577
2022	8,229
2023	8,318
2024	8,095
2025	7,597
Later years	43,060
Total minimum lease payments	83,876
Less: Amount representing interest	(43,413)
Present value of net minimum lease payments	$ 40,463

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 $22.8 million and $22.1 million for the years ended September 30, 2020 and 2019, respectively.

Retiree Health Insurance Plan
The System sponsors the Retiree Health Insurance Plan (the “RHI Plan”), which is a post-employment benefit plan (“OPEB”).

Plan Description
As of September 30, 2020, the System’s RHI Plan, which provides medical benefits to active employees, also provides medical benefits to eligible retired employees under a defined benefit post-employment 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
As of April 1, 2018, the census date for the OPEB liability, the following employees were covered by the benefit terms:

Participant data as of April 1, 2018	
Retirees	397
Fully Eligible	52
Other	3,273
	3,722

Net OPEB Liability
The System's net OPEB liability was measured as of December 31, 2019. 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, 2020 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.

Current Health Care Cost Trend Rate	6.25%
Investment Rate of Return	0.0%, due to the RHI Plan is a pay-as-you-go plan
Salary increases	3.0%

Healthy mortality rates were based on the following demographic assumptions: a base table of Pri-2012, a base mortality table year 2012, table type – no collar, table weighting – headcount, blending of separate rates for annuitants and non-annuitants (based on Employees table), blending of retirees and contingent annuitants of combined non-disabled annuitant mortality. The mortality improvement scale (male table for males and female table for females) was MP-2019.

The disability mortality rates (non-sunset employees only) were based on the following demographic assumptions: a base table of Pri-2012, base mortality table year 2012, table type – no collar, table weighting – headcount and a base scale of MP-2019.

The actuarial cost method used is Entry Age Normal ("EAN").

The discount rate used to measure the total OPEB liability was 2.75%. 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.

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 or coincident with the measurement date. The discount rate used in the 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)	**Increase (Decrease)** **Total OPEB Liability (a)**
Balance at October 1, 2019	$ 54,963
Changes for the year:	
Service cost	640
Interest cost	1,994
Changes in benefit terms	-
Differences between expected and actual experience	(450)
Changes of assumptions	6,947
Benefit payments	(1,376)
Net changes	7,755
Balance at September 30, 2020	$ 62,718

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate
The following table presents, as of September 30, 2020, the System's net OPEB liability calculated using the discount rate of 2.75%, as well as the net OPEB liability using a discount rate that is 1% lower (1.75%) or 1% higher (3.75%):

(in thousands of dollars)	**1% Decrease (1.75%)**	**Current Discount Rate (2.75%)**	**1% Increase (3.75%)**
Net OPEB liability	$ 70,011	$ 62,718	$ 53,603

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate
The following presents, as of September 30, 2020, the System's net OPEB liability calculated using the healthcare cost trend rate of 6.25%, as well as the net OPEB liability using a rate that is 1% lower (5.25%) or 1% higher (7.25%):

(in thousands of dollars)	**1% Decrease (5.25%)**	**Current Healthcare Cost Trend Rate (6.25%)**	**1% Increase (7.25%)**
Net OPEB liability	$ 59,691	$ 62,718	$ 62,911

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

- 2.75% as of the last business day preceding the measurement date.

Rates of Increase in Compensation

- 3.0% based on the System's budgetary salary increase for the fiscal year 2021 budget year.

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

The System recognized OPEB expense of approximately $4.0 million and $0.7 million for the years ended September 30, 2020 and 2019, respectively. At September 30, 2020, the System reported $4.4 million in deferred outflows and $1.3 million in deferred inflows of resources related to OPEB from the following sources:

(in thousands of dollars)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 801	$ 310
Changes of assumptions	3,641	967
Total	$ 4,442	$ 1,277

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

(in thousands of dollars)

Year Ending September 30,	
2021	1,365
2022	1,471
2023	330
2024	-
2025	-
Thereafter	-

Payable to the OPEB Plan

As of September 30, 2020, there are no payables to the Plan.

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, 2020 and 2019, the Annual Required Contribution (“ARC”) was $1.7 million and $1.2 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.

Employees Covered by Benefit Terms

At July 1, 2020, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data as of July 1, 2020	
Active	84
Terminated vested	427
Retired	442
	953

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. For the years ended September 30, 2020 and 2019, the Plan Sponsor’s contributions of approximately $1.1 million and $0.7 million, respectively, meet the minimum funding requirements of ERISA.

Net Pension Liability

The System’s net pension liability was measured as of July 1, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020.

The total pension liability in the September 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.1%
Investment Rate of Return	5.4%, net of pension plan investment expense, including inflation
Salary increases	Not applicable due to plan freeze

Effective September 30, 2020, the assumption for mortality has been changed from RP-2006 mortality with fully generational projections using Scale MP-2018 to amounts weighted rates from the Pri-2012 mortality study projected generationally from 2012 with Scale MP-2019. 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 best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of September 20, 2020 are summarized in the following table:

Asset Class	**Target Allocation**	**Real Rate of Return**
Domestic equity	30.6%	4.75%
Emerging markets equity	2.0%	5.90%
International equity	15.6%	5.30%
Corporate fixed income	14.9%	0.00%
Government fixed income	27.0%	0.73%
Real estate	4.8%	3.70%
Cash	5.1%	-1.00%
Total	100.0%	

The discount rate used to measure the total pension liability was 5.40%. 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, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.40%. 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, 2019	$ 31,191	$ 25,500	$ 5,691
Changes for the year:			
Interest	1,922	-	1,922
Difference between expected and actual experience	314	-	314
Changes of assumptions	2,560	-	2,560
Net investment income	-	850	(850)
Benefit payments	(1,870)	(1,870)	-
Contributions from the Employer	-	1,073	(1,073)
Administrative expense	-	(114)	114
Net changes	2,926	(61)	2,987
Balances at September 30, 2020	$ 34,117	$ 25,439	$ 8,678
Plan fiduciary net position as a percentage of the total pension liability			75%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents, as of September 30, 2020, the System's net pension liability calculated using the discount rate of 5.40%, as well as the net pension liability using a discount rate that is 1% lower (4.40%) or 1% higher (6.40%):

(in thousands of dollars)	**1% Decrease (4.40%)**	**Current Discount Rate (5.40%)**	**1% Increase (6.40%)**
Net pension liability	$ 12,102	$ 8,678	$ 5,760

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 $3.7 million and $0.5 million for the years ended September 30, 2020 and 2019, respectively. At September 30, 2020, 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	541	-
Contributions made during the year ended September 30, 2020 not yet recognized in net fiduciary position	302	-
Total	$ 843	$ -

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,	
2021	$ 33
2022	194
2023	167
2024	148
2025	-
Thereafter	-

Payable to the Defined Benefit Pension Plan

As of September 30, 2020 and 2019, there are no payables to the CCMC Plan.

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 $8.2 million and $8.4 million for the years ended September 30, 2020 and 2019, 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,	
2021	$ 7,159
2022	3,353
2023	2,276
2024	1,834
2025	1,558
Thereafter	44,163
	$ 60,343

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, 2020, 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.

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, 2020 and 2019. The estimated claims incurred, payments on claims, and the balance of the reserve for professional liability claims for the years ended September 30, 2020 and 2019, excluding the amounts payable pursuant to the claims bill process described above, were as follows:

(in thousands of dollars)	2020	2019
Amount of claims liabilities at the beginning of the year	$ 17,614	$ 16,094
Incurred claims	2,190	4,980
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	(3,833)	(3,460)
Amount of claims liabilities at the end of the year	$ 15,971	$ 17,614

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, 2020 and 2019.

Health Insurance

The System is self-insured for group health insurance. Expenses net of employee contributions under this program amounted to approximately $89.5 million and $80.8 million for the years ended September 30, 2020 and 2019, respectively. The total reserve for group health insurance claims payable, including an estimate for incurred but not reported claims, was approximately $16.7 million and $16.5 million at September 30, 2020 and 2019, respectively. Management believes the established reserve is adequately stated as of September 30, 2020 and 2019. The estimated claims incurred, payments on claims and the balance of reserves for group health insurance claims for the years ended September 30, 2020 and 2019 were as follows:

(in thousands of dollars)	2020	2019
Amount of claims liabilities at the beginning of the year	$ 16,548	$ 7,744
Incurred claims	111,161	108,992
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	(110,998)	(100,188)
Amount of claims liabilities at the end of the year	$ 16,711	$ 16,548

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 2020 and 2019. 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, 2020 and 2019. The estimated claims incurred, payments on claims and the balance of the reserve for workers' compensation claims for the years ended September 30, 2020 and 2019 were as follows:

(in thousands of dollars)	**2020**	**2019**
Amount of claims liabilities at the beginning of the year	$ 15,683	$ 15,370
Incurred claims	(700)	1,637
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	(2,472)	(1,324)
Amount of claims liabilities at the end of the year	$ 12,511	$ 15,683

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.

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 $20.7 million and $19.8 million at September 30, 2020 and 2019, respectively. Excess of revenues over expenses for LeeSar was approximately $2.1 million and $0.5 million for the years ended September 30, 2020 and 2019, respectively. The change in excess of revenues over expenses from 2019 to 2020 was driven primarily by an increase in income from operations of $0.8 million, as well as a reduction in non-operating losses of $0.7 million.

As of September 30, 2019, the System had 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. The membership interest in BCHC was accounted for using the equity method. On November 29, 2019 the System purchased the remaining 50% membership interest in BCHC from Naples Community Hospital, Inc. ("NCH") by: i) the assumption of all loans and the release of NCH from any loan guarantees for BCHC ($18.0 million); and ii) payment of $5.0 million in cash. As a result of this transaction, BCHC became a consolidated affiliate of the System. The acquisition value of the net position acquired was $18.0 million and the excess of consideration provided for the acquisition was recorded as a deferred outflow of resources.

On December 24, 2019, the System acquired a 51% membership interest with Paramount Surgery Center, LLC, which is a specialized orthopedic ambulatory surgical center, for a purchase price of $20.5 million. As a result of this transaction, Paramount Surgery Center, LLC is a consolidated affiliate of the System. The consideration in excess of the value of the net assets was expensed.

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, 2020, 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	$ 297,967	$ 94,018	$ 391,985
Noncapital financing activities	148,103	(79,796)	68,307
Capital and related financing activities	(115,894)	(14,378)	(130,272)
Investment activities	(188,578)	14	(188,564)
	141,598	(142)	141,456
Cash and cash equivalents			
Beginning of year	120,964	142	121,106
End of year	$ 262,562	$ -	$ 262,562

The condensed statement of cash flows of Cape Memorial Hospital, for the year ended September 30, 2019, 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	$ 193,009	$ 66,845	$ 259,854
Noncapital financing activities	56,908	(51,491)	5,417
Capital and related financing activities	(93,383)	(15,265)	(108,648)
Investment activities	(68,765)	53	(68,712)
	87,769	142	87,911
Cash and cash equivalents			
Beginning of year	33,195	-	33,195
End of year	$ 120,964	$ 142	$ 121,106

14. COVID-19 Pandemic

The System's operations and financial condition have been significantly impacted by the emergence of a novel coronavirus ("COVID-19"), which has evolved into a global pandemic. On March 20, 2020, Florida Governor DeSantis issued an Executive Order prohibiting medically unnecessary, non-urgent or non-emergency procedures or surgeries which, if delayed, would not place a patient's immediate health, safety, or well-being at risk. The Executive Order was subsequently lifted effective May 4, 2020, however, while the Executive Order was in effect, patient volumes and related revenues for most of the System's services were significantly and adversely impacted.

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills which have provided certain financial benefits to the System. Principal among these was the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), enacted on March 27, 2020. The CARES Act authorized $100 billion in direct funding to hospitals and other healthcare providers from Provider Relief Funds, and provided other financial benefits including the expansion of the Medicare Accelerated and Advance Payment Program. The authorized funding was later increased to $175 billion. Under the CARES Act, the System received approximately $37.8 million as part of general distributions, approximately $42.7 million in targeted high-impact funds, and approximately $0.7 million in other funds. Of the $81.2 million received, $61.2 million was recorded as nonoperating grant revenue within federal and state appropriations in the consolidated basic statement of revenues, expenses and changes in net position for the year ended September 30, 2020 with a liability recorded in the consolidated basic statement of net position as of September 30, 2020 for the remaining $20 million for amounts at risk for potential payback based on the eligibility criteria published by HHS as of September 30, 2020. The System also received approximately $162.6 million as part of the expanded Accelerated and Advance Payment Program under the CARES Act. As of September 30, 2020, such accelerated payments are interest free for 12 months, and the program currently requires CMS to recoup the payments beginning 120 days after receipt for most providers, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. The Continuing Appropriations Act, 2021 and Other Extensions Act was signed into law on October 1, 2020 and resulted in any advances received through this program will be repaid to the Medicare program beginning in April 2021 over seventeen months through either offsets to future payments from the Medicare program or through direct repayment. As this law is an unrecognized subsequent event in fiscal year 2020, these amounts are included in Medicare advance payments as current liabilities in the accompanying consolidated basic statement of net position.

Management anticipates that the extent of COVID-19's adverse impact on the System's operating results and financial position will be driven by many factors, most of which are beyond management's control and ability to forecast. The ultimate impact on operating results will be a function of the duration and scope of the COVID-19 outbreak in areas served by the System and its effect on patient volumes. As a result, at this time, management cannot reasonably estimate the future impact on operations of a prolonged continuation of the COVID-19 pandemic, but such impact could be material.

15. Subsequent Events

The System has assessed the impact of subsequent events through January 28, 2021, the date the audited consolidated basic financial statements were issued, and has concluded that the following items require disclosure in the consolidated basic financial statements.

Subsequent to September 30, 2020 and through our assessment period for subsequent events, HHS released updated guidance on reporting the appropriate use of Provider Relief Funds received under the CARES Act. Management is aware that the Provider Relief Funds received are subject to audit, and certain amounts could be at risk of being paid back in the future. However, based on the estimated financial impact of COVID-19 through September 30, 2020, management does not believe such amounts, if any, would be material to the consolidated basic financial statements.

On Thursday, October 1, 2020, the President signed into law the Continuing Appropriations Act, 2021 and Other Extensions Act (the “Continuing Appropriations Act”). This new law changed the repayment terms associated with the expanded Accelerated and Advance Payment Program under the CARES Act. Initially, the recoupment period was to begin 120 days after issuance of the advance and continue until the advance was fully settled. As a result of the Continuing Appropriations Act, the recoupment period will begin one year after the date of the advance. Instead of recouping 100% of Medicare fee-for-service claims payments each month until the advance is settled, CMS will recoup a portion of claims payments over an 18-month settlement period. If a balance remains, a demand letter is issued, and interest will accrue. This did not impact the classification of the related funds received by the System as this is an unrecognized subsequent event in fiscal year 2020.

On Sunday, December 27, 2020, the President signed into law the Consolidated Appropriations Act, 2021 (the “Consolidated Appropriations Act”), providing additional coronavirus emergency response and relief. As this event is an unrecognized subsequent event in fiscal year 2020, management is currently evaluating the impact of the new law on the System in fiscal year 2021.

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, 2020

(in thousands of dollars)	2020	2019	2018	2017	2016	2015*	2014*
Total pension liability							
Service cost	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest	1,922	1,999	2,072	2,018	1,992	1,955	-
Changes of benefit terms			-	-	-	-	-
Differences between expected and actual experience	314	240	(108)	292	415	45	-
Changes of assumptions	2,560	2,306	617	130	(402)	-	-
Benefit payments	(1,870)	(1,810)	(1,747)	(1,718)	(1,586)	(1,458)	-
Net change in total pension liability	2,926	2,735	834	722	419	542	-
Total pension liability – beginning	31,191	28,456	27,622	26,900	26,481	25,939	-
Total pension liability – ending (a)	$ 34,117	$ 31,191	$ 28,456	$ 27,622	$ 26,900	$ 26,481	$ 25,939
Plan fiduciary net position							
Employer contributions	$ 1,073	$ 502	$ 687	$ 774	$ 903	$ 977	$ -
Net investment income	850	1,686	1,720	2,561	260	463	-
Benefit payments	(1,870)	(1,810)	(1,747)	(1,718)	(1,586)	(1,458)	-
Administrative expense	(114)	(108)	(140)	(108)	(105)	(108)	-
Net change in plan fiduciary net position	(61)	270	520	1,509	(528)	(126)	-
Plan fiduciary net position – beginning	25,500	25,230	24,710	23,201	23,729	23,855	-
Plan fiduciary net position – ending (b)	$ 25,439	$ 25,500	$ 25,230	$ 24,710	$ 23,201	$ 23,729	$ 23,855
Net pension liability (asset) – ending (a)-(b)	$ 8,678	$ 5,691	$ 3,226	$ 2,912	$ 3,699	$ 2,752	$ 2,084
Plan fiduciary net position as a percentage of total pension liability	74.57%	81.76%	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, 2020

(in thousands of dollars)	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 1,208	$ 669	$ 658	$ 774	$ 903	$ 949	$ 1,062
Contributions in relation to the actuarially determined contribution	1,073	502	687	774	903	977	1,062
Contribution deficiency (excess)	$ 135	$ 167	$ (29)	$ -	$ -	$ (28)	$ -

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	5.4% 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, 2020

	2020	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	3.4%	6.9%	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, 2020 and 2019

(in thousands of dollars)

	2020	2019	2018
Total OPEB liability			
Service cost	$ 640	$ 673	$ 683
Interest	1,994	1,870	1,728
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(450)	2,114	-
Changes of assumptions	6,947	(2,552)	-
Benefit payments	(1,376)	(1,207)	(1,104)
Net change in total OPEB liability	7,755	898	1,307
Total OPEB liability – beginning	54,963	54,065	52,758
Total OPEB liability – ending (a)	$ 62,718	$ 54,963	$ 54,065
Plan fiduciary net position*			
Employer contributions	$ -	$ -	$ -
Net investment income	-	-	-
Benefit payments	-	-	-
Administrative expense	-	-	-
Net change in plan fiduciary net position	-	-	-
Plan fiduciary net position – beginning	-	-	-
Plan fiduciary net position – ending (b)	$ -	$ -	$ -
Net OPEB liability (asset) – ending (a)-(b)	$ 62,718	$ 54,963	$ 54,065
Plan fiduciary net position as a percentage of total OPEB liability	0.0%	0.0%	0.0%
Covered employee payroll	$ 255,827	$ 255,827	$ 268,355
Net OPEB liability as a percentage of covered employee payroll	23.9%	21.5%	20.1%

Notes to Schedule

Changes of assumptions. The discount rate decreased from 3.71% to 2.75% from September 30, 2019 to 2020. Also, per capita claims costs were decreased for post-65 retirees and increased for pre-65 retirees based on the most recent claims experience and to reflect changes in distribution of enrollment by plan options.

*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, 2020 and 2019

(in thousands of dollars)

	2020	2019	2018
Actuarially determined contribution	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution		-	-
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 255,827	$ 255,827	$ 268,355
Contributions as a percentage of covered-employee payroll	0.0%	0.0%	0.0%

Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of December 31, 2019, December 31, 2018 and December 31, 2017 for fiscal years 2020, 2019 and 2018, respectively.
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
Rate of compensation increase	3.0 percent
Healthcare cost trend rates	6.25 (2020) and 6.5 (2019 and 2018) 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	*Sunset Employees:* 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. *Non-Sunset Employees:* 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.
Mortality	*2020: Healthy mortality rates:* MP-2019 Mortality Improvement Scale for males and females, Base table Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants (based on Employee table), Separate rates for annuitants and non-annuitants (based on Employees table), Blending of retirees and contingent annuitants: Combined non-disabled annuitant mortality *2020: Disabled mortality rates:* MP-2019 Mortality Improvement Scale for males and females. Base table: Pri-2012; Base mortality table year: 2012; Table type: no collar; Healthy or Disabled: Disabled; Table weighting: headcount. *2018 & 2019: Healthy mortality rates:* RP-2014 Employee and Annuitant Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward to 2006 using generational projection Scale MP-2018 for males and females *2018 & 2019: Disabled mortality rates:* RP-2014 Disabled Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward to 2006 using generational Scale MP-2017 for males and females

SUPPLEMENTAL CONSOLIDATING INFORMATION

Lee Memorial Health System
Consolidating Basic Statement of Net Position
September 30, 2020 — 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.	Total Population Health	Other	Eliminations	Total
Assets												
Current assets												
Cash and cash equivalents	$ 193,365	$ -	$ -	$ 2	$ -	$ -	$ -	$ 30,433	$ 38,762	$ -	$ -	$ 262,562
Short-term investments	1,201,742	-	-	-	-	-	-	-	-	-	-	1,201,742
Assets whose use is restricted	414	-	1,529	-	-	-	-	-	-	-	-	1,943
Patient accounts receivable, net	139,344	29,274	52,167	547	1,800	1,926	1,463	-	-	-	-	226,521
Inventories	21,325	3,986	11,496	-	282	12	574	-	-	-	-	37,675
Other current assets	32,794	916	1,321	160	-	-	-	5,273	3,334	-	-	43,798
Total current assets	1,588,984	34,176	66,513	709	2,082	1,938	2,037	35,706	42,096	-	-	1,774,241
Noncurrent assets												
Assets whose use is restricted	432	-	-	-	-	12	-	11,851	(1)	-	-	12,294
Capital assets, net	791,356	81,024	436,762	154	795	4,211	4,541	60	4,575	-	-	1,323,478
Due from subsidiaries	-	462,122	-	-	(39,768)	-	-	-	-	-	(422,354) (a)	-
Other assets, net	(b) 20,889	-	-	-	3	-	-	12,449	-	2,238	-	35,579
Total assets	2,401,661	577,322	503,275	863	(36,888)	6,161	6,578	60,066	46,670	2,238	(422,354)	3,145,592
Deferred outflows of resources												
Deferred loss on debt refunding	-	871	-	-	-	-	-	-	-	-	-	871
Deferred outflows on pension	5,286	-	-	-	-	-	-	-	-	-	-	5,286
Excess consideration provided for acquisition	18,922	6,811	82,505	-	-	-	-	-	-	-	-	108,238
Total deferred outflows of resources	$ 24,208	$ 7,682	$ 82,505	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 114,395

(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, 2020 — 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.	Total Population Health	Other	Eliminations	Total
Liabilities												
Current liabilities												
Accounts payable	$ 79,071	$ 1,053	$ 5,234	$ 355	$ 30	$ 180	$ 89	$ -	$ 7,807	$ -	$ -	$ 93,819
Current installments of long-term debt	25,275	10,259	9,197	-	-	-	-	-	-	-	-	44,731
Accrued expenses												
Employee compensation	49,656	4,475	6,739	187	873	502	189	145	-	-	-	62,766
Interest	1,946	935	9,966	-	-	-	-	-	-	-	-	12,847
Other	58,710	5,566	7,218	14	-	472	-	39	8,580	-	-	80,599
Medicare advance payments	95,729	15,387	51,458	-	-	-	-	-	-	-	-	162,574
Estimated third-party payor settlements	2,126	6,965	15,901	-	-	15	-	-	-	-	-	25,007
Total current liabilities	312,513	44,640	105,713	556	903	1,169	278	184	16,387	-	-	482,343
Noncurrent liabilities												
Long-term debt, excluding current installments	307,038	49,999	506,405	-	-	-	-	-	-	-	-	863,442
Due to subsidiaries	576,933	-	(243,081)	(13)	-	44,845	22,014	4,695	16,961	-	(422,354) (a)	-
Other liabilities	76,125	18,182	24,710	320	1,404	1,151	73	273	-	544	-	122,782
Total liabilities	1,272,609	112,821	393,747	863	2,307	47,165	22,365	5,152	33,348	544	(422,354)	1,468,567
Deferred inflows of resources												
Deferred gain on debt refunding	(1,702)	72	4,907	-	-	-	-	-	-	-	-	3,277
Deferred inflows on pension	1,277	-	-	-	-	-	-	-	-	-	-	1,277
Deferred inflows on split interest agreements	-	-	-	-	-	-	-	299	-	-	-	299
Total deferred inflows of resources	(425)	72	4,907	-	-	-	-	299	-	-	-	4,853
Net position												
Restricted for												
Nonexpendable	-	-	-	-	-	-	-	7,839	-	830	-	8,669
Expendable	-	-	-	-	-	-	-	43,365	-	-	-	43,365
Net investment in capital assets	459,043	20,765	(78,838)	154	795	4,212	4,540	60	4,576	-	-	415,307
Unrestricted	(b) 694,642	451,346	265,964	(154)	(39,990)	(45,216)	(20,327)	3,351	8,746	864	-	1,319,226
Total net position	$ 1,153,685	$ 472,111	$ 187,126	$ -	$ (39,195)	$ (41,004)	$ (15,787)	$ 54,615	$ 13,322	$ 1,694	$ -	$ 1,786,567

(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, 2019 — 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.	Total Population Health	Eliminations	Total
Assets											
Current assets											
Cash and cash equivalents	$ 47,018	$ 142	$ -	$ 1	$ -	$ -	$ -	$ 29,585	$ 44,360	$ -	$ 121,106
Short-term investments	937,343	-	-	-	-	-	-	-	-	-	937,343
Assets whose use is restricted	396	-	1,260	-	-	-	-	-	-	-	1,656
Patient accounts receivable, net	163,642	31,817	51,171	456	2,273	2,341	970	-	-	-	252,670
Inventories	18,685	3,798	10,519	-	252	26	161	-	-	-	33,441
Other current assets	29,699	663	898	168	1	-	-	6,204	1,142	-	38,775
Total current assets	1,196,783	36,420	63,848	625	2,526	2,367	1,131	35,789	45,502	-	1,384,991
Noncurrent assets											
Assets whose use is restricted	653	-	-	-	-	7	-	9,956	-	-	10,616
Capital assets, net	784,256	81,379	373,093	42	710	4,507	2,345	65	10,134	-	1,256,531
Due from subsidiaries	-	384,282	-	-	(35,855)	-	-	-	-	(348,427) (a)	-
Other assets, net	(b) 26,226	-	-	-	4	-	-	3,510	-	-	29,740
Total assets	2,007,918	502,081	436,941	667	(32,615)	6,881	3,476	49,320	55,636	(348,427)	2,681,878
Deferred outflows of resources											
Deferred loss on debt refunding	281	1,120	-	-	-	-	-	-	-	-	1,401
Deferred outflows on pension	310	-	-	-	-	-	-	-	-	-	310
Excess consideration provided for acquisition	8,077	7,297	84,932	-	-	-	-	-	-	-	100,306
Total deferred outflows of resources	$ 8,668	$ 8,417	$ 84,932	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 102,017

(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, 2019 — 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.	Total Population Health	Eliminations	Total
Liabilities											
Current liabilities											
Accounts payable	$ 69,286	$ 876	$ 1,931	$ 333	$ 130	$ 117	$ 208	$ -	$ 862	$ -	$ 73,743
Current installments of long-term debt	33,050	1,260	6,900	-	-	-	-	-	-	-	41,210
Accrued expenses											
Employee compensation	52,619	2,414	3,332	86	434	271	108	69	-	-	59,333
Interest	1,410	941	8,951	-	-	-	-	-	-	-	11,302
Other	41,021	5,358	6,989	13	-	460	-	40	8,718	-	62,599
Estimated third-party payor settlements	1,747	2,908	9,820	-	-	88	-	-	-	-	14,563
Total current liabilities	199,133	13,757	37,923	432	564	936	316	109	9,580	-	262,750
Noncurrent liabilities											
Long-term debt, excluding current installments	218,659	60,425	466,399	-	-	-	-	-	-	-	745,483
Due to subsidiaries	451,051	-	(166,359)	(34)	-	29,529	15,159	4,197	14,884	(348,427) (a)	-
Other liabilities	71,706	14,136	19,078	269	1,440	1,857	72	283	-	-	108,841
Total liabilities	940,549	88,318	357,041	667	2,004	32,322	15,547	4,589	24,464	(348,427)	1,117,074
Deferred inflows of resources											
Deferred gain on debt refunding	(1,838)	97	5,247	-	-	-	-	-	-	-	3,506
Deferred inflows on pension	5,407	-	-	-	-	-	-	-	-	-	5,407
Deferred inflows on split interest agreements	-	-	-	-	-	-	-	360	-	-	360
Total deferred inflows of resources	3,569	97	5,247	-	-	-	-	360	-	-	9,273
Net position											
Restricted for											
Nonexpendable	-	-	-	-	-	-	-	7,243	-	-	7,243
Expendable	-	-	-	-	-	-	-	33,977	-	-	33,977
Net investment in capital assets	532,546	19,694	(100,205)	42	710	4,507	2,345	65	10,133	-	469,837
Unrestricted	(b) 539,922	402,389	259,790	(42)	(35,329)	(29,948)	(14,416)	3,086	21,039	-	1,146,491
Total net position	$ 1,072,468	$ 422,083	$ 159,585	$ -	$ (34,619)	$ (25,441)	$ (12,071)	$ 44,371	$ 31,172	$ -	$ 1,657,548

(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

Year Ended September 30, 2020

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 Population Health	Other	Total
Operating revenues														
Net patient service revenue	$ 1,047,611	$ 149,045	$ 19	$ 1,196,675	$ 284,919	$ 418,362	$ 1,988	$ 21,281	$ 21,156	$ 12,611	$ -	$ -	$ -	$ 1,956,992
Other revenue	26,865	5,032	8,150	40,047	2,608	2,604	379	2,778	17	1,128	4,237	43,134	9,307	106,239
Total operating revenues	1,074,476	154,077	8,169	1,236,722	287,527	420,966	2,367	24,059	21,173	13,739	4,237	43,134	9,307	2,063,231
Operating expenses														
Salaries, wages and benefits	528,475	228,021	5,027	761,523	126,144	192,121	5,321	14,951	24,208	13,985	2,618	3,470	-	1,144,341
Supplies and other services	273,813	21,322	2,463	297,598	59,724	115,330	125	11,744	5,559	2,099	1,323	34,240	4,894	532,636
Purchased services	109,894	14,112	201	124,207	35,844	39,136	(2,605)	1,360	3,357	535	423	20,615	-	222,872
Depreciation and amortization	73,959	8,359	583	82,901	13,542	29,915	40	573	2,607	693	50	886	-	131,207
Total operating expenses	986,141	271,814	8,274	1,266,229	235,254	376,502	2,881	28,628	35,731	17,312	4,414	59,211	4,894	2,031,056
Operating income (loss)	88,335	(117,737)	(105)	(29,507)	52,273	44,464	(514)	(4,569)	(14,558)	(3,573)	(177)	(16,077)	4,413	32,175
Nonoperating items														
Interest expense	(7,128)	(1,590)	-	(8,718)	(2,252)	(17,363)	-	(7)	(1,005)	(142)	(51)	7	-	(29,531)
Investment income, including realized and unrealized gains on investments	74,741	-	130	74,871	14	371	-	-	-	-	315	88	-	75,659
Contributions and grants	-	-	-	-	-	-	-	-	-	-	10,916	-	-	10,916
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	(932)	-	-	(932)
Loss on sale of capital assets	(207)	(196)	(22)	(425)	(7)	69	-	-	-	(1)	-	(4,868)	-	(5,232)
Transfer to Population Health	(3,000)	-	-	(3,000)	-	-	-	-	-	-	-	3,000	-	-
Federal and state apppropriations	-	-	61,218	61,218	-	-	-	-	-	-	-	-	-	61,218
Other	(14,418)	1	1,195	(13,222)	-	-	514	-	-	-	173	-	(2,719)	(15,254)
Total nonoperating income (loss)	49,988	(1,785)	62,521	110,724	(2,245)	(16,923)	514	(7)	(1,005)	(143)	10,421	(1,773)	(2,719)	96,844
Increase (decrease) in net position	$ 138,323	$ (119,522)	$ 62,416	81,217	50,028	27,541	-	(4,576)	(15,563)	(3,716)	10,244	(17,850)	1,694	129,019
Net position														
Beginning of year				1,072,468	422,083	159,585	-	(34,619)	(25,441)	(12,071)	44,371	31,172	-	1,657,548
End of year				$ 1,153,685	$ 472,111	$ 187,126	$ -	$ (39,195)	$ (41,004)	$ (15,787)	$ 54,615	$ 13,322	$ 1,694	$ 1,786,567

* 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
Year Ended September 30, 2019 — 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 Population Health	Total
Operating revenues													
Net patient service revenue	$ 1,023,859	$ 144,878	$ (967)	$ 1,167,770	$ 271,546	$ 406,928	$ 1,832	$ 19,313	$ 19,487	$ 6,611	$ -	$ -	$ 1,893,487
Other revenue	14,128	2,712	15,994	32,834	3,561	3,726	916	348	50	194	4,956	33,791	80,376
Total operating revenues	1,037,987	147,590	15,027	1,200,604	275,107	410,654	2,748	19,661	19,537	6,805	4,956	33,791	1,973,863
Operating expenses													
Salaries, wages and benefits	492,899	204,635	10,107	707,641	117,080	167,147	5,338	13,468	19,167	8,968	2,945	2,005	1,043,759
Supplies and other services	260,582	23,767	3,197	287,546	57,734	117,714	113	9,376	5,031	1,243	1,214	2,659	482,630
Purchased services	109,886	15,786	570	126,242	37,767	40,368	(8,087)	1,456	2,345	550	510	28,476	229,627
Depreciation and amortization	65,810	8,124	736	74,670	13,027	24,438	24	415	2,203	321	52	436	115,586
Total operating expenses	929,177	252,312	14,610	1,196,099	225,608	349,667	(2,612)	24,715	28,746	11,082	4,721	33,576	1,871,602
Operating income (loss)	108,810	(104,722)	417	4,505	49,499	60,987	5,360	(5,054)	(9,209)	(4,277)	235	215	102,261
Nonoperating items													
Interest expense	(6,692)	(1,716)	-	(8,408)	(2,108)	(11,102)	-	6	(865)	(13)	(46)	(10)	(22,546)
Investment income, including realized and unrealized gains on investments	32,808	-	144	32,952	53	431	-	-	-	-	296	37	33,769
Contributions and grants	-	-	5	5	-	-	-	-	-	-	816	-	821
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	424	-	424
Loss on sale of capital assets	(211)	(22)	(3)	(236)	(33)	(13)	-	-	(11)	-	-	-	(293)
Transfer to Population Health	(33,232)	-	-	(33,232)	-	-	-	-	-	-	-	33,232	-
Other	8,732	111	(649)	8,194	(4)	-	(5,360)	-	-	-	(22)	-	2,808
Total nonoperating income (loss)	1,405	(1,627)	(503)	(725)	(2,092)	(10,684)	(5,360)	6	(876)	(13)	1,468	33,259	14,983
Increase (decrease) in net position	$ 110,215	$ (106,349)	$ (86)	3,780	47,407	50,303	-	(5,048)	(10,085)	(4,290)	1,703	33,474	117,244
Net position													
Beginning of year				1,068,688	374,676	109,282	-	(29,571)	(15,356)	(7,781)	42,668	(2,302)	1,540,304
End of year				$ 1,072,468	$ 422,083	$ 159,585	$ -	$ (34,619)	$ (25,441)	$ (12,071)	$ 44,371	$ 31,172	$ 1,657,548

* 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.

Notes 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, 2020 and 2019 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.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

and

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Lee Memorial Health System
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA#	Pass-Through Entity Identification Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Medical Assistance Program - Medicaid passed through the Healthy Start Coalition of Southwest Florida, Inc.			
Care Coordination	93.778	N/A	$ 598,461
Initial Intake	93.778	N/A	3,201
Subtotal Medical Assistance Program - Medicaid passed through the Healthy Start Coalition of Southwest Florida, Inc.			601,662
Total Medical Assistance Program - Medicaid Cluster			601,662
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance passed through the Healthy Start Coalition of Southwest Florida, Inc.			
Care Coordination	93.994	N/A	65,005
Initial Intake	93.994	N/A	854
Prenatal Care	93.994	N/A	1,043
Subtotal Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance passed through the Healthy Start Coalition of Southwest Florida, Inc.			66,902
Nurse-Family Partnership passed through the Healthy Start Coalition of Southwest Florida, Inc.	93.870	N/A	156,831
State and National Tobacco Cessation Support Systems passed through the Healthy Start Coalition of Southwest Florida, Inc.	93.699	N/A	65,426
Temporary Assistance for Needy Families passed through the Central Florida Behavioral Health	93.558	QB022-16	8,654

The accompanying notes are an integral part of this Schedule of Expenditures of Federal Awards.

Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA#	Pass-Through Entity Identification Number	Federal Expenditures
Children's Health Insurance Program passed through the University of South Florida Board of Trustees			
Florida Health Kids Corp (FHKC)	93.767	6414-1078-00-C	20,000
Connecting Kids to Coverage Outreach and Enrollment Coop Agreements	93.767	6414-1078-00-C	35,000
Total Children's Health Insurance Program passed through the University of South Florida Board of Trustees			55,000
COVID/CARES Act - Testing for Uninsured Patients	93.461	N/A	64,094
Total U.S. Department of Health and Human Services			1,018,569
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,018,569

The accompanying notes are an integral part of this Schedule of Expenditures of Federal Awards.

1. Basis of Presentation

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

The information on this Schedule is presented in accordance with the 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"). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and do 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, 2020, which have been financed by federal awards. For purposes of the Schedule, federal awards include any assistance provided by a federal agency, directly or indirectly, in the form of grants and contracts.

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 Hospital Cost Principles (or CFR Part 45, Part 74, Appendix E) and Uniform Guidance, 2 CFR Part 200, Subpart E Cost Principles. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. The System elects not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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 statement of net position as of September 30, 2020, 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 28, 2021, except with respect to the opinion on the schedule of expenditures of federal awards as to which the date is September 28, 2021.

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") as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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 consolidated basic financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

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.

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 consolidated basic financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2020-001.

Lee Memorial Health System's Response to Findings

Lee Memorial Health System's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Lee Memorial Health System's response was not subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and, accordingly, we express no opinion on it.

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 28, 2021, except with respect to the opinion on the schedule of expenditures of federal awards as to which the date is September 28, 2021

Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal 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, 2020. 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, Lee Memorial Health 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, 2020.

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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.

Tampa, Florida
September 28, 2021

FINDINGS

Section I – *Summary of Auditor's Results*

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weaknesses identified?	__X__ Yes	____ No
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	__X__ None reported
Noncompliance material to the financial statements noted?	____ Yes	__X__ No

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	____ Yes	__X__ No
Significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	__X__ None reported
Type of auditor's report issued on compliance for federal awards:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	____ Yes	__X__ No

Identification of major federal awards:

Federal Awards:

CFDA Number	**Name of Federal Program or Cluster**
93.778	Medical Assistance Program - Medicaid

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk pursuant to Uniform Guidance?	____ Yes	__X__ No

Section II: Financial Statement Findings

2020-001: **Federal funding incorrectly excluded from the schedule of expenditures of federal awards**

Cluster: N/A

Sponsoring agency: Federal Emergency Management Agency

Award name: State of Florida Division of Emergency Management - Hurricane Irma Relief

Award number: DR 4337

CFDA title: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

CFDA number: 97.036

Award year: 2020

Condition

During the scoping for the Uniform Guidance audit of Lee Memorial Health System (the “System”) for fiscal year 2019 (October 1, 2018 through September 30, 2019), the total federal funds disclosed on the schedule of expenditures of federal awards (“SEFA”) was approximately $0.7 million. Given that the total federal expenditures were below the threshold for a federal audit ($750,000), the System did not request an audit of federal programs for fiscal year 2019 and did not submit Uniform Guidance reporting during 2020 when the related reporting was due for entities with a fiscal year-end on September 30.

During April 2021, in conjunction with the System’s Uniform Guidance audit related to fiscal year 2020 (October 1, 2019 through September 30, 2020), it was identified that federal funding received by the System related to Hurricane Irma Relief of $4.1 million was erroneously excluded from the fiscal year 2019 SEFA as originally determined. As a result, the fiscal year 2019 SEFA as originally determined was not complete as it was understated by approximately $4.1 million and the Uniform Guidance reporting requirement was not met timely by the System, including the omission of a required external audit of major federal programs.

The System updated the fiscal year 2019 SEFA as originally determined to include the Hurricane Irma Relief funds of $4.1 million, resulting in the fiscal year 2019 SEFA as adjusted. The fiscal year 2019 SEFA as adjusted is included within the Supplemental Schedules section herein and was used in the scoping of the Uniform Guidance audit requirement for major programs.

Criteria

Section 200.508 of the Uniform Guidance requires auditees to prepare appropriate financial statements, including the SEFA. As such, this award, which was provided by the Florida Division of Emergency Management; originating from the Federal Emergency Management Agency (“FEMA”), should be presented on the System’s SEFA following the guidance for FEMA funding in the OMB Compliance Supplement as to when FEMA awards should be recognized on the SEFA (i.e. when the project worksheet is approved).

Cause

For the purpose of the Uniform Guidance reporting and scoping of the Single Audit requirement for fiscal year 2019, the System failed to timely identify for purposes of reporting the awards related to non-recurring circumstances and/or events, such as natural disasters, in the same manner in which the System identifies, records and monitors recurring awards.

Effect

The Uniform Guidance reporting requirement was not complete and the System failed to meet its reporting requirements timely, including the omission of required external audit of major federal programs.

Questioned Costs

None noted

Recommendation

We recommend that management implement a control whereby contracts related to federal and state programs are reviewed by appropriate personnel in order to ensure the reporting requirements are fully addressed.

The System should identify, record and monitor awards related to non-recurring circumstances and/or events, such as natural disasters.

Management's View and Corrective Action Plan

Management's response is included in "Management's Views and Corrective Action Plan" included at the end of this report after the summary schedule of status of prior audit findings.

Section III: Federal Award Findings and Questioned Costs

None noted.

Prior Audit Findings

Audit finding reference number in prior year schedule of findings and questioned costs:	2019-001
Fiscal year audit finding initially occurred:	2019
Audit finding description:	Federal funding incorrectly excluded from the schedule of expenditures of federal awards
Status of audit finding	The audit finding was identified in 2021. Because there was no operating control to assure completeness of SEFA, the audit finding is applicable for both fiscal years of 2019 and 2020. Management plans to implement a corrective control during fiscal year 2021.

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Lee Memorial Health System

Management's View and Corrective Action Plan

Report on Audit of Financial Statements and on Federal Award Programs in Accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) for the year ended September 30, 2020

2020-001: Federal funding incorrectly excluded from the schedule of expenditures of federal awards

Cluster: N/A

Sponsoring agency: U.S. Department of Homeland Security Federal Emergency Management Agency passed through from the State of Florida Division of Emergency Management

Award name: Hurricane Irma Relief

Award number: DR 4337

CFDA title: Disaster Grants - Public Assistance (Presidentially Declared Disasters)

CFDA number: 97.036

Award year: 2019

Lee Memorial Health System (the "System") is in agreement with the findings of our external audit firm, as it relates the reporting of federal funds disclosed on the schedule of expenditures of federal awards ("SEFA"). For the fiscal year 2019 (October 1, 2018 through September 30, 2019), the total federal funds disclosed on the SEFA was approximately $0.7 million. Given that the total federal expenditures were below the threshold for a federal audit ($750,000), the System's external audit firm did not perform the audit related to compliance with federal programs for fiscal year 2019 and the System did not submit the fiscal year 2019 Uniform Guidance reporting during calendar year 2020 when the related reporting was due for entities with a fiscal year-end on September 30.During April 2021, in conjunction with the System's Uniform Guidance audit related to fiscal year 2020 (October 1, 2019 through September 30, 2020), the System determined that federal funding received by the System related to Hurricane Irma Relief of $4.1 million was erroneously excluded from the fiscal year 2019 SEFA. As a result, the fiscal year 2019 SEFA was not complete. The report was understated by approximately $4.1 million and the reporting requirement of the Uniform Guidance was not met timely by the System, including the omission of a required external audit of major federal programs. The System updated the fiscal year 2019 SEFA to include the Hurricane Irma Relief funds of $4.1 million and engaged its external audit firm to perform an audit of the System's compliance with major federal programs, resulting in the fiscal year 2019 SEFA, as adjusted.

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Corrective Action Plan

The System will be implementing a control whereby all federal and state awards are initiated, monitored and recorded in a consistent and centralized manner. In this finding, the System failed to identify, record and monitor awards related to non-recurring circumstances and/or events, such as natural disasters, in the same manner in which the System identifies, records and monitors recurring rewards. Going forward, all awards, regardless of frequency of recurrence or circumstance, will be handled in the same manner. The existing process for recurring awards involved monitoring and recording awards by representatives of Lee Memorial Health System Foundation, Inc. ("The Foundation"). There were not internal controls in place to ensure that non-recurring awards were reported to the Foundation. The Foundation is a not-for-profit 501c(3) corporation created by the System and community leaders to serve as a fundraising organization in support of the System. Going forward, the Foundation will be responsible for the application for federal and state awards by the System as well as monitoring and recording all federal and state awards for the System. This internal control will be implemented for the fiscal quarter ended September 30, 2021.

Further, the Foundation will provide quarterly reporting of the federal and state awards and related expenditures to the Lee Memorial Health System Controller for review. The System will engage a third party Uniform Guidance specialist, as needed, and most specifically if there are complex federal and/or state programs with which the Foundation and/or System are not familiar. This internal control will be implemented for the fiscal quarter ended September 30, 2021 and completed by October 31, 2021.

Management feels these actions will allow for proper control, whereby contracts related to federal and state programs, regardless of non-recurring circumstance, will be reviewed by appropriate personnel in order to ensure a more streamlined process and that reporting requirements are fully addressed.

For inquiries regarding this finding, please contact Patty Duquette at (239) 343-8335 who is responsible for the corrective action.

Patty Duquette

Patty Duquette

Vice President of Finance

Lee Memorial Health System

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