

Lee Memorial Health System

**Consolidated Basic Financial Statements,
Required Supplementary Information, and
Supplemental Consolidating Information
September 30, 2015 and 2014**

Lee Memorial Health System

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September 30, 2015 and 2014

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Lee Memorial Health System

Management's Discussion and Analysis (Unaudited)

September 30, 2015 and 2014

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, 2015 with comparative information as of and for the years ended September 30, 2014 and 2013. 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 1,423 acute care hospital beds located at four campuses, which includes a designated children's hospital, a 60-bed rehabilitation hospital, 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 vision is to be recognized as the best patient-and-family centered healthcare system by working collaboratively to deliver excellence in quality, safety, efficiency, and compassion. To achieve this vision, the Board works within a strategic plan and evaluates existing and new service offerings based upon community needs and economic viability.

The Board's strategic initiatives are to improve and strengthen services to meet the needs of the community, to pursue continuous improvement in quality and safety, to improve financial performance, and to be the community's healthcare provider of choice. Achieving these goals requires development and implementation of an effective integrated delivery system (with physician input), creation of information systems that support an integrated delivery system and streamlined business systems, continued refinement of the care delivery processes, the implementation of recruitment and retention strategies to attract and retain a quality workforce, and the continued improvement of facilities that support the strategic initiatives of the System.

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.

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Management's Discussion and Analysis (Unaudited)
September 30, 2015 and 2014

Restatement of September 30, 2014 Statement of Net Position Balances

As described in more detail on page 21, the System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27 ("GASB No. 68")* as of October 1, 2014 and, as required, adjusted net position as of October 1, 2013 and restated the consolidated basic statement of net position as of September 30, 2014. The following table reflects the changes to the condensed consolidated basic statement of net position as of September 30, 2014 resulting from retroactive application of GASB No. 68:

<i>(in thousands of dollars)</i>	Balances as of September 30, 2014		
	As Reported	As Restated	Change
Other liabilities	\$ 77,189	\$ 77,189	\$ -
Deferred inflows on pension	-	3,854	(3,854)
Net position, unrestricted	932,278	928,424	3,854

Condensed Consolidated Basic Statements of Operations and Changes in Net Position

A summary of the System's consolidated basic statements of operations and changes in net position is presented below.

<i>(in thousands of dollars)</i>	2015	2014	2013*
Operating revenues	\$ 1,497,543	\$ 1,363,785	\$ 1,256,975
Operating expenses	<u>1,370,092</u>	<u>1,238,817</u>	<u>1,195,091</u>
Operating income	<u>127,451</u>	<u>124,968</u>	<u>61,884</u>
Nonoperating items	(18,629)	21,454	24,993
Contributions and grants	<u>(1,742)</u>	<u>9,190</u>	<u>31,396</u>
Total nonoperating income	<u>(20,371)</u>	<u>30,644</u>	<u>56,389</u>
Increase in net position	<u>\$ 107,080</u>	<u>\$ 155,612</u>	<u>\$ 118,273</u>

* The 2013 amounts for these line items are not directly comparable to the 2014 and 2015 amounts due to the adoption of GASB Statement No. 68 as of October 1, 2013.

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

	2015	2014	2013*	% Variance 2014-2015	% Variance 2013-2014
Salaries, wages and benefits	51.5%	51.4%	53.4%	0.2%	-3.7%
Supplies and other services	25.3%	24.7%	25.2%	2.4%	-2.0%
Purchased services	9.4%	9.3%	10.7%	1.1%	-13.1%
Capital costs (depreciation, amortization and interest expense)	6.9%	7.4%	7.9%	-6.8%	-6.3%

* The 2013 amounts for these line items are not directly comparable to the 2014 and 2015 amounts due to the adoption of GASB Statement No. 68 as of October 1, 2013.

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Management's Discussion and Analysis (Unaudited)

September 30, 2015 and 2014

Operating Revenues

Total operating revenues increased in 2015 and 2014 by \$ 133.8 million, or 9.8%, and \$106.8 million, or 8.5%, respectively. The increase in both years was due to increased net patient service revenue. During 2015, net patient service revenue increased by \$111.0 million, or 8.4%, reflecting increases in adjusted admissions of 6.0%, and a rate increase of 2.2% partially offset by a decrease of 0.7% in case mix. In 2014, net patient service revenue increased by \$92.5 million, or 7.5%, reflecting increases in adjusted admissions of 7.0% and a modest rate increase of .4%. In 2014, AHCA converted the Medicaid inpatient payment methodology from a per diem reimbursement system to a per discharge model, resulting in decreased reimbursement.

Other operating revenue increased in 2015 by \$22.7 million, or 51.5%, due in large part to funding from Medicare and Medicaid related to the electronic health record (EHR) incentive payment. In 2015, the System received incentive payments of \$29.2 million, an increase of \$14.9 million over prior year. In 2014, other operating revenue increased by \$14.3 million or 47.8%, due to funding from Medicare and Medicaid related to the electronic health record (EHR) incentive payment of \$14.3 million. The program provides for payments to eligible hospitals over a period of years with payments being phased down over time. The System qualified for incentive payments for meeting 'meaningful use' benchmarks associated with implementation of the EHR. Fiscal year 2014 is the first year the System received incentive payments.

Operating Expenses

Total operating expenses increased in fiscal year 2015 by \$131.3 million, or 10.6%. Salaries, wages and benefits increased by approximately \$71.3 million, or 10.2%. The increase in salaries and wages is due to an increase in average hourly rate of 3.2% and an increase in staff due to record high patient volumes as well as expansions in outpatient services and other programs aimed at improving community health and patient access. Benefit costs increased by \$7.8 million, or 7.5% but decreased as a percent of salaries, wages and benefits to 14.4% from 14.7% in the prior year. Salaries, wages and benefits as a percent of total net operating revenues increased slightly to 51.5%. In 2014 total operating expenses increased by \$45.4 million. Salaries, wages and benefits increased by approximately \$29.8 million, or 4.4%. The increase in salaries and wages is due to an increase in staffing due to new programs to improve patient access, improve population health and implement new technology. Benefit costs during fiscal year 2014 increased by \$10.1 million, or 10.8%. Benefit costs as a percent of salaries, wages and benefits were 14.7% for fiscal year 2014. Salaries, wages and benefits as a percent of total net operating revenues decreased to 51.4% in fiscal year 2014.

Capital costs, which include depreciation, amortization and interest expense, increased to \$103.1 million in fiscal year 2015, a \$2.8 million increase over the prior year. Interest expense decreased to \$24.0 million due to more favorable rates obtained through refinancing. Capital costs, expressed as a percentage of total operating revenues decreased to 6.9%. In 2014, capital costs increased to \$100.3 million. Interest expense decreased to \$26.4 million, also due to more favorable rates obtained through refinancing. Capital costs, expressed as a percentage of total operating revenues decreased to 7.4%.

Nonoperating Revenues, net

Nonoperating revenues, net decreased in 2015 by \$51.0 million, or 166.5%. Included in this category is investment performance and market value changes on investments, which can vary significantly from year to year, and interest expense. Investment income, net decreased by \$16.7 million due to unrealized losses of \$39.2 million resulting from variability experienced throughout the year in the financial markets, offset by interest income and realized gains of \$22.5 million. Realized gains and interest earned on investments increased by \$12.7 million. Interest expense

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Management's Discussion and Analysis (Unaudited)
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decreased by \$2.5 million, largely due to more favorable rates obtained through financing associated with the refinancing of the Hospital Revenue Refunding Bonds, 2005 Series A. In 2014, nonoperating revenues, net decreased by \$25.7 million or 45.7%. Restricted gifts decreased by \$22.4 million due to a slowdown in donations received for the Golisano Children's Hospital of Southwest Florida Capital Campaign. Investment income of \$43.6 million decreased slightly from prior year by \$2.7 million or 5.8%. Interest expense decreased by \$1.4 million due to principal payments made during the year, resulting in lower outstanding debt.

The net impact of all discussed in the above is an increase in the System's net position of approximately \$107.1 million, as of September 30, 2015, resulting in a profit margin of 7.2%. In 2014, the increase in net position was approximately \$155.6 million, resulting in a profit margin of 11.4%.

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

	2014 Moody's Median	FYE 2015	FYE 2014	FYE 2013**
Profitability Ratios				
Operating margin (%)	3.1%	6.9%	7.2%	2.9%
Excess margin (%)	6.3%	7.1%	11.0%	9.0%
EBITDA margin (%)	10.4%	13.8%	14.6%	12.9%
Liquidity Ratios				
Days cash on hand (net of VRDB)	225.2	261.4	246.8	219.3
Cushion ratio	19.9	16.0	17.9	15.0
Cash-to-debt (%)	155.3%	131.8%	119.2%	96.6%
Capitalization Ratios				
Debt to capitalization (%) - (net of VRDB)	32.5%	40.8%	42.0%	47.0%
Annual debt service coverage	5.4	5.3	4.3	4.3
Debt to cash flow (net of VRDB)	2.9	3.2	2.5	2.9

* 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.

* VRDB = Variable Rated Demand Bond.

**The 2013 amounts for these line items are not directly comparable to the 2014 and 2015 amounts due to the adoption of GASB Statement No. 68 as of October 1, 2013.

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 cushion ratio, cash-to-debt, debt to capitalization, and annual debt service coverage ratios fall outside the range of the Moody's 2014 Medians.

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Net days in accounts receivable decreased to 42.8 days in fiscal year 2015. Net accounts receivable decreased due to increased net revenue per day and overall payor mix improvement. In 2014 net days in accounts receivable decreased to 44.6 days. Net accounts receivable decreased as a result of optimization of the EPIC upgrade to the 2012 software release, as well as increased proficiencies gained in another year of experience in the EPIC environment.

Cash Flows

Cash and cash equivalents increased \$1.7 million in fiscal year 2015. Cash flows from operating activities were used to fund the cash outflows for capital during the year.

Net cash provided by operating activities was \$240.8 million for fiscal year 2015 and \$225.2 million for the prior year. The main factors contributing to the \$15.6 million increase in operating cash flow during fiscal year 2015 as compared to fiscal year 2014 are as follows:

- \$112.7 million in additional cash received from patient care services, offset by
- \$120.2 million in additional cash payments made to employees and suppliers.

Net cash provided by noncapital financing activities was \$34.9 million for fiscal year 2015 versus \$5.8 million used in noncapital financing activities in the prior year. The majority of this activity is the result of an increase in miscellaneous nonoperating items.

Net cash used in capital and related financing activities was \$129.9 million in fiscal year 2015 and \$141.2 million in fiscal year 2014. This decrease in the use of cash is primarily the result of a net decrease in the proceeds and repayment of long-term borrowings from \$33.2 million in fiscal year 2014 to \$23.0 million in fiscal year 2015. There was an increase in the purchase of capital assets of \$36.9 million, from \$91.8 million in fiscal year 2014 to \$128.7 million in fiscal year 2015.

Net cash used in investing activities was \$144.1 million for fiscal year 2015 versus \$72.1 million used in investing activities in the prior year. For fiscal year 2015, \$22.3 million in investment income was received through interest earnings and realized gains. Short-term and long-term investments in the portfolio increased \$165.7 million during fiscal year 2015.

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 67.3% 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.

	2015	2014	2013
Medicare	52.1%	51.5%	51.2%
Medicaid	15.2%	15.5%	16.2%
Commercial	23.2%	22.8%	22.2%
Other	9.5%	10.2%	10.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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Management's Discussion and Analysis (Unaudited)

September 30, 2015 and 2014

Capital Assets

At September 30, 2015, the System had \$770.6 million in net capital assets. (A breakdown of these assets can be found in Note 7 to the consolidated basic financial statements.) This represents an increase of \$56.4 million. At September 30, 2014, the System had \$714.3 million in net capital assets which represents an increase of \$19.1 million from September 30, 2013.

The System expects to make total capital expenditures of \$211.0 million in fiscal year 2016. Of this amount, an estimated \$88.1 million is expected to be spent on the construction of Golisano Children's Hospital of Southwest Florida to be funded by philanthropic sources. Mr. B. Thomas Golisano has issued a \$20.0 million matching gift for the construction of the Children's Hospital. The hospital has been renamed Golisano Children's Hospital of Southwest Florida in his honor. 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, 2015 the System had \$714.5 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 9 and Note 10 to the consolidated basic financial statements. One-hundred percent (100%) of the System's bonds outstanding have fixed interest rates. As of September 30, 2014, the System had \$691.2 million in debt (bonds, notes, etc.) outstanding. Ninety-five percent (95%) of the System's bonds outstanding at September 30, 2014 have fixed interest rates while 5% are variable. All of the fixed rate bonds are insured with the exception of the 2007 Series A Bonds and 2010 Series A Bonds. The 2005 Series A Bonds are insured by National Public Financial Guarantee Corporation, formerly MBIA, and carry an A2 rating as of September 30, 2013 and an A2 rating as of September 30, 2014. The remaining bonds are variable rate bonds and carry an Aa1/A+ rating from Moody's and S&P, respectively.

Community Benefits

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

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

The analysis of the community benefit reveals that the System's financial benefit of its tax exempt status was approximately \$65.2 million for fiscal year 2015, \$56.7 million for fiscal year 2014 and \$54.9 million for fiscal year 2013. 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.

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The System estimates the benefits of the services provided to the community exceeded \$292.7 million in fiscal year 2015, \$288.9 million in fiscal year 2014 and \$311.8 million in fiscal year 2013. This community benefit consists of charity care provided to patients whom might not have access to health care; low income services that are provided at less than cost (e.g., Medicaid); necessary services that are provided at a loss such as Trauma services and other 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 as follows:

<i>(in thousands of dollars)</i>	2015	2014	2013
Cost of charity care for low income patients	\$ 45,387	\$ 46,929	\$ 47,938
Cost of community outreach and educational programs and one-of-a-kind medical services	49,860	35,207	23,805
Cost of unpaid Medicaid services	44,149	50,982	61,967
Cost of unpaid Medicare and other government programs	153,270	155,808	178,045
	<u>\$ 292,666</u>	<u>\$ 288,926</u>	<u>\$ 311,755</u>

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



Report of Independent Certified Public Accountants

To the Board of Directors of
Lee Memorial Health System

We have audited the accompanying consolidated basic financial statements of Lee Memorial Health System (the "System") as of and for the years ended September 30, 2015 and 2014, and the related notes to the consolidated basic financial statements, which collectively comprise the consolidated basic statements of net position, and the related consolidated basic statements of operations and changes in net position and the consolidated basic statements of cash flows.

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.

Independent Certified Public Accountants' 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. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the consolidated basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated basic financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated basic financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the System's preparation and fair presentation of the consolidated basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated basic financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated basic financial statements referred to above present fairly, in all material respects, the respective financial position of Lee Memorial Health System at September 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 2 to the consolidated basic financial statements, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, effective October 1, 2013. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the consolidated basic financial statements, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

The accompanying Management's Discussion and Analysis ("MD&A") (Unaudited) for the years ended September 30, 2015 and 2014 on pages 1 through 7, the Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited), and the Schedule of Employer Contributions (Unaudited) on pages 47 and 48, respectively, are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the GASB 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated basic financial statements. The consolidating information on pages 50 through 55 is presented for purposes of additional analysis and is not a required part of the consolidated basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated basic financial statements or to the consolidated basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated basic financial statements taken as a whole.

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

January 28, 2016

Lee Memorial Health System
Consolidated Basic Statements of Net Position
September 30, 2015 and 2014

(in thousands of dollars)

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 57,560	\$ 55,889
Short-term investments	854,561	726,815
Assets whose use is restricted	8,042	9,352
Patient accounts receivable, net of allowance for estimated uncollectibles of \$59,121 in 2015 and \$59,554 in 2014	167,900	161,152
Inventories	30,361	31,903
Other current assets	34,498	33,430
Total current assets	<u>1,152,922</u>	<u>1,018,541</u>
Noncurrent assets		
Assets whose use is restricted	29,652	41,515
Capital assets, net	770,647	714,281
Other assets, net	32,085	138,266
Total assets	<u>1,985,306</u>	<u>1,912,603</u>
Deferred outflows of resources		
Deferred loss on debt refunding	6,366	7,265
Excess consideration provided for acquisition	105,290	-
Total deferred outflows of resources	<u>111,656</u>	<u>7,265</u>
Liabilities		
Current liabilities		
Accounts payable	62,946	56,038
Current installments of long-term debt	33,877	28,450
Accrued expenses		
Employee compensation	27,590	23,507
Interest	8,816	9,720
Other	36,291	34,515
Estimated third-party settlements	43,050	15,714
Total current liabilities	<u>212,570</u>	<u>167,944</u>
Noncurrent liabilities		
Long-term debt, excluding current installments	680,578	662,787
Other liabilities	83,056	77,189
Total liabilities	<u>976,204</u>	<u>907,920</u>
Deferred inflows of resources		
Deferred inflows on pension	5,584	3,854
Total deferred inflows of resources	<u>5,584</u>	<u>3,854</u>
Commitments and contingencies		
Net position		
Restricted for		
Nonexpendable	5,887	5,707
Expendable	71,776	73,963
Net investment in capital assets	56,193	23,042
Unrestricted	981,318	905,382
Total net position, as restated as of September 30, 2014	<u>\$ 1,115,174</u>	<u>\$ 1,008,094</u>

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

Lee Memorial Health System
Consolidated Basic Statements of Operations and Changes in Net Position
Years Ended September 30, 2015 and 2014

(in thousands of dollars)

	2015	2014
Operating revenues		
Net patient service revenue, net of provision for doubtful accounts of \$190,730 in 2015 and \$172,679 in 2014	\$ 1,430,674	\$ 1,319,644
Other revenue	66,869	44,141
Total operating revenues	<u>1,497,543</u>	<u>1,363,785</u>
Operating expenses		
Salaries, wages and benefits	771,960	700,669
Supplies and other services	378,693	337,034
Purchased services	140,323	127,305
Depreciation and amortization	79,116	73,809
Total operating expenses	<u>1,370,092</u>	<u>1,238,817</u>
Operating income	<u>127,451</u>	<u>124,968</u>
Nonoperating items		
Interest expense	(23,961)	(26,441)
Investment (loss) income, including realized and unrealized gains on investments	(16,735)	43,562
Unrealized gain on swap valuation	-	920
Contributions and grants	(1,742)	9,190
Investment activity on restricted nonexpendable investments	(265)	(19)
Loss on sale of capital assets	(819)	(160)
Other	23,151	3,592
Total nonoperating (loss) gain	<u>(20,371)</u>	<u>30,644</u>
Increase in net position	107,080	155,612
Net position		
Beginning of year, as restated as of October 1, 2013	1,008,094	852,482
End of year, as restated as of September 30, 2014	<u>\$ 1,115,174</u>	<u>\$ 1,008,094</u>

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

Lee Memorial Health System
Consolidated Basic Statements of Cash Flows
Years Ended September 30, 2015 and 2014

(in thousands of dollars)

	2015	2014
Cash flows from operating activities		
Received from patient care services	\$ 1,450,269	\$ 1,337,591
Salaries and benefits paid to employees	(766,930)	(713,466)
Payments to suppliers	(509,088)	(442,367)
Other receipts from operations	66,537	43,487
Net cash provided by operating activities	<u>240,788</u>	<u>225,245</u>
Cash flows from noncapital financing activities		
Restricted gifts received (noncapital related)	959	4,661
Miscellaneous nonoperating items	33,920	1,138
Net cash provided by noncapital financing activities	<u>34,879</u>	<u>5,799</u>
Cash flows from capital and related financing activities		
Proceeds from long-term borrowings	121,061	-
Purchases of capital assets	(128,687)	(91,801)
Proceeds from sale of capital assets	74	20
Interest payments	(26,566)	(27,984)
Repayment of long-term debt	(98,054)	(28,380)
Restricted gifts received (capital related)	2,237	6,963
Net cash used in capital and related financing activities	<u>(129,935)</u>	<u>(141,182)</u>
Cash flows from investing activities		
Investment income received	22,347	9,893
Increase in investments	(165,678)	(80,926)
Joint venture funding and activity	(730)	(1,025)
Net cash used in investing activities	<u>(144,061)</u>	<u>(72,058)</u>
Increase in cash and cash equivalents	1,671	17,804
Cash and cash equivalents		
Beginning of year	<u>55,889</u>	<u>38,085</u>
End of year	<u>\$ 57,560</u>	<u>\$ 55,889</u>
Disclosure of supplemental cash flow information		
Capital assets financed through capital lease obligations	\$ 1,725	\$ 4,815

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, 2015 and 2014

(in thousands of dollars)

	2015	2014
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 127,451	\$ 127,052
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	79,116	73,809
Provision for bad debts	190,730	172,679
Changes in		
Patient accounts receivable	(198,471)	(158,412)
Inventories	1,541	(1,193)
Other assets	(5,551)	2,465
Accounts payable	6,908	6,638
Accrued expenses	5,862	(12,789)
Estimated third-party settlements	27,336	3,680
Other liabilities	5,866	11,316
Net cash provided by operating activities	<u>\$ 240,788</u>	<u>\$ 225,245</u>

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

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

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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 (collectively referred to as the "Hospital"). The System includes other healthcare facilities and services, which include a home health agency, a nursing home, outpatient treatment and diagnostic centers, physicians' offices, and a rehabilitation hospital. The System operates in Lee County, Florida.

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

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

- Cape Coral Hospital is managed through a not-for-profit organization, Cape Memorial Hospital, Inc. ("Cape Coral Hospital"). This corporation was created by the System's Board of Directors to receive and hold the assets purchased from Cape Coral Medical Center, Inc. ("CCMC") on July 1, 1996, upon acquisition of Cape Coral Hospital. Its Board of Directors consists of the ten members of the System's Board of Directors and this is presented as a blended component unit of the System (Note 14).
- 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.

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- 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.
- Since 2011, the System’s primary care practice known as Lee Physician Group has been responsible for providing medical services to the uninsured and low-income residents of Dunbar, Cape Coral and North Fort Myers from their medical offices located in the heart of each community. In August 2013, Lee Community Healthcare, Inc. (“LCH”) was incorporated as a not-for-profit, primary health care provider and has been conducting monthly board meetings in compliance with the Health Resources and Services Administration’s requirements with the intention of becoming a federally qualified health center look-alike (“FQHC-LAL”). The LCH Board of Directors and their executive director are working closely with the leadership of the System through a Management Committee structure in order to best utilize the physical, operational, financial and human resources currently provided by the System at the Dunbar, Cape Coral and North Fort Myers sites. The primary goals of LCH are to provide primary care services that enhance patient access to care, improve overall patient health, increase patient management of their chronic illnesses, and reduce the inappropriate use of local emergency rooms.

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.

Use of Estimates

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

Cash and Cash Equivalents

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

Inventories

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

Lee Memorial Health System

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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 5). The current portion of assets whose use is restricted relates to the corresponding estimated current obligations.

Capital Assets

Capital assets have been recorded at historical cost or fair market value at date of purchase or donation, respectively. Equipment under capital leases is stated at the present value of minimum lease payments at the inception of the lease. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity or extend the useful life of an asset are capitalized. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Major asset classifications and estimated useful lives are generally in accordance with those recommended by the American Hospital Association. The straight-line method of computing depreciation is used for all depreciable assets. Equipment under capital leases is amortized under the straight-line method over the shorter of the lease term or estimated useful life of the asset as summarized below:

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

Impairment of Long-Lived Assets

Long-lived assets are evaluated for recoverability whenever adverse events or changes in business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. For the years ended September 30, 2015 and 2014, the System does not believe there were any adverse events or changes in business that would indicate that an impairment reserve is required.

Bond 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

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

Lee Memorial Health System

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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, 2015 and 2014 consisted of foregone revenues of approximately \$199.4 million and \$195.1 million, respectively.

Investments and Investment Income

Investment securities held by the System, including investments in companies that are deemed to be external investment pools as addressed in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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 operations and changes in net position.

At September 30, 2015 and 2014, the System's investments in companies deemed to be external investment pools and the approximate ownership interest in each company were as follows:

	2015	2014
SEI Core Property Fund, LP	1.49%	1.78%
SEI Special Situations Fund, Ltd.	4.53%	4.60%
SEI Offshore Opportunity Fund, Ltd. (held by the Foundation)	0.00%	1.07%
SEI Core Property Fund, LP (held by the Foundation)	0.04%	0.03%

Joint Ventures

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

Risk Management

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

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

Self-Insurance Programs

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

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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 operations 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 for future use.

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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 \$20.0 million and \$32.7 million as of September 30, 2015 and 2014, respectively. These deposits are in excess of the federal insured amount of \$250,000. However, the System is a Qualified Public Depositor with the State of Florida. As such, deposits at Qualified Public Depositories are insured at the full amount on deposit. Management does not anticipate nonperformance risk by the financial institutions. The System's short-term investments and assets whose use is restricted are primarily invested in commercial paper and money market funds, U.S. Government agencies, mutual funds, and external investment pools.

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:

	2015	2014
Medicare	34%	33%
Medicaid	13%	15%
Managed care	22%	20%
Commercial insurance	7%	6%
Self-pay and other	24%	26%
	100%	100%

Fair Value of Financial Instruments

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

The carrying amount of the Hospital Revenue Bonds issued at rates which vary with the market approximates the fair value of these instruments, as their interest rates approximate the rates available to the System for debt of similar types and maturities. The carrying value of the System's long-term debt was approximately \$603.5 million and \$593.1 million at September 30, 2015 and 2014, respectively. The fair value of the System's long-term debt was approximately \$623.9 million and \$584.3 million at September 30, 2015 and 2014, respectively.

Goodwill

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69"), effective for financial reporting periods beginning after December 15, 2013. GASB No. 69 establishes standards for accounting and financial reporting of government combinations and disposals of government operations. Government combinations include mergers, acquisitions and transfers of operations of government or nongovernment entities to a continuing government. GASB No. 69 includes guidance for measuring the assets and liabilities that are acquired in a combination, either with or without consideration. The System's adoption of this standard resulted in the recognition of approximately \$3.0 million in goodwill amortization expense for fiscal year 2015. This amount is included in the line item titled "Depreciation and amortization", within the consolidated basic statement of operations and changes in net position for the year ended September 30, 2015 and unamortized goodwill is reflected in the deferred outflows of resources line item titled "Excess consideration provided for acquisition" at September 30, 2015. For years ended prior to September 30, 2015, unamortized

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goodwill is reflected in the “Other assets, net” line item. Prior to the fiscal year 2015 adoption of GASB No. 69, business combinations were accounted for under the purchase accounting method; the cost of an acquired company was assigned to the tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values of assets and liabilities acquired required the System to make estimates and use valuation techniques when market value was not readily available. Any excess of purchase price over the fair value of the tangible and intangible assets acquired was allocated to goodwill at year-end. The table below depicts the goodwill balance, annual amortization, and the amortization period at the entity level and the System total as follows:

(in thousands of dollars)

	2015	Annual Amortization	Amortization Period (in years)
Lee Memorial Hospital	\$ 1,409	\$ 74	20
Gulf Coast Medical Center	94,638	2,427	40
Cape Coral Hospital	9,243	486	20
Total	<u>\$ 105,290</u>	<u>\$ 2,987</u>	

Accounting Pronouncements

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application* (“GASB No. 72”). GASB No. 72 addresses the definition of fair value, determining a fair value measurement for financial reporting purposes, and provides guidance for applying fair value to certain investments and disclosures related to fair value measurements. GASB No. 72 is effective for fiscal years beginning after June 15, 2015. The System is currently evaluating the impact GASB No. 72 will have on its consolidated basic financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (“GASB No. 73”). GASB No. 73 establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of GASB No. 68. The requirements of GASB No. 73 extend the approach to accounting and financial reporting established in GASB No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in GASB No. 68 should not be considered pension plan assets. GASB No. 73 also clarifies the application of certain provisions of GASB No. 68. The provisions of GASB No. 73 that address accounting and financial reporting by employers for pensions that are not within the scope of GASB No. 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of GASB No. 73 that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of GASB No. 73 for pensions that are within the scope of GASB No. 68 are effective for fiscal years beginning after June 15, 2015. The System is currently evaluating the impact GASB No. 73 will have on its consolidated basic financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (“GASB No. 75”). GASB No. 75 addresses accounting and financial reporting for other postemployment plans that are provided to the employees of state and local governmental employers. This Statement establishes standards for

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recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. GASB No. 75 is effective for fiscal years beginning after June 15, 2017. The System is currently evaluating the impact GASB No. 75 will have on its consolidated basic financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB No. 76"). GASB No. 76 identifies the hierarchy of generally accepted accounting principles. The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB No. 76 is effective for fiscal years beginning after June 15, 2015. The System is currently evaluating the impact GASB No. 76 will have on its consolidated basic financial statements.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform with the 2015 presentation. The reclassifications did not have an impact on net position or the increase in net position.

2. Restatement of Prior Year Consolidated Basic Financial Statements

During 2015, the System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* ("GASB No. 68"). The System also adopted GASB Statement No. 71, *Pension Transition for Contributions made subsequent to the Measurement Date-an amendment of GASB Statement No. 68*. GASB No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pensions, GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. In addition, GASB No. 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. To the extent practical, GASB No. 68 requires retrospective adoption, which results in restatement of all prior periods presented.

The effect of adopting GASB No. 68 as of October 1, 2013 was as follows:

(in thousands of dollars)

Net position at September 30, 2013 (as previously reported)	\$ 854,252
Increase in net pension liability	<u>(1,770)</u>
Change in net position	<u>(1,770)</u>
Net position at September 30, 2013 (as restated)	<u>\$ 852,482</u>

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The impact of adopting GASB No. 68 on the previously reported excess of revenues over expenses before transfers, capital contributions and other changes in net position for the year ended September 30, 2014 was a decrease in expense of approximately \$2.1 million ("Fiscal 2014 Impact"). Management considers this amount to be immaterial and accordingly, has reflected the Fiscal 2014 Impact in the accompanying consolidated basic statements of operations and changes in net position for the year ended September 30, 2015.

3. Third-Party Payors

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

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

Medicare

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

The System's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2011. 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, 2009. 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. This new payment methodology for inpatient services will not be subject to retrospective rate adjustments based on the cost report as was the case under the former cost based per diem methodology. Medicaid hospital outpatient payments continue to be cost based and are paid on a per revenue line item basis and are subject to retrospective rate adjustments based on adjustments to computed outpatient cost determined from the audited Medicaid cost report.

The Medicaid interim rates for outpatient claims through September 30, 2015 were based on the unaudited cost reports for 2014 and 2013. The rates used in 2014 were based on the unaudited cost reports for 2013 and 2012.

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.

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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.

4. Net Patient Service Revenue

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

<i>(in thousands of dollars)</i>	2015	2014
Gross patient service revenue	\$ 6,222,558	\$ 5,516,679
Third-party payor and other contractual adjustments	(4,601,154)	(4,024,356)
Provision for doubtful accounts	<u>(190,730)</u>	<u>(172,679)</u>
Net patient service revenue	<u>\$ 1,430,674</u>	<u>\$ 1,319,644</u>

5. Assets Whose Use Is Restricted

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

<i>(in thousands of dollars)</i>	2015	2014
Held by trustee under bond indenture agreements	\$ 7,719	\$ 8,966
Held by Board for future use	323	386
Held in trust for other uses	1,038	1,274
Designated to donors for specific purposes	<u>28,614</u>	<u>40,241</u>
Total assets whose use is restricted	37,694	50,867
Less: Amounts required to meet current obligations	<u>(8,042)</u>	<u>(9,352)</u>
Assets whose use is restricted, net of amounts required to meet current obligations	<u>\$ 29,652</u>	<u>\$ 41,515</u>

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

6. Investments

Investments primarily consist of money market funds, short-term investments, other investments, and assets whose use is restricted under bond indenture agreements and by the Board for future use.

Investments are carried at fair value. Interest, dividends, and gains and losses on investments, both realized and unrealized, are included in nonoperating revenues when earned.

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The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments held by the System include hedge funds. The System classifies its alternative investments in the accompanying consolidated basic statements of net position as short-term investments except for alternative investments held by the Foundation which are classified as assets whose use is restricted. The estimated fair value of the hedge funds is based on valuations provided by the respective funds. The System reviews and evaluates the values provided by the funds and agrees with the valuation methods and assumptions used in determining the fair value of the hedge fund investments. As of September 30, 2015 and 2014, these investments in hedge funds made up approximately 7.0% and 7.6%, respectively, of total investments in the accompanying consolidated basic statements of net position. Because hedge funds are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying consolidated basic statements of operations and changes in net position in the period such fluctuations occur.

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, 2015 and 2014, 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, external investment pools, 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.

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

- 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, 2015 is as follows:

(in thousands of dollars)

	Investment Maturities for 2015					
	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	\$ 22,688	\$ 18,569	\$ 3,392	\$ -	\$ -	\$ 727
U.S. Government agencies	7,719	-	-	-	-	7,719
Mutual funds	798,996	-	-	-	-	798,996
External investment pools	62,852	-	-	-	-	62,852
	<u>\$ 892,255</u>	<u>\$ 18,569</u>	<u>\$ 3,392</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 870,294</u>

The distribution of the System's short-term investments and assets whose use is restricted by maturity as of September 30, 2014 is as follows:

(in thousands of dollars)

	Investment Maturities for 2014					
	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	\$ 34,534	\$ 15,932	\$ 5,920	\$ -	\$ -	\$ 12,682
U.S. Government agencies	8,966	-	-	-	-	8,966
Mutual funds	675,006	-	-	-	-	675,006
External investment pools	59,176	-	-	-	-	59,176
	<u>\$ 777,682</u>	<u>\$ 15,932</u>	<u>\$ 5,920</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 755,830</u>

During the years ended September 30, 2015 and 2014, the System recorded net realized gain of approximately \$0.1 million and \$5.6 million, respectively, from the sale of investments. The calculations of realized gains and losses are independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net decrease in the fair value of investments for the year ended September 30, 2015 was approximately \$40.0 million compared to a net increase in the fair value of investments of \$33.8 million for the year ended September 30, 2014. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year. The total unrealized gain on investments held at September 30, 2015 and 2014 was approximately \$11.2 million and \$51.2 million, respectively.

Lee Memorial Health System
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7. Capital Assets

Capital asset additions, retirements and balances for the years ended September 30, 2015 and 2014 were as follows:

<i>(in thousands of dollars)</i>	Balance at September 30, 2014	Additions and Transfers	Retirements and Transfers	Balance at September 30, 2015
Land	\$ 113,126	\$ 1,572	\$ -	\$ 114,698
Buildings and improvements	541,694	9,368	(1,485)	549,577
Equipment	806,600	66,496	(14,379)	858,717
Totals at historical cost	<u>1,461,420</u>	<u>77,436</u>	<u>(15,864)</u>	<u>1,522,992</u>
Less: Accumulated depreciation for				
Buildings and improvements	(359,895)	(25,679)	705	(384,869)
Equipment	<u>(441,325)</u>	<u>(49,829)</u>	<u>14,267</u>	<u>(476,887)</u>
	<u>(801,220)</u>	<u>(75,508)</u>	<u>14,972</u>	<u>(861,756)</u>
Construction-in-progress	<u>54,081</u>	<u>113,322</u>	<u>(57,992)</u>	<u>109,411</u>
Capital assets, net	<u>\$ 714,281</u>	<u>\$ 115,250</u>	<u>\$ (58,884)</u>	<u>\$ 770,647</u>

<i>(in thousands of dollars)</i>	Balance at September 30, 2013	Additions and Transfers	Retirements and Transfers	Balance at September 30, 2014
Land	\$ 109,849	\$ 3,277	\$ -	\$ 113,126
Buildings and improvements	520,868	20,855	(29)	541,694
Equipment	777,187	42,607	(13,194)	806,600
Totals at historical cost	<u>1,407,904</u>	<u>66,739</u>	<u>(13,223)</u>	<u>1,461,420</u>
Less: Accumulated depreciation for				
Buildings and improvements	(336,582)	(23,362)	49	(359,895)
Equipment	<u>(404,055)</u>	<u>(50,461)</u>	<u>13,191</u>	<u>(441,325)</u>
	<u>(740,637)</u>	<u>(73,823)</u>	<u>13,240</u>	<u>(801,220)</u>
Construction-in-progress	<u>27,943</u>	<u>89,436</u>	<u>(63,298)</u>	<u>54,081</u>
Capital assets, net	<u>\$ 695,210</u>	<u>\$ 82,352</u>	<u>\$ (63,281)</u>	<u>\$ 714,281</u>

Construction-in-progress ("CIP") at September 30, 2015 consists primarily of expenditures for computer equipment, surgical equipment and building renovations and improvements. There were numerous projects underway at September 30, 2015, 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. As of September 30, 2015, estimated costs to complete the projects were \$94.8 million, excluding the construction of Golisano Children's Hospital, which has expected costs to complete of approximately \$148.8 million, with a goal of \$100.0 million funded by donations. For the years ended September 30, 2015 and 2014, the System capitalized interest of approximately \$2.4 million and \$0.9 million, respectively.

Depreciation expense was approximately \$75.5 million and \$73.6 million for the years ended September 30, 2015 and 2014, respectively.

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Refer to Note 9, Long-Term Debt, for discussion of CB Medical South, LLC and CB Medical North, LLC.

In December 2007, the System entered into a building lease with BK Equities, LLC, whereby BK Equities is leasing real property to the System. The status of the property at the effective date of the lease was a cold “shell” building which required tenant improvements. Under the lease agreement, the System was responsible for overruns in excess of the tenant improvement allowances for upgrades and building structural elements that are not considered “normal tenant improvements.” As a result, in accordance with lease guidance addressing the effect of lessee involvement in asset construction, the System is considered the owner of the medical office building (“Plantation Sleep Center”). Accordingly, the value of the Plantation Sleep Center building, long-term debt and current debt used to finance the construction cost paid by the developer are included in the consolidated basic financial statements. At September 30, 2015, the value included in the capital assets net of accumulated depreciation amounted to approximately \$2.5 million, the related long-term debt amounted to approximately \$2.5 million and the current portion of debt amounted to approximately \$0.1 million. At September 30, 2014, the value included in the capital assets net of accumulated depreciation amounted to approximately \$2.5 million, the related long-term debt amounted to approximately \$2.7 million and the current portion of debt amounted to approximately \$0.1 million.

8. Other Assets

Other assets as of September 30 consist of the following:

<i>(in thousands of dollars)</i>	2015	2014
Bond insurance	\$ -	\$ 1,324
Accumulated amortization	-	(688)
Bond insurance, net	<u>-</u>	<u>636</u>
Long-term receivables	23,851	23,943
Allowance for doubtful accounts	<u>(14,340)</u>	<u>(15,429)</u>
Long-term accounts receivable, net	<u>9,511</u>	<u>8,514</u>
Goodwill	-	108,523
Deposits and other	5,669	5,832
Investments in joint ventures	16,905	14,761
Other assets, net	<u>\$ 32,085</u>	<u>\$ 138,266</u>

Long-term receivables relate to medical charges for patients who have been identified as parties to litigation. Collections, which are pending determination by negotiation or legal proceedings, accordingly are classified as noncurrent. The allowance for doubtful accounts is based on the expected collectability of these receivables.

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9. Long-Term Debt

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

<i>(in thousands of dollars)</i>	2015	2014
2015 BAPCC Loan, payable in variable monthly installments beginning October 2015 through September 2025.	\$ 50,000	\$ -
2015 Bank of America Loan, payable in variable annual installments beginning April 2016 through April 2024.	50,850	-
2014 JP Morgan Chase Loan, payable in variable annual installments beginning April 2015 through April 2033.	17,510	-
2013 BAPCC Loan, payable in variable monthly installments beginning July 2013 through June 2020.	34,527	41,472
2012 BAPCC Loan, payable in variable annual installments beginning April 2013 through April 2029.	43,980	46,715
2012 JP Morgan Chase Loan, payable in variable annual installments beginning April 2013 through April 2020.	12,750	14,960
2011 Bank of America Loan ("2011 BofA Loan"), payable in variable annual installments beginning April 2012 through April 2033.	97,691	102,891
2010 Bank Qualified Loan ("2010 BofA Loan"), payable in variable annual installments beginning April 2011 through April 2020.	16,470	19,825
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
Variable Rate Hospital Revenue Bonds, 2009 Series C ("2009 Series C Bonds"), redeemed and refinanced in October 2014 with 2014 JP Morgan Loan.	-	18,445
Hospital Revenue Bonds, 2007 Series A ("2007 Series A Bonds"), payable in variable annual installments beginning April 2009 through April 2037. Net of unamortized premium of approximately \$6,846 and \$7,164 in 2015 and 2014, respectively.	272,911	274,229
Hospital Revenue Refunding Bonds, 2005 Series A ("2005 Series A Bonds"), redeemed and refinanced with 2015 Bank of America Loan in July 2015. Net of unamortized premium of \$942 in 2014.	-	52,402
Notes payable and capital leases	<u>75,766</u>	<u>78,298</u>
	714,455	691,237
Less: Current installments	<u>(33,877)</u>	<u>(28,450)</u>
	<u>\$ 680,578</u>	<u>\$ 662,787</u>

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Long-term debt activity for the years ended September 30, 2015 and 2014 were as follows:

(in thousands of dollars)

	Balance			Balance	Amounts
	September 30,	Additions	Reductions	September 30,	Due Within
	2014			2015	One Year
2015 BAPCC Loan	\$ -	\$ 50,000	\$ -	\$ 50,000	\$ 4,570
2015 BofA Loan	-	50,850	-	50,850	465
2014 JP Morgan Chase Loan	-	18,445	(935)	17,510	1,050
2013 BAPCC Loan	41,472	-	(6,945)	34,527	7,055
2012 BAPCC Loan	46,715	-	(2,735)	43,980	2,790
2012 JP Morgan Chase Loan	14,960	-	(2,210)	12,750	2,295
2011 BofA Loan	102,891	-	(5,200)	97,691	5,850
2010 BQ Loan	19,825	-	(3,355)	16,470	3,205
2010 Series A Bonds	42,000	-	-	42,000	-
2009 Series C Bonds	18,445	-	(18,445)	-	-
2007 Series A Bonds	274,229	-	(1,318)	272,911	1,100
2005 Series A Bonds	52,402	-	(52,402)	-	-
Other	78,298	3,491	(6,023)	75,766	5,497
Total long-term debt	<u>\$ 691,237</u>	<u>\$ 122,786</u>	<u>\$ (99,568)</u>	<u>\$ 714,455</u>	<u>\$ 33,877</u>

(in thousands of dollars)

	Balance			Balance	Amounts
	September 30,	Additions	Reductions	September 30,	Due Within
	2013			2014	One Year
2013 BAPCC Loan	\$ 48,308	\$ -	\$ (6,836)	\$ 41,472	\$ 6,344
2012 BAPCC Loan	49,395	-	(2,680)	46,715	2,735
2012 JP Morgan Chase Loan	20,610	-	(5,650)	14,960	2,210
2011 BofA Loan	107,106	-	(4,215)	102,891	5,200
2010 BQ Loan	20,255	-	(430)	19,825	3,355
2010 Series A Bonds	42,000	-	-	42,000	-
2009 Series C Bonds	19,200	-	(755)	18,445	935
2007 Series A Bonds	275,575	-	(1,345)	274,229	1,070
2005 Series A Bonds	53,271	-	(869)	52,402	610
Other	79,730	4,815	(6,247)	78,298	5,991
Total long-term debt	<u>\$ 715,450</u>	<u>\$ 4,815</u>	<u>\$ (29,027)</u>	<u>\$ 691,237</u>	<u>\$ 28,450</u>

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Maturities under the long-term debt agreements, including interest, previously described are as follows:

(in thousands of dollars)

Years Ending September 30,	Total	Principal	Interest
2016	\$ 59,124	\$ 33,877	\$ 25,247
2017	57,339	32,312	25,027
2018	57,475	32,995	24,480
2019	57,474	33,738	23,736
2020	55,801	32,759	23,042
2021-2025	255,285	150,820	104,465
2026-2030	224,343	147,657	76,686
2031-2035	209,762	166,630	43,132
2036-2040	80,151	74,585	5,566
	<u>\$ 1,056,754</u>	<u>\$ 705,373</u>	<u>\$ 351,381</u>

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

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.

On June 26, 2014, the System's Board of Directors approved the refunding and refinancing of the 2009 Series C Bonds with the 2014 JP Morgan Bank Loan in the amount of \$18.445 million. This transaction closed October 8, 2014. Principal payments of the 2014 JP Morgan Bank Loan are paid annually in April while the interest payments are paid semi-annually in October and April. Interest payments are variable based on 67% of LIBOR plus 73 basis points. The 2014 JP Morgan Bank Loan is set to mature in April 2033.

Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$1.96 million for the year ended September 30, 2015, the System was able to eliminate the need of the letter of credit securing the 2009 Series C Bonds and reduce the interest rate. Issuance costs were paid with internal funds.

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

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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 \$50.275 million. The 2012 BAPCC Loan bears a variable interest rate of 67% of LIBOR plus 95 basis points (0.95%) and matures in April 2029. Issuance costs were paid with internal funds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$100,000. Although the current refunding resulted in the recognition of an accounting loss of approximately \$100,000, the System obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$5.7 million.

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 ("2012 Bank Loan") in the amount of \$25.9 million. The 2012 Bank Loan bears a fixed interest rate of 1.92% and matures in April 2020. Issuance costs were paid with internal funds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$2.2 million. Although the current refunding resulted in the recognition of an accounting loss of approximately \$2.2 million, the System obtained an economic gain of approximately \$2.9 million.

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 ("2011 Bank Loan") in the amount of approximately \$111.5 million. The 2011 Bank Loan bears a variable interest rate of 65.1% of LIBOR plus 68 basis points and matures in April 2033. Issuance costs were paid with internal funds. This loan also terminated the line of credit ("LOC") that was in place for the 2009 Series A and 2009 Series B Bonds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$0.9 million. Although the current refunding resulted in the recognition of an accounting loss of \$0.9 million, the System obtained an economic gain of approximately \$8.7 million.

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 ("2010 Bank Loan") in the amount of \$30.0 million. The 2010 Bank Loan bears a fixed interest rate of 2.794%, and matures in April 2020. The transaction was completed on December 22, 2010. Issuance costs were paid with internal funds. Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$2.2 million, the System in effect reduced its aggregate debt service payments by approximately \$3.2 million and obtained an economic gain of approximately \$2.9 million.

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 33% interest paid rebate from the IRS which becomes an effective rate of 4.73%.

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In February 2009, the System issued Hospital Revenue Bonds, 2009 Series A, Series B, Series C, Series D and a loan from Compass Mortgage Corporation ("Compass Loan") in the amounts of approximately \$58.4 million, \$53.1 million, \$20.0 million, \$41.1 million, and \$60.0 million, respectively. The proceeds of the 2009 Series A and B Bonds were used to refund approximately \$20.2 million of the 1995 Series A Bonds and the Bank of America, N.A. approximately \$52.8 million bank loan used to purchase the 2003 Series A Bonds during 2008 as well as finance or reimburse a portion of the costs of acquisition, equipping and construction of the System's healthcare facilities. The proceeds of the 2009 Series C Bonds were used to refund approximately \$19.9 million of the 1995 Series A Bonds. The proceeds of the 2009 Series D Bonds were used to refund approximately \$40.7 million of the 1997 Series B Bonds. The refunded bonds are considered to be defeased and the liability for these bonds was removed from the System's consolidated basic financial statements. The 2009 Series Bonds were issued as variable rate bonds with interest payable monthly. The Series 2009A and 2009B Bonds have been fully refunded by the 2011 Bank Loan. The proceeds of the loan from Compass Mortgage Corporation were used to refund approximately \$20.8 million of the 1997 Series B Bonds and to finance capital projects. Interest is variable at 65% of LIBOR plus a margin of 1.3%, dependent upon the System's rating being higher than BBB+/Baa1, by S&P and Moody's, respectively, as well as 20% of the principal balance held in deposits at Compass Bank. Margin is variable based on the System's rating and the System's Compass Bank deposits. Principal and interest payments are payable monthly. As of February 1, 2009, a letter of credit was issued to cover all variable rate bonds. The System is required to pay an annual facility fee equal to 0.8% of the available amount under the letter of credit. In October 2014, the 2009 Series C Bonds were fully refunded with the 2014 JP Morgan Bank Loan resulting in the closing of the Letter of Credit. As of September 30, 2015 and 2014, there were no bonds that were tendered by the remarketing agent.

The Plantation Sleep Center lease allows for acceleration of rent upon a lessee default without terminating the lessee's right of possession. This is viewed as a contingent form of collateral which is a form of continuing involvement that would preclude sale-leaseback accounting under this guidance. According to lease guidance addressing sale-leaseback transactions involving real estate, the System has accounted for the debt obligations in its consolidated basic financial statements. At September 30, 2015, for the Plantation Sleep Center the effective interest rate was 9.0%, the long-term debt amounted to approximately \$2.5 million and the related current portion of debt amounted to approximately \$0.1 million. At September 30, 2014, for the Plantation Sleep Center the effective interest rate was 9.0%, the long-term debt amounted to approximately \$2.7 million and the related current portion of debt amounted to approximately \$0.1 million.

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%.

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In September 2005, the System entered into a ground lease with CB Medical South, LLC and a ground lease with CB Medical North, LLC (collectively, "the Lessors"), whereby CB Medical South and CB Medical North 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, 2015 and 2014, the value included in capital assets, net of accumulated depreciation, amounted to approximately \$25.0 million and \$24.1 million, respectively, for the Sanctuary Regional Cancer Center, and the related long-term debt amounted to approximately \$25.1 million and \$25.9 million, respectively. At September 30, 2015 and 2014, the value included in capital assets, net of accumulated depreciation, amounted to approximately \$28.7 million and \$28.9 million, respectively, for the Sanctuary Outpatient Center, and the related long-term debt amounted to approximately \$33.4 million and \$34.4 million, respectively.

In August 2005, the System issued \$62.0 million in Hospital Revenue Refunding Bonds, 2005 Series A. The bonds were issued as fixed-rate bonds with interest payable semiannually on April 1 and October 1 of each year. The proceeds of these bonds were used to advance refund approximately \$58.0 million of the 1997 Series A Hospital Revenue Bonds. The refunded portion of the 1997 Series A Bonds is considered to be defeased and the liability for these bonds was removed from the System's consolidated basic financial statements. At the time of issuance, the 2005 Series A Bonds are comprised of approximately \$12.5 million of serial bonds bearing interest at a rate ranging from 3.0% to 4.125% as the bonds mature, and approximately \$49.5 million in term bonds bearing interest at 4.25 to 5.0%.

Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$4.5 million for the year ended September 30, 2005, the System in effect reduced its aggregate debt service payments by approximately \$5.7 million and obtained an economic gain of approximately \$4.0 million.

In July of 2015, the 2005 Series A Bonds were fully refunded and refinanced with the fixed-rate 2015 Bank of America Loan of \$50.85 million.

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The bond agreements require the System to maintain specified financial ratios, the most restrictive of which are a minimum debt service coverage ratio, long-term debt to capital ratio, and minimum cash and investment balances, and provide a pledge of revenues of the System on a parity basis. The System was in compliance with the financial covenants for the years ended September 30, 2015 and 2014. The net assets of nonobligated group members, which are the Lee County Trauma Services District, Lee Memorial Home Health, Inc., HealthPark Care Center, Inc., and Lee Memorial Health System Foundation, Inc., included in the consolidated basic financial statements at September 30, 2015 and 2014 were approximately \$70.7 million and \$80.0 million, respectively.

10. Capital Lease Obligations

At September 30, 2015 and 2014, assets under capital leases included in capital assets were approximately \$22.8 million and \$21.5 million, respectively. The accumulated amortization for these assets was approximately \$8.8 million and \$7.2 million as of September 30, 2015 and 2014, respectively. Amortization expense of approximately \$1.8 million and \$1.7 million is included in depreciation and amortization expense in the accompanying consolidated basic statements of operations and changes in net position for the years ended September 30, 2015 and 2014, respectively. At September 30, 2015 and 2014, an approximate obligation of \$10.7 million and \$10.9 million, respectively, was outstanding under the capital leases. During the years ended 2015 and 2014, interest expense of approximately \$935,000 and \$891,000, respectively, was incurred.

Future minimum lease payments are as follows:

(in thousands of dollars)

Years Ending	
2016	\$ 2,801
2017	2,778
2018	2,640
2019	2,321
2020	1,852
Later years	<u>7,344</u>
Total minimum lease payments	19,736
Less: Amount representing interest	<u>(9,082)</u>
Present value of net minimum lease payments	<u>\$ 10,654</u>

11. 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 \$15.3 million and \$13.8 million for the years ended September 30, 2015 and 2014, respectively.

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Retiree Health Insurance Plan

The System's Self-Funded Employee Health Plan (the "RHI Plan"), which provides medical benefits to active employees, also provides medical benefits to eligible retired employees under a defined benefit postemployment healthcare plan. The System's Board of Directors has the authority to establish and amend the benefit provisions of the RHI Plan which includes the postemployment healthcare benefits.

The contribution requirements of the retiree 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%.

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

The System's annual OPEB expense of approximately \$3.2 million and \$4.0 million for the years ended September 30, 2015 and 2014, respectively, was equal to the ARC plus interest in the net OPEB obligation less adjustment to the ARC. The following table shows the components of the System's annual OPEB cost for the years ended September 30, 2015 and 2014, the amount actually contributed to the plan and the changes in the net OPEB obligation:

<i>(in thousands of dollars)</i>	2015	2014
Annual required contribution	\$ 3,673	\$ 4,446
Interest on net OPEB obligation	1,043	913
Adjustment to annual required contribution	<u>(1,508)</u>	<u>(1,319)</u>
Annual OPEB expense	3,209	4,040
Amount funded	<u>(770)</u>	<u>(774)</u>
Increase in net OPEB obligation	2,439	3,266
Net OPEB obligation at beginning of year	<u>26,073</u>	<u>22,807</u>
Net OPEB obligation at end of year	<u>\$ 28,512</u>	<u>\$ 26,073</u>

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

(in thousands of dollars)

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
September 30, 2013	\$ 4,101	15.1%	\$ 22,807
September 30, 2014	4,040	19.2%	26,073
September 30, 2015	3,209	24.0%	28,512

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

(in thousands of dollars)

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2011	\$ 44,048	\$ -	\$ 44,048	0%	\$ 531,505	8.3%
1/1/2013	45,432	-	45,432	0%	577,681	7.9%
1/1/2015	42,069	-	42,069	0%	609,102	6.9%

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

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

In the September 30, 2015 and 2014 expenses, the projected unit credit ("PUC") actuarial cost method was used as the valuation methodology. The objective under PUC is to fund each participant's benefits under the plan as they would accrue. The actuarial assumptions include a 4.0% discount rate and an annual healthcare trend rate of 7.5% initially, reduced each year until an ultimate rate of 4.5% is reached after 14 years. The mortality assumption is the RP 2000 table projected to 2018 using Scale AA. The unfunded actuarial accrued liability is being amortized as a level dollar open amortization over 30 years.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2015 and 2014

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 and determined by the actuary. For the years ended September 30, 2015 and 2014, the ARC was \$0.9 and \$1.1 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 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, 2015, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data as of July 1, 2015	
Active	141
Terminated vested	488
Retired	371
	<hr style="border-top: 1px solid black;"/>
	1,000
	<hr style="border-top: 1px solid black;"/>

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2015 and 2014

Contributions

The Plan Sponsor's funding policy is to make contributions to meet the minimum funding requirements of Internal Revenue Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, the Plan Sponsor may contribute an amount above the required contribution. The Plan Sponsor's contributions of approximately \$0.9 and \$1.0 million for the years ended September 30, 2015 and 2014, respectively, meet the minimum funding requirements of ERISA.

Net Pension Liability

The System's net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015.

The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.1%
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation
Salary increases	Not applicable due to plan freeze

Mortality rates were based upon the RP-2014 mortality tables projected with mortality improvements to the valuation year plus an additional 7 years for annuitants and an additional 15 years for nonannuitants based on Scale AA.

The actuarial assumptions used in the September 30, 2015 valuation related to retirement and termination rates were based on the results of an actual experience study for the period October 1, 2005 through September 30, 2009.

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

Asset Class	Target Allocation	Real Rate of Return
Domestic Equity	56.0%	4.30%
Corporate Fixed Income	4.0%	3.10%
Government Fixed Income	32.0%	1.40%
Real Estate	5.0%	4.00%
Cash	3.0%	0.30%
Total	<u>100.0%</u>	

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2015 and 2014

The discount rate used to measure the total pension liability was 7.75%. 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.

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 (Asset) (a)-(b)
Balances at October 1, 2014	\$ 25,939	\$ 23,855	\$ 2,084
Changes for the year:			
Interest	1,955	-	1,955
Difference between expected and actual experience	45	-	45
Employer contributions	-	977	(977)
Net investment income	-	463	(463)
Benefit payments	(1,458)	(1,458)	-
Administrative expense	-	(108)	108
Net changes	542	(126)	668
Balances at September 30, 2015	\$ 26,481	\$ 23,729	\$ 2,752

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the System's net pension liability (asset) calculated using the discount rate of 7.25%, as well as the net pension liability (asset) using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%):

(in thousands of dollars)

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability (asset)	\$ 4,627	\$ 2,084	\$ (114)

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2015 and 2014

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 \$2.7 million and \$3.2 million for the years ended September 30, 2015 and 2014, respectively. At September 30, 2015, 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	1,091	-
Contributions made during the year ended June 30, 2015 not yet recognized in net fiduciary position	<u>237</u>	<u>-</u>
Total	<u>\$ 1,328</u>	<u>\$ -</u>

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

(in thousands of dollars)

Year ended September 30

2016	\$ 273
2017	273
2018	273
2019	273
Thereafter	-

Payable to the Defined Benefit Pension Plan

As of September 30, 2015 and 2014, there are no payables to the Plan.

12. 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 \$9.7 million and \$10.6 million for the years ended September 30, 2015 and 2014, respectively.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2015 and 2014

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,	
2016	\$ 4,364
2017	3,385
2018	1,792
2019	831
2020	481
Thereafter	420
	<u>\$ 11,273</u>

Professional Liability Insurance

The System is subject to various medical malpractice claims arising in the normal course of its business activities. The Hospital 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 Hospital. Management is of the opinion that future potential uninsured losses from incidents occurring prior to September 30, 2015, 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. In order for the System to incur liability in excess of its sovereign immunity level, 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. Management does not record a liability for estimated malpractice claims in excess of the liability established pursuant to the Act until a claim is approved for settlement through the claims bill process.

On March 8, 2012, a \$15 million claim was approved for settlement through the claims bill process. At September 30, 2012, the System fully recorded the liability in accounts payable and other noncurrent liabilities in the accompanying consolidated basic statement of net position and in supplies and other services in the accompanying consolidated basic statement of operations and changes in net position for the year ended September 30, 2012. As of September 30, 2015, the System has \$1.0 million in other noncurrent liabilities and \$1.0 million remaining in other current liabilities in the consolidated basic statement of net position related to this settlement.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2015 and 2014

Management of the System has established a liability that provides for estimated malpractice claims identified under the Hospital's incident reporting system 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, 2015 and 2014. The estimated claims incurred, payments on claims and the balance of the reserve for professional liability claims for the years ended September 30, 2015 and 2014, excluding the amounts payable pursuant to the claims bill process described above, were as follows:

<i>(in thousands of dollars)</i>	2015	2014
Amount of claims liabilities at the beginning of the year	\$ 13,454	\$ 14,153
Incurred claims	3,636	1,762
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(1,937)</u>	<u>(2,461)</u>
Amount of claims liabilities at the end of the year	<u>\$ 15,153</u>	<u>\$ 13,454</u>

A resolution approved by the System's Board of Directors states that the Hospital agrees that any member of its medical staff, who is adjudged to be jointly at fault with the System in a professional liability claim, shall not bear a disproportionate burden of the loss on account of the operation of the Act and the doctrine of joint and several liability. Depending upon the determination by a court of competent jurisdiction of respective percentages of liability assessed against all parties to the litigation, and the amount of the final judgment, the System may reimburse a co-defendant staff physician for any personal loss disproportionate to the System's loss. No additional liability has been recognized in the accompanying consolidated basic financial statements as a result of this resolution.

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, 2015 and 2014.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2015 and 2014

Health Insurance

The System is self-insured for group health insurance. Total expenses under this program amounted to approximately \$61.7 million and \$56.7 million for the years ended September 30, 2015 and 2014, respectively. Total reserves for group health insurance claims payable, including an estimate for incurred but not reported claims, was approximately \$9.1 million and \$9.6 million at September 30, 2015 and 2014, respectively. Management believes the established reserves are adequately stated as of September 30, 2015 and 2014. The estimated claims incurred, payments on claims and the balance of reserves for group health insurance claims for the years ended September 30, 2015 and 2014 were as follows:

<i>(in thousands of dollars)</i>	2015	2014
Amount of claims liabilities at the beginning of the year	\$ 9,600	\$ 8,032
Incurred claims	82,850	91,565
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(83,306)</u>	<u>(89,997)</u>
Amount of claims liabilities at the end of the year	<u>\$ 9,144</u>	<u>\$ 9,600</u>

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 2015 and 2014. 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, 2015 and 2014. The estimated claims incurred, payments on claims and the balance of the reserve for workers' compensation claims for the years ended September 30, 2015 and 2014 were as follows:

<i>(in thousands of dollars)</i>	2015	2014
Amount of claims liabilities at the beginning of the year	\$ 11,916	\$ 12,328
Incurred claims	3,764	2,306
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	<u>(2,808)</u>	<u>(2,718)</u>
Amount of claims liabilities at the end of the year	<u>\$ 12,872</u>	<u>\$ 11,916</u>

Other Industry Risks

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

Lee Memorial Health System

Notes to Consolidated Basic Financial Statements

September 30, 2015 and 2014

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.

13. Related Party Transactions and Relationships

Prior to September 1, 2010, the System had a 50% ownership interest in a joint venture with another local-area governmental health care system. On September 1, 2010, the System along with the other governmental health care system sold a combined 11.11% interest to a third healthcare system which resulted in a new ownership interest for the System of 44.445%. The System is accounting for its interest in the joint venture under the equity method of accounting. The purpose of the joint venture was to develop a regional service center, LeeSar, Inc. ("LeeSar"), to meet the materials services and distribution needs of both health care systems. The investment in LeeSar, which is included in long-term other assets, was approximately \$16.0 million and \$14.0 million at September 30, 2015 and 2014, respectively. Excess of revenues over expenses for LeeSar was approximately \$4.5 million and \$4.9 million for the years ended September 30, 2015 and 2014, respectively.

The System has a 50% ownership interest in Bonita Community Health Center ("BCHC"), a not-for-profit organization. BCHC operates an urgent care center, an ambulatory surgical care center, a diagnostic imaging center and an outpatient rehabilitation center in Estero, Florida. Additionally, BCHC leases office space to physicians and other healthcare providers. The investment in BCHC is accounted for using the equity method. In conjunction with the issuance of long-term debt for the construction and equipping of the BCHC facility, the System has provided an unconditional guarantee to pay 50% of the obligations related to this debt should BCHC default. As of September 30, 2015 and 2014, total long-term debt outstanding net of current installments at BCHC was approximately \$21.2 million and \$22.0 million, respectively. BCHC had net losses of approximately \$1.6 million for the year ended September 30, 2015 and net losses of approximately \$1.4 million for the year ended September 30, 2014.

Access Medical South was a partnership between Morton Plant Hospital Association and the System to provide durable medical equipment services in which the System's ownership was 50%. The System accounted for its ownership under the equity method. On July 1, 2015, the partnership between the System and Morton Plant Hospital Association was dissolved and the System now has sole ownership of Access Medical South. At September 30, 2015, the System maintains a full ownership interest in Access Medical South.

Lee Memorial Health System
Notes to Consolidated Basic Financial Statements
September 30, 2015 and 2014

14. Major Component Unit Information

The System adopted GASB No. 61 as of October 1, 2012. GASB No. 61 requires disclosure of condensed combining information for major component units, including a condensed statement of net position, a condensed statement of operations 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 operations 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, 2015, 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	\$ 176,272	\$ 64,516	\$ 240,788
Noncapital financing activities	72,175	(37,296)	34,879
Capital and related financing activities	(101,449)	(28,486)	(129,935)
Investment activities	(145,327)	1,266	(144,061)
	<u>1,671</u>	<u>-</u>	<u>1,671</u>
Cash and cash equivalents			
Beginning of year	<u>55,889</u>	<u>-</u>	<u>55,889</u>
End of year	<u>\$ 57,560</u>	<u>\$ -</u>	<u>\$ 57,560</u>

The condensed statement of cash flows of Cape Memorial Hospital, for the year ended September 30, 2014, 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	\$ 169,065	\$ 56,180	\$ 225,245
Noncapital financing activities	48,848	(43,049)	5,799
Capital and related financing activities	(128,002)	(13,180)	(141,182)
Investment activities	(72,107)	49	(72,058)
	<u>17,804</u>	<u>-</u>	<u>17,804</u>
Cash and cash equivalents			
Beginning of year	<u>38,085</u>	<u>-</u>	<u>38,085</u>
End of year	<u>\$ 55,889</u>	<u>\$ -</u>	<u>\$ 55,889</u>

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

Lee Memorial Health System
Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)
September 30, 2015 and 2014

<i>(in thousands of dollars)</i>	2015	2014
Total pension liability		
Service cost	\$ -	
Interest	1,955	
Changes of benefit terms	-	
Differences between expected and actual experience	45	
Changes of assumptions	-	
Benefit payments	(1,458)	
Net change in total pension liability	<u>542</u>	
Total pension liability – beginning	<u>25,939</u>	
Total pension liability – ending (a)	<u>\$ 26,481</u>	<u>\$ 25,939 *</u>
Plan fiduciary net position		
Employer contributions	\$ 977	
Net investment income	463	
Benefit payments	(1,458)	
Administrative expense	(108)	
Net change in plan fiduciary net position	<u>(126)</u>	
Plan fiduciary net position – beginning	<u>23,855</u>	
Plan fiduciary net position – ending (b)	<u>\$ 23,729</u>	<u>\$ 23,855 *</u>
Net pension liability (asset) – ending (a)-(b)	<u>\$ 2,752</u>	<u>\$ 2,084</u>
Plan fiduciary net position as a percentage of total pension liability	89.61%	91.97%
Covered employee payroll	Not Applicable due to plan freeze	
Net pension liability (asset) as a percentage of covered employee payroll	Not Applicable due to plan freeze	

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

Lee Memorial Health System
Schedule of Employer Contributions (Unaudited)
October 1, 2005 and September 30, 2015

(in thousands of dollars)

	2015	2014
Actuarially determined contribution	\$ 949	\$ 1,062
Contributions in relation to the actuarially determined contribution	<u>949</u>	<u>1,062</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	Not Applicable due to plan freeze	
Contributions as a percentage of covered - employee payroll	Not Applicable due to plan freeze	

Notes to Schedule

Valuation date	July 1, 2015
Actuarial cost method	Unit Credit with various closed amortization periods for unfunded liability
Asset valuation method	5 year smoothing
Investment rate of return	7.75% net of pension plan investment expense, including inflation
Salary increase	Not Applicable due to plan freeze
IRS Limit Increases	2.50%
Retirement age	65

SUPPLEMENTAL CONSOLIDATING INFORMATION

Lee Memorial Health System
Consolidating Basic Statement of Net Position
September 30, 2015

Schedule I

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
Assets										
Current assets										
Cash and cash equivalents	\$ 19,656	\$ -	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ 37,901	\$ -	\$ 57,560
Short-term investments	854,561	-	-	-	-	-	-	-	-	854,561
Assets whose use is restricted	323	-	7,719	-	-	-	-	-	-	8,042
Patient accounts receivable, net	105,758	22,115	35,826	670	1,375	2,137	19	-	-	167,900
Inventories	16,125	4,057	9,964	-	189	26	-	-	-	30,361
Other current assets	23,421	525	1,026	-	348	14	-	9,164	-	34,498
Total current assets	<u>1,019,844</u>	<u>26,697</u>	<u>54,535</u>	<u>673</u>	<u>1,912</u>	<u>2,177</u>	<u>19</u>	<u>47,065</u>	<u>-</u>	<u>1,152,922</u>
Noncurrent assets										
Assets whose use is restricted	718	-	-	-	-	7	-	28,927	-	29,652
Capital assets, net	454,134	84,694	225,886	48	564	4,709	581	31	-	770,647
Due from subsidiaries	-	224,839	-	-	(6,296)	-	-	-	(218,543) (a)	-
Other assets, net	(b) 25,656	549	582	-	4	-	-	5,294	-	32,085
Total assets	<u>1,500,352</u>	<u>336,779</u>	<u>281,003</u>	<u>721</u>	<u>(3,816)</u>	<u>6,893</u>	<u>600</u>	<u>81,317</u>	<u>(218,543)</u>	<u>1,985,306</u>
Deferred outflows of resources										
Deferred loss on debt refunding	4,228	1,924	214	-	-	-	-	-	-	6,366
Excess consideration provided for acquisition	1,409	9,243	94,638	-	-	-	-	-	\$ -	105,290
Total deferred outflows of resources	<u>\$ 5,637</u>	<u>\$ 11,167</u>	<u>\$ 94,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,656</u>

(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, 2015

Schedule I

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
Liabilities										
Current liabilities										
Accounts payable	\$ 60,182	\$ 1,024	\$ 809	\$ 639	\$ 12	\$ 280	\$ -	\$ -	\$ -	\$ 62,946
Current installments of long-term debt	26,776	1,820	5,281	-	-	-	-	-	-	33,877
Accrued expenses										
Employee compensation	18,970	3,190	4,270	189	474	396	47	54	-	27,590
Interest	648	291	7,877	-	-	-	-	-	-	8,816
Other	26,057	4,379	5,360	10	-	436	-	49	-	36,291
Estimated third-party settlements	19,867	10,221	12,962	-	-	-	-	-	-	43,050
Total current liabilities	152,500	20,925	36,559	838	486	1,112	47	103	-	212,570
Noncurrent liabilities										
Long-term debt, excluding current installments	243,898	64,836	371,844	-	-	-	-	-	-	680,578
Due to subsidiaries	260,801	-	(53,042)	(362)	-	8,245	1,404	1,497	(218,543) (a)	-
Other liabilities	59,575	9,986	10,940	245	876	1,151	11	272	-	83,056
Total liabilities	716,774	95,747	366,301	721	1,362	10,508	1,462	1,872	(218,543)	976,204
Deferred inflows of resources										
Deferred inflows on pension	5,584	-	-	-	-	-	-	-	-	5,584
Total deferred inflows of resources	5,584	-	-	-	-	-	-	-	-	5,584
Commitments and contingencies										
Net position										
Restricted for										
Nonexpendable	-	-	-	-	-	-	-	5,887	-	5,887
Expendable	-	-	-	-	-	-	-	71,776	-	71,776
Net investment in capital assets	183,460	18,039	(151,239)	48	564	4,709	581	31	-	56,193
Unrestricted	(b) 600,171	234,160	160,793	(48)	(5,742)	(8,324)	(1,443)	1,751	-	981,318
Total net position	\$ 783,631	\$ 252,199	\$ 9,554	\$ -	\$ (5,178)	\$ (3,615)	\$ (862)	\$ 79,445	\$ -	\$ 1,115,174

(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, 2014

Schedule I

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
Assets										
Current assets										
Cash and cash equivalents	\$ 32,379	\$ -	\$ -	\$ 3	\$ (1)	\$ 1	\$ -	\$ 23,507	\$ -	\$ 55,889
Short-term investments	726,815	-	-	-	-	-	-	-	-	726,815
Assets whose use is restricted	386	1,223	7,743	-	-	-	-	-	-	9,352
Patient accounts receivable, net	100,466	20,898	34,773	496	2,129	2,390	-	-	-	161,152
Inventories	17,484	4,101	10,301	-	-	17	-	-	-	31,903
Other current assets	18,379	573	954	-	-	17	-	13,507	-	33,430
Total current assets	895,909	26,795	53,771	499	2,128	2,425	-	37,014	-	1,018,541
Noncurrent assets										
Assets whose use is restricted	924	-	-	-	-	8	-	40,583	-	41,515
Capital assets, net	382,015	85,196	241,538	80	498	4,292	628	34	-	714,281
Due from subsidiaries	-	186,975	-	-	(2,437)	-	-	-	(184,538) (a)	-
Other assets, net	(b) 23,202	10,625	97,868	-	1,092	-	-	5,479	-	138,266
Total assets	1,302,050	309,591	393,177	579	1,281	6,725	628	83,110	(184,538)	1,912,603
Deferred outflows of resources										
Deferred loss on debt refunding	4,619	2,416	230	-	-	-	-	-	-	7,265
Total deferred outflows of resources	\$ 4,619	\$ 2,416	\$ 230	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,265

(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, 2014

Schedule I

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
Liabilities										
Current liabilities										
Accounts payable	\$ 52,678	\$ 929	\$ 1,602	\$ 585	\$ -	\$ 244	\$ -	\$ -	\$ -	\$ 56,038
Current installments of long-term debt	21,176	2,287	4,987	-	-	-	-	-	-	28,450
Accrued expenses										
Employee compensation	15,950	2,878	3,785	170	320	328	19	57	-	23,507
Interest	563	1,263	7,894	-	-	-	-	-	-	9,720
Other	24,681	4,337	5,002	11	-	437	-	47	-	34,515
Estimated third-party settlements	6,533	561	8,615	-	-	5	-	-	-	15,714
Total current liabilities	121,581	12,255	31,885	766	320	1,014	19	104	-	167,944
Noncurrent liabilities										
Long-term debt, excluding current installments	218,583	67,185	377,019	-	-	-	-	-	-	662,787
Due to subsidiaries	189,504	-	(13,355)	(376)	-	6,492	1,150	1,123	(184,538) (a)	-
Other liabilities	55,673	9,323	9,873	189	801	1,045	29	256	-	77,189
Total liabilities	585,341	88,763	405,422	579	1,121	8,551	1,198	1,483	(184,538)	907,920
Deferred inflows of resources										
Deferred inflows on pension	3,854	-	-	-	-	-	-	-	-	3,854
Total deferred inflows of resources	3,854	-	-	-	-	-	-	-	-	3,854
Commitments and contingencies										
Net position										
Restricted for										
Nonexpendable	-	-	-	-	-	-	-	5,707	-	5,707
Expendable	-	-	-	-	-	-	-	73,963	-	73,963
Net investment in capital assets	142,256	15,723	(140,469)	80	498	4,292	628	34	-	23,042
Unrestricted	(b) 575,218	207,521	128,454	(80)	(338)	(6,118)	(1,198)	1,923	-	905,382
Total net position, as restated**	\$ 717,474	\$ 223,244	\$ (12,015)	\$ -	\$ 160	\$ (1,826)	\$ (570)	\$ 81,627	\$ -	\$ 1,008,094

(a) To eliminate intercompany receivables and payables.

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

** The System adopted GASB No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, as of October 1, 2014 and as required, adjusted net position as of October 1, 2013 and restated the consolidated basic financial statement of net position as of September 30, 2014

Lee Memorial Health System
Consolidating Basic Statement of Operations and Changes in Net Position
September 30, 2015

Schedule II

(in thousands of dollars)

	Lee Memorial Hospital	Physicians	Others	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Total
Operating revenues												
Net patient service revenue	\$ 736,140	\$ 142,093	\$ 1,320	\$ 879,553	\$ 204,613	\$ 318,977	\$ 2,660	\$ 10,154	\$ 14,222	\$ 495	\$ -	\$ 1,430,674
Other revenue	29,165	3,970	10,582	43,717	9,343	7,850	522	525	66	1,500	3,346	66,869
Total operating revenues	<u>765,305</u>	<u>146,063</u>	<u>11,902</u>	<u>923,270</u>	<u>213,956</u>	<u>326,827</u>	<u>3,182</u>	<u>10,679</u>	<u>14,288</u>	<u>1,995</u>	<u>3,346</u>	<u>1,497,543</u>
Operating expenses												
Salaries, wages and benefits	323,958	164,965	5,092	494,015	101,257	143,410	5,563	12,778	11,266	1,611	2,060	771,960
Supplies and other services	199,713	24,269	2,785	226,767	50,229	95,463	92	1,530	3,134	185	1,293	378,693
Purchased services	57,209	40,368	1,177	98,754	19,008	25,409	(5,756)	1,012	1,185	456	255	140,323
Depreciation and amortization	36,372	4,651	555	41,578	11,474	24,863	40	611	486	35	29	79,116
Total operating expenses	<u>617,252</u>	<u>234,253</u>	<u>9,609</u>	<u>861,114</u>	<u>181,968</u>	<u>289,145</u>	<u>(61)</u>	<u>15,931</u>	<u>16,071</u>	<u>2,287</u>	<u>3,637</u>	<u>1,370,092</u>
Operating income (loss)	<u>148,053</u>	<u>(88,190)</u>	<u>2,293</u>	<u>62,156</u>	<u>31,988</u>	<u>37,682</u>	<u>3,243</u>	<u>(5,252)</u>	<u>(1,783)</u>	<u>(292)</u>	<u>(291)</u>	<u>127,451</u>
Nonoperating items												
Interest expense	(3,907)	(1,085)	(5)	(4,997)	(2,866)	(16,085)	-	(7)	(4)	-	(2)	(23,961)
Investment (loss) income, including realized and unrealized gains on investments	(17,200)	-	85	(17,115)	43	60	-	-	-	-	277	(16,735)
Unrealized gain on swap valuation	-	-	-	-	-	-	-	-	-	-	-	-
Contributions and grants	-	-	-	-	-	-	-	-	-	-	(1,742)	(1,742)
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	(265)	(265)
Loss on sale of capital assets	(427)	(87)	-	(514)	(214)	(88)	-	(1)	(2)	-	-	(819)
Other	26,112	-	515	26,627	4	-	(3,243)	(78)	-	-	(159)	23,151
Total nonoperating gain (loss)	<u>4,578</u>	<u>(1,172)</u>	<u>595</u>	<u>4,001</u>	<u>(3,033)</u>	<u>(16,113)</u>	<u>(3,243)</u>	<u>(86)</u>	<u>(6)</u>	<u>-</u>	<u>(1,891)</u>	<u>(20,371)</u>
Increase (decrease) in net position	<u>\$ 152,631</u>	<u>\$ (89,362)</u>	<u>\$ 2,888</u>	<u>66,157</u>	<u>28,955</u>	<u>21,569</u>	<u>-</u>	<u>(5,338)</u>	<u>(1,789)</u>	<u>(292)</u>	<u>(2,182)</u>	<u>107,080</u>
Net position												
Beginning of year, as restated**				717,474	223,244	(12,015)	-	160	(1,826)	(570)	81,627	1,008,094
End of year				<u>\$ 783,631</u>	<u>\$ 252,199</u>	<u>\$ 9,554</u>	<u>\$ -</u>	<u>\$ (5,178)</u>	<u>\$ (3,615)</u>	<u>\$ (862)</u>	<u>\$ 79,445</u>	<u>\$ 1,115,174</u>

* For purposes of the consolidating basic statement of operations 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.

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Lee Memorial Health System
Consolidating Basic Statement of Operations and Changes in Net Position
September 30, 2014

Schedule II

(in thousands of dollars)

	Lee Memorial Hospital	Physicians	Others	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Total
Operating revenues												
Net patient service revenue	\$ 667,934	\$ 128,958	\$ 1,460	\$ 798,352	\$ 201,456	\$ 296,208	\$ 2,495	\$ 7,940	\$ 12,992	\$ 201	\$ -	\$ 1,319,644
Other revenue	14,136	4,425	8,463	27,024	4,889	5,834	728	583	43	1,500	3,540	44,141
Total operating revenues	<u>682,070</u>	<u>133,383</u>	<u>9,923</u>	<u>825,376</u>	<u>206,345</u>	<u>302,042</u>	<u>3,223</u>	<u>8,523</u>	<u>13,035</u>	<u>1,701</u>	<u>3,540</u>	<u>1,363,785</u>
Operating expenses												
Salaries, wages and benefits	292,057	148,484	6,853	447,394	93,880	129,434	4,989	10,890	10,284	1,766	2,032	700,669
Supplies and other services	178,543	20,650	2,438	201,631	47,796	82,180	87	1,064	2,602	203	1,471	337,034
Purchased services	52,019	36,150	810	88,979	18,312	21,770	(4,881)	774	1,824	251	276	127,305
Depreciation and amortization	32,686	4,266	545	37,497	10,484	24,951	38	344	417	49	29	73,809
Total operating expenses	<u>555,305</u>	<u>209,550</u>	<u>10,646</u>	<u>775,501</u>	<u>170,472</u>	<u>258,335</u>	<u>233</u>	<u>13,072</u>	<u>15,127</u>	<u>2,269</u>	<u>3,808</u>	<u>1,238,817</u>
Operating income (loss)	<u>126,765</u>	<u>(76,167)</u>	<u>(723)</u>	<u>49,875</u>	<u>35,873</u>	<u>43,707</u>	<u>2,990</u>	<u>(4,549)</u>	<u>(2,092)</u>	<u>(568)</u>	<u>(268)</u>	<u>124,968</u>
Nonoperating items												
Interest expense	(6,293)	(1,074)	(18)	(7,385)	(2,905)	(16,145)	-	(6)	4	(2)	(2)	(26,441)
Investment (loss) income, including realized and unrealized gains on investments	42,867	-	86	42,953	21	72	-	-	-	-	516	43,562
Unrealized gain on swap valuation	920	-	-	920	-	-	-	-	-	-	-	920
Contributions and grants	-	-	-	-	-	-	-	-	-	-	9,190	9,190
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	(19)	(19)
Loss on sale of capital assets	(85)	-	-	(85)	(75)	-	-	-	-	-	-	(160)
Other	5,479	-	178	5,658	4	2	(2,990)	452	529	-	(63)	3,592
Total nonoperating gain (loss)	<u>42,888</u>	<u>(1,074)</u>	<u>246</u>	<u>42,061</u>	<u>(2,955)</u>	<u>(16,071)</u>	<u>(2,990)</u>	<u>446</u>	<u>533</u>	<u>(2)</u>	<u>9,622</u>	<u>30,644</u>
Increase (decrease) in net position	<u>\$ 169,653</u>	<u>\$ (77,241)</u>	<u>\$ (477)</u>	<u>91,936</u>	<u>32,918</u>	<u>27,636</u>	<u>-</u>	<u>(4,103)</u>	<u>(1,559)</u>	<u>(570)</u>	<u>9,354</u>	<u>155,612</u>
Net position												
Beginning of year, as restated**				<u>625,538</u>	<u>190,326</u>	<u>(39,651)</u>	<u>-</u>	<u>4,263</u>	<u>(267)</u>	<u>-</u>	<u>72,273</u>	<u>852,482</u>
End of year, as restated**				<u>\$ 717,474</u>	<u>\$ 223,244</u>	<u>\$ (12,015)</u>	<u>\$ -</u>	<u>\$ 160</u>	<u>\$ (1,826)</u>	<u>\$ (570)</u>	<u>\$ 81,627</u>	<u>\$ 1,008,094</u>

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