Lee Memorial Health System

Consolidated Financial Statements,
Required Supplementary Information,
and Other Supplementary Information
Years Ended September 30, 2023 and 2022

The report accompanying these financial statements was issued by
BDO USA, P.C., a Virginia professional corporation, and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

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Years Ended September 30, 2023 and 2022

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Contents

Contents

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Independent Auditor's Report

The Audit Committee of the Board of Directors
Lee Memorial Health System
Fort Myers, Florida

Report on the Audits of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lee Memorial Health System and its subsidiaries and the pension trust fund (collectively, the System) as of and for the years ended September 30, 2023 and 2022, and the related notes to the consolidated financial statements, which collectively comprise the System's basic consolidated financial statements as listed in the table of contents.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the System as of September 30, 2023 and 2022, and the changes in its fund net position and its cash flows for the years then ended, and the financial position of the pension trust fund as of September 30, 2023 and 2022 and the respective change in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of Lee Memorial Health System Foundation, Inc. were not audited in accordance with *Government Auditing Standards.*

Emphasis of a Matter

As described in Note 1 to the consolidated financial statements, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, as of October 1, 2021. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for 12 months beyond the consolidated financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 18 and the schedules of changes in the net pension liability and related ratios, employer contributions, investment returns, changes in total other post-employment benefits (OPEB) liability, and total other post-employment benefits (OPEB) contributions on pages 76 through 84 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated 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.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the System's basic consolidated financial statements. The supplemental consolidating schedules on pages 86 through 90 are presented for purposes of additional analysis and are not required parts of the basic consolidated financial statements.

The supplemental consolidating schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and to certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and to other additional procedures, in accordance with GAAS. In our opinion, the consolidating schedules of net position and revenues, expenses, and changes in fund net position, and the related note to the consolidating schedules, are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2024 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

BDO USA, P.C.

January 30, 2024

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, 2023 with comparative information as of and for the years ended September 30, 2022 and 2021. This discussion has been prepared by management and should be read in conjunction with the consolidated 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 that consists of 1,865 acute care hospital beds located at four campuses, which includes a 135-bed designated children's hospital, a 60-bed rehabilitation hospital, a 75-bed skilled nursing unit, and an 18-bed skilled nursing unit. In addition, the System operates a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physician offices. For further detail on these entities, refer to Note 1 of the consolidated financial statements.

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

Four strategic pillars underpin the Board's strategic plan to achieve the System's mission and vision: (1) deliver a patient-focused experience through the System's engaged and service-driven team members; (2) provide safe, individualized care to promote an optimal quality of life; (3) deliver uniquely convenient and seamless care; and (4) improve the affordability of care and ensure ongoing financial viability. These strategic priorities will be achieved by resourcing and deploying strategies and tactics that are fully aligned and deployed to operations through the System's lean operating system. The strategies will be driven by data analytics to improve processes, standardize to best practices, and utilize human capital and technology to achieve the highest probability of success in improving outcomes and lowering costs.

Overview of the Consolidated Financial Statements

The System's annual report consists of a series of consolidated financial statements prepared in accordance with accounting standards generally accepted in the United States of America, including all applicable effective statements of the Governmental Accounting Standards Board (GASB).

Required Financial Statements

The required statements are the consolidated statements of net position; the consolidated statements of revenues, expenses, and changes in fund net position; and the consolidated statements of cash flows. These statements offer short and long-term financial information about System activities. In accordance with GASB Statement No. 84, *Fiduciary Activities*, the required statements also include the statements of net position and statements of changes in net position of the Pension Trust Fund for the frozen retirement plan of former Cape Coral Medical Center, Inc. employees.

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

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

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

Financial Analysis

Effective October 1, 2021, the System adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) and adjusted its consolidated financial statements as of and for the year ended September 30, 2022 (see Note 1 to the consolidated financial statements). GASB 96 establishes a single model to account for subscription-based information technology arrangements (SBITAs) based on the foundational principle that the SBITAs are financings of the right to use an underlying information technology asset. Under GASB 96, the System was required to recognize a subscription liability and an intangible right-of-use subscription asset for each SBITA.

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Condensed Consolidated Statements of Net Position

A summary of the System's consolidated statements of net position is presented below (in thousands):

September 30,	**2023**	*As Adjusted 2022	2021
Assets			
Current and other assets	**$ 2,148,632**	$ 2,047,538	$ 2,141,280
Capital assets, net	**1,581,851**	1,483,036	1,412,352
Total Assets	**$ 3,730,483**	$ 3,530,574	$ 3,553,632
Total Deferred Outflows of Resources	**$ 103,901**	$ 111,447	$ 113,740
Liabilities			
Current liabilities	**$ 336,638**	$ 319,649	$ 468,320
Long-term liabilities	**1,087,209**	1,142,260	1,007,436
Total Liabilities	**$ 1,423,847**	$ 1,461,909	$ 1,475,756
Total Deferred Inflows of Resources	**$ 32,438**	$ 13,791	$ 18,543
Net Position			
Restricted	**$ 65,115**	$ 59,715	$ 58,552
Net investment in capital assets	**537,103**	409,394	478,971
Unrestricted	**1,775,881**	1,697,212	1,635,550
Total Net Position	**$ 2,378,099**	$ 2,166,321	$ 2,173,073

* Balances as of September 30, 2022 were adjusted for the adoption of GASB 96.

Total assets at September 30, 2023 increased by $199.5 million, or 5.7%, due primarily to an increase in capital assets of $98.8 million, or 6.7%; an increase in patient accounts receivable of $51.2 million, or 16.0%, and an increase in estimated third-party settlements of $40.4 million. The growth in capital assets was primarily due to progress on strategic growth projects approved during the current and prior fiscal year and right-of-use leased buildings, equipment, and subscription assets related to operating lease and SBITAs executed during the year. At September 30, 2023, estimated third-party settlements was a $40.4 million net receivable compared to a net payable of $9.5 million at September 30, 2023 as the Agency for Health Care Administration had not fully paid the System all funding due for the Medicaid fiscal year ended June 30, 2023.

Total assets at September 30, 2022 decreased over the prior year by $23.1 million, or 0.6%, due primarily to a decrease in cash and cash equivalents of $68.3 million, or 40.1%, and short-term investments of $67.6 million, or 4.6%, which was partially offset by increases in capital assets of $70.7 million, or 5%. The decrease in cash is due to increasing operating expenses (an increase of $359.3 million over 2021) and the decrease in short-term investments was due to poor market performance during the year. The growth in capital assets was primarily due to strategic growth projects approved during the fiscal year and the capitalization of right-of-use subscription assets due to the adoption of GASB 96.

Deferred outflows of resources at September 30, 2023 decreased by $7.5 million, or 6.8%, compared to the prior year due to a $1.4 million write-off and $3.7 million amortization of excess consideration provided for acquisitions and a $2.2 million reduction of deferred outflows related to pension and post-employment benefit plans. Deferred outflows of resources decreased in 2022 by $2.3 million, or 2.0%, compared to the previous year due to the payment of $1.1 million additional excess consideration provided for acquisitions, net of 2022 amortization expense of $3.7 million.

Total liabilities decreased by $38.1 million, or 2.6%, in 2023 as compared to 2022, due primarily to a $27.5 million decrease in long-term finance obligations and the shift of estimated third-party settlements to a receivable position at September 30, 2023 (compared to a $9.5 million liability in 2022). Payments on long-term finance obligations of $150.9 million exceeded an aggregate new borrowings and additions to right-of-use lease obligations and subscription liabilities of $123.4 million.

Total liabilities for 2022 decreased by $13.8 million, or 0.9%, over the previous year, due primarily to the recoupment of $125.5 million of the advance funds received under the Medicare Accelerated and Advanced Payment Program and a $48.5 million decrease in estimated third-party settlements, significantly offset by a $139.0 million increase in long-term finance obligations.

Deferred inflows of resources increased in 2023 by $19.0 million, or 138.1%, due to increases in the deferred inflows of resources related to pension and post-employment benefits and those related to leases of $18.9 million and $0.4 million, respectively. Deferred inflows of resources decreased in 2022 by $4.8 million, or 25.6%, due to decreases in the deferred inflows of resources related to pension and post-employment benefits and those related to leases of $2.5 million and $1.6 million, respectively.

Net position increased by $211.8 million, or 9.8%, in 2023 and decreased by $6.8 million, or 0.3%, in 2022, as compared to the respective previous years. The 2023 increase reflects positive operating income of $79.7 million, non-operating income of $135.7 million, and a $3.6 million distribution to holders of a minority interest in Paramount Surgery Center, LLC. The 2022 decrease reflects positive operating income of $189.8 million, non-operating losses of $193.1 million, and a $3.5 million distribution to holders of a minority interest in Paramount Surgery Center, LLC.

Capital Assets

The System's investment in net capital assets was $1,581.9 million at September 30, 2023, representing a $98.9 million net increase over the prior year's net capital assets of $1,483.0 million, due primarily to $186.5 million additions to land, construction-in-progress, buildings and improvements, and equipment, and a $32.9 million additional capitalized right-of-use subscription assets, partially offset by $119 million of depreciation and amortization recorded in 2023 related to those assets. The composition of net capital assets is more fully described in Note 6 to the consolidated financial statements.

The System expects to make total capital expenditures of $183.4 million in fiscal year 2024. These capital expenditures are primarily for facility upgrades, information systems, and patient care equipment. These capital purchases will be funded directly from operations.

Long-Term Finance Obligations Outstanding

As of September 30, 2023 and 2022, the System owed $1,044.7 million and $1,072.2 million, respectively, under long-term finance obligations (revenue bonds, loans and notes payable, operating lease obligations, and subscription liabilities). In 2023 and 2022, 94% and 95% of the System's total revenue bonds, loans, and notes payable, respectively, incur interest at fixed rates. The System's long-term obligations are described in more detail in Notes 9 through 13 to the consolidated financial statements.

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

A summary of the System's consolidated statements of revenues, expenses, and changes in fund net position is presented below (in thousands):

Year ended September 30,

	2023	*As Adjusted 2022	2021
Operating revenues	**$ 2,894,580**	$ 2,801,413	$ 2,471,292
Operating expenses	**2,814,926**	2,611,571	2,252,321
Operating Income	**79,654**	189,842	218,971
Other non-operating revenues and expenses, net	**119,867**	(211,218)	143,276
Federal and state appropriations	**11,711**	15,005	20,146
Contributions and grants	**4,136**	3,098	4,113
Total Non-Operating Income (Loss)	**135,714**	(193,115)	167,535
Excess (Deficit) of Revenue and Income Over Expenses	**215,368**	(3,273)	386,506
Other changes in net position – distributions to minority interest holders	**(3,590)**	(3,479)	-
Increase (Decrease) in Net Position	**$ 211,778**	$ (6,752)	$ 386,506

* Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96.

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

Year ended September 30,

	2023 (%)	*As Adjusted 2022 (%)	2021 (%)	**(%) Change 2022-2023**	(%) Change 2021-2022
Salaries, wages, and benefits	**55.3**	54.4	49.8	1.7	9.2
Supplies and other services	**25.5**	25.2	26.6	1.2	(5.3)
Purchased services	**11.5**	9.1	9.1	26.4	-
Capital costs (depreciation, amortization, and interest expense)	**6.2**	5.7	6.8	8.8	(16.2)

* Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96.

Operating Revenues

Total operating revenues increased over the prior year by $93.2 million, or 3.3%, and $330.1 million, or 13.4%, in 2023 and 2022, respectively. In 2023, net patient service revenue increased by $123.1 million, or 4.9%, reflecting an increase in adjusted admissions of 4.8% and an increase to net revenue per adjusted admission of 0.1%, a result of favorable payor mix shifts. In 2022, net patient service revenue increased by $242.4 million, or 10.6%, reflecting an increase in adjusted admissions of 3.1% and an increase to net revenue per adjusted admission of 7.3%, a result of favorable payor mix shifts and upward trends in patient severity.

Capitation and other operating revenue decreased by $30.0 million, or 11.4%, in 2023. Effective November 1, 2022, Best Care Assurance, LLC d/b/a Vivida Health, the System's Medicaid health plan, sold its Provider Service Network (PSN) contract membership to Simply Healthcare Plans (Simply). The resulting $78.3 million reduction in capitation revenue was partially offset by continued growth in specialty pharmacy services across the System. Capitation and other operating revenue increased by $87.7 million, or 50%, in 2022, due primarily to revenue received under the PSN contract with the Florida Agency for Health Care Administration and Florida Medicaid, as well as the continued growth of the specialty pharmacy services at the Lee Health Coconut Point facility.

Operating Expenses

Total operating expenses increased in fiscal year 2023 by $203.4 million, or 7.8%. Salaries, wages, and benefits increased by approximately $76.4 million, or 5.0%, primarily due to a 5.2% increase in FTEs per Adjusted Occupied Bed (FTEs per AOB) as the System began to fill positions that were open due to staffing shortages that began during the COVID-19 pandemic and required the continued use of more premium labor. The System also increased personnel related to its continued expansion in ambulatory services and other programs aimed at improving community health and patient access. Benefit costs increased by $25.3 million, or 13.9%, over the prior year and increased as a percent of salaries and wages to 14.9%. Salaries, wages, and benefits, as a percent of total operating revenues, increased from 54.4% to 55.3% in 2023. Supplies and other services expenses increased in 2023 by $30.9 million, or 4.4%, due mostly to a 9.6% increase in supply costs per adjusted admission, as costs for supplies were impacted by global inflationary pressures experienced across health care and many other industries. Additionally, supplies and other services expenses increased commensurate with the 4.8% increase in patient volumes. Purchased services increased by $79.1 million, or 31.2%, due primarily to increased expenses for physician locum tenens and support contracts, contract services pertaining to new technology initiatives, and specialty pharmacy and laboratory services.

Total operating expenses increased in fiscal year 2022 by $359.3 million, or 16.0%. Salaries, wages, and benefits increased by approximately $294.8 million, or 24.0%, primarily due to a 14.7% increase in average hourly pay rate over the prior year. Increases in hourly rates were driven by staffing shortages that began during the COVID-19 pandemic and required the continued use of more premium labor. The System also increased personnel related to its continued expansion in ambulatory services and other programs aimed at improving community health and patient access. Benefit costs increased by $15.3 million, or 9.1%, over the prior year but decreased as a percent of salaries and wages to 13.6%. Salaries, wages, and benefits, as a percent of total operating revenues, increased from 49.8% to 54.4% in 2022. Supplies and other services expenses increased in 2022 by $48.5 million, or 7.4%, due mostly to a 3.5% increase in supply costs per adjusted admission, as costs for, and utilization of, supplies related to the COVID-19 pandemic increased significantly. Additionally, supplies and other services expenses also increased commensurate with the 3.1% increase in patient volumes. Purchased services increased by $27.8 million, or 12.3%, due primarily to increased expenses for physician contracts, contract services pertaining to new technology initiatives, and specialty pharmacy services.

Depreciation and amortization expense increased by $16.9 million over the prior year to $143.4 million in 2023, due primarily to the System's continued investments in expansion, renovation, and upgrades in technology. In 2022, depreciation and amortization expense decreased by $11.9 million over the year ended September 30, 2021 to $126.5 million, due primarily to the System revising its estimates of the useful life assigned to certain buildings, building improvements, and equipment assets effective October 1, 2021.

Non-Operating Revenues and Expenses

The System reported non-operating income of $135.7 million for 2023 compared to the $193.1 million non-operating loss reported in 2022, a change of $328.8 million primarily attributable to the 2023 recovery of the fair market value of investments following challenging market volatility in 2022 that resulted in $305.4 million in unrealized losses on investments. Additionally, the System recognized a $25.5 million gain on the sale of its PSN membership to Simply in 2023.

Total 2022 non-operating loss reflected a $360.7 million, or 215.3%, decrease from the prior-year non-operating income, primarily attributable to net unrealized losses resulting from changes in the fair market value of investments, which may vary significantly from year to year dependent on financial market performance. Total investment income decreased in 2022 by $371.4 million. 2022 investment income included unrealized losses of $305.4 million and investment income and realized gains of $105.0 million, a decrease of $417.1 million, and an increase of $45.7 million over 2021 amounts, respectively. The System recognized federal and state appropriations of $15.0 million in 2022. Interest expense increased by $2.9 million to $32.4 million in 2022, compared to $29.5 million in 2021.

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

Year ended September 30,

	Moody's Median 2022 (%)	**2023 (%)**	*As Adjusted 2022 (%)	2021 (%)
Profitability Ratios				
Operating margin (1)	0.1	1.5	5.6	7.7
Excess margin (2)	2.7	7.0	(0.1)	14.5
EBITDA margin (3)	5.6	7.7	11.3	14.5
Liquidity Ratios				
Day's cash on hand	206.5	198.5	218.3	279.5
Cushion ratio	24.9	9.6	15.2	20.1
Cash-to-debt	173.7	146.7	143.8	175.9
Capitalization Ratios				
Debt to capitalization	31.8	30.3	33.2	30.6
Annual debt service coverage	4.5	2.7	5.0	5.8
Debt-to-cash flow	3.6	3.4	2.4	2.3

* Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96.

(1) Operating margin is calculated as operating income less interest expense divided by total operating revenues.

(2) Excess margin is calculated as the excess (deficit) of revenues and income over expenses divided by [total operating revenues plus non-operating income or loss plus interest expense].

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

Annually, the Board establishes targets for these key ratios and then monitors these ratios each month to ensure that the System remains an A-rated organization. The day's cash on hand, cushion, cash-to-debt, debt-to-capitalization, annual debt service coverage, and debt-to-cash flow ratios fall outside the range of the Moody's 2022 Medians.

Consolidated Statements of Cash Flows

Unrestricted and restricted cash and cash equivalents decreased $102.4 million in 2023. Cash used in capital and related financing activities and to purchase additional investments exceeded the System's positive cash flow from operating activities.

Net cash provided by operating activities was $113.4 million and $141.2 million for the years ended September 30, 2023 and 2022, respectively. In 2023, the System made additional payments of $59.4 million and $130.8 million to employees and suppliers, respectively, as compared to the prior year. The impact of these additional payments was partially offset additional cash of $167.9 million from patient-care services and other operations.

Net cash provided by noncapital financing activities in 2023 was $40.5 million, compared to $26.0 million provided by noncapital financing activities in the prior year.

Net cash used in capital and related financing activities was $302.7 million in fiscal year 2023 and $74.6 million in fiscal year 2022. During 2023, the System expended $187.8 million and $150.9 million on purchases of capital assets and repayment of long-term financing obligations, respectively, which were partially offset by $50.0 million of proceeds from borrowings.

Net cash provided by investing activities was $46.4 million for fiscal year 2023 compared to $154.0 million used in investing activities in the prior year. Net proceeds from investment purchases and sales were $60.6 million net proceeds in 2023 compared to net investments of $130.0 million in the prior year.

Community Benefit

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 System were created from its 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 the System's tax-exempt status. 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 $94.2 million for 2023, $118.6 million for 2022, and $114.7 million for 2021. This financial benefit includes the savings 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.

Community benefit consists of charity care provided to patients who might not otherwise have access to health care, services that are provided at less than cost to low-income members of the community (e.g., Medicaid or uninsured), and other services provided at a loss, such as community wellness and health education programs. The reported charity benefit also includes the recent update to the System's financial assistance policy, which allows for a larger discount for uninsured patients.

The System's commitment to its community is summarized into the following community benefit categories as follows (in thousands):

Year ended September 30,		2023		2022		2021
Cost of charity care for low-income patients	$	**112,942**	$	105,693	$	106,147
Cost of community outreach and educational programs and one-of-a-kind medical services		**71,270**		51,852		43,459
Cost of unpaid Medicaid services		**88,784**		115,959		159,673
Cost of unpaid Medicare and other government programs		**479,643**		419,381		379,114
Benefit of Services Provided to the Community	**$**	**752,639**	$	692,885	$	688,393

In summary, the System continues to provide benefit 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.

Forward-Looking Considerations

The following items describe known facts, decisions, or conditions that are expected to have a significant effect on the System's consolidated financial position or results of operations.

Medicaid and Medicare Revenues

As reflected in the following table, the System is dependent on the state and federal government programs for the majority of its revenues, with 64.6% of the System's revenue being derived from the Medicare and Medicaid programs. Over the past several years, Medicare rate increases have not kept pace with overall medical expense increases. Management expects these trends to continue, placing continued pressure on operating margins and necessitating efforts to further 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.

Patient service revenue by payor as a percentage of total patient service revenue is as follows:

September 30,	**2023 (%)**	2022 (%)	2021 (%)
Medicare	51.8	52.0	51.3
Medicaid	12.8	13.2	13.4
Commercial	24.6	24.0	24.7
Other	10.8	10.8	10.6
	100.0	100.0	100.0

COVID-19 Pandemic

The System’s operations and financial condition have been significantly impacted by the emergence of a novel coronavirus (COVID-19) that evolved into a global pandemic. In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills, which have provided certain financial benefits to the System.

The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) authorized Provider Relief Funds intended to compensate health care providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic. Of the total $88.2 million in Provider Relief Funds previously received, the System recognized $7.0 million in 2022 and $20.0 million in 2021 as federal and state appropriations within non-operating revenue. Management is aware that the Provider Relief Funds received are subject to audit, and certain amounts could be at risk of being paid back in the future. However, based on the estimated financial impact of COVID-19, management does not believe such amounts, if any, would be material to the consolidated financial statements.

The System also received a Federal Emergency Management Assistance grant of $7.9 million during the year ended September 30, 2022 to help offset $17.0 million in additional COVID-19 expenses that were incurred through December 31, 2020 for supplies and equipment. The grant revenue is reported as federal and state appropriations within non-operating revenue in the consolidated statement of revenues, expenses, and changes in fund net position for the year ended September 30, 2022.

Although the health care industry, including the System, continues to experience rising labor, drug, and supply costs and labor constraints in the post-pandemic environment, the System’s reported financial results for the year ended September 30, 2023 reflected an immaterial direct impact from the COVID-19 pandemic. Management and the System will continue to apply lessons learned during the pandemic and focus on longer term strategies for financial and operational resilience and preparedness.

Lee Memorial Health System

Consolidated Statements of Net Position
(in thousands)

September 30,		2023		*As Adjusted 2022
Assets				
Current Assets				
Cash and cash equivalents	$	**26,475**	$	102,009
Restricted cash and cash equivalents		**17,702**		44,534
Investments		**1,446,412**		1,403,501
Assets whose use is restricted		**36,255**		1,435
Patient accounts receivable, net of allowance for estimated uncollectible accounts of $156,411 and $127,465 at September 30, 2023 and 2022, respectively		**370,531**		319,347
Inventories		**50,198**		44,795
Estimated third-party settlements		**40,449**		-
Other current assets		**81,371**		62,782
Total Current Assets		**2,069,393**		1,978,403
Non-Current Assets				
Assets whose use is restricted		**14,100**		12,410
Capital assets, net		**1,581,851**		1,483,036
Other assets		**65,139**		56,725
Total Assets	$	**3,730,483**	$	3,530,574
Deferred Outflows of Resources				
Deferred loss on debt refunding	$	**124**	$	373
Deferred outflows related to pension and post-employment benefit plans		**6,837**		9,005
Excess consideration provided for acquisitions		**96,940**		102,069
Total Deferred Outflows of Resources	$	**103,901**	$	111,447
Liabilities				
Current Liabilities				
Accounts payable	$	**87,408**	$	90,237
Accrued expenses		**173,900**		144,791
Medicare advance payments		**-**		1,886
Current installments of long-term finance obligations		**75,330**		73,194
Estimated third-party payor settlements		**-**		9,541
Total Current Liabilities		**336,638**		319,649
Non-Current Liabilities				
Long-term finance obligations, excluding current installments		**969,415**		999,036
Pension and post-employment benefit plan liabilities		**54,163**		78,317
Other liabilities		**63,631**		64,907
Total Liabilities	$	**1,423,847**	$	1,461,909

Lee Memorial Health System

Consolidated Statements of Net Position
(in thousands)

September 30,		**2023**		*As Adjusted 2022
Deferred Inflows of Resources				
Deferred gain on debt refunding	**$**	**2,587**	$	2,817
Deferred inflows related to pension and post-employment benefit plans		**18,837**		362
Deferred inflows related to leases		**11,014**		10,612
Total Deferred Inflows of Resources	**$**	**32,438**	$	13,791
Net Position				
Restricted for:				
Nonexpendable	**$**	**10,318**	$	8,964
Expendable		**54,797**		50,751
Net investment in capital assets		**537,103**		409,394
Unrestricted		**1,775,881**		1,697,212
Total Net Position	**$**	**2,378,099**	$	2,166,321

* Balances as of September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

Consolidated Statements of Revenues, Expenses, and Changes in Fund Net Position (in thousands)

Year ended September 30,		**2023**		*As Adjusted 2022
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of $319,391 in 2023 and $305,931 in 2022	**$**	**2,661,600**	$	2,538,467
Capitation revenue		**1,702**		79,994
Other revenue		**231,278**		182,952
Total Operating Revenues		**2,894,580**		2,801,413
Operating Expenses				
Salaries, wages, and benefits		**1,601,427**		1,525,027
Supplies and other services		**737,087**		706,169
Purchased services		**333,018**		253,873
Depreciation and amortization		**143,394**		126,502
Total Operating Expenses		**2,814,926**		2,611,571
Operating Income		**79,654**		189,842
Non-Operating Revenues (Expenses)				
Interest expense		**(36,849)**		(32,420)
Investment income (loss), including realized and unrealized gains and losses on investments		**131,419**		(200,380)
Contributions and grants		**4,136**		3,098
Investment activity on restricted nonexpendable investments		**1,213**		(1,635)
Gains and losses on disposal of capital assets		**(1,406)**		10,706
Federal and state appropriations		**11,711**		15,005
Other		**25,490**		12,511
Total Non-Operating Income (Loss)		**135,714**		(193,115)
Excess (Deficit) of Revenues and Income (Loss) Over Expenses		**215,368**		(3,273)
Other Changes in Net Position				
Distributions to minority interests in joint ventures		**(3,590)**		(3,479)
Increase (Decrease) in Net Position		**211,778**		(6,752)
Net Position, beginning of year		**2,166,321**		2,173,073
Net Position, end of year	**$**	**2,378,099**	$	2,166,321

* Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

Consolidated Statements of Cash Flows
(in thousands)

Year ended September 30,		**2023**		*As Adjusted 2022
Cash Flows from Operating Activities				
Received from patient care services	$	**2,558,540**	$	2,353,414
Salaries and benefits paid to employees		**(1,583,545)**		(1,524,142)
Payments to suppliers		**(1,078,384)**		(947,594)
Other receipts from operations		**216,813**		259,518
Net Cash Provided by Operating Activities		**113,424**		141,196
Cash Flows from Noncapital Financing Activities				
Restricted gifts received (noncapital related)		**1,751**		10,872
Assets donated via Lee Memorial Health System Foundation, Inc.		**4,136**		3,098
Federal and state appropriations		**11,711**		15,005
Miscellaneous non-operating items		**22,905**		(2,980)
Net Cash Provided by Noncapital Financing Activities		**40,503**		25,995
Cash Flows from Capital and Related Financing Activities				
Proceeds from long-term borrowings		**50,000**		152,930
Purchases of capital assets		**(187,833)**		(158,871)
Proceeds from sale of capital assets		**22,850**		31,002
Interest payments		**(36,884)**		(35,087)
Repayment of long-term finance obligations		**(150,873)**		(65,135)
Restricted gifts received (capital related)		**-**		580
Net Cash Used in Capital and Related Financing Activities		**(302,740)**		(74,581)
Cash Flows from Investing Activities				
Investment purchases		**(30,535)**		(180,000)
Proceeds from sales of investments		**91,110**		50,000
Interest income received		**668**		726
Investment manager fees paid		**(4,080)**		(3,837)
Distributions to minority interests		**(3,590)**		(3,479)
Investments in joint ventures and cash consideration for acquisitions		**(7,126)**		(17,430)
Net Cash Provided by (Used in) Investing Activities		**46,447**		(154,020)
Net Change in Cash and Cash Equivalents		**(102,366)**		(61,410)
Cash and Cash Equivalents, beginning of year		**146,543**		207,953
Cash and Cash Equivalents, end of year	$	**44,177**	$	146,543
Unrestricted cash and cash equivalents	$	**26,475**	$	102,009
Restricted cash and cash equivalents		**17,702**		44,534
Total Cash and Cash Equivalents	$	**44,177**	$	146,543
Supplemental Disclosures of Cash Flow Information				
Capital assets financed through lease obligations	$	**58,472**	$	17,862
Right-of-use subscription-based information technology assets	$	**32,878**	$	37,746

* Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

Lee Memorial Health System

Consolidated Statements of Cash Flows
(in thousands)

Year ended September 30,		**2023**		*As Adjusted 2022
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	**$**	**79,654**	$	189,842
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		**143,394**		126,502
Provision for uncollectible accounts		**319,391**		305,931
Changes in:				
Patient accounts receivable		**(370,575)**		(316,979)
Inventories		**(5,403)**		(3,488)
Other assets		**(22,689)**		(3,615)
Accounts payable		**(2,829)**		5,420
Accrued expenses		**29,144**		1,788
Estimated third-party payor settlements		**(49,990)**		(48,500)
Medicare advance payments		**(1,886)**		(125,505)
Pension and post-employment benefit plan liabilities		**(22,380)**		6,279
Other liabilities		**17,593**		3,521
Net Cash Provided by Operating Activities	**$**	**113,424**	$	141,196

* Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

Statements of Net Position – Pension Trust Fund
(in thousands)

September 30,		**2023**		2022
Assets				
Cash and cash equivalents	**$**	**1,304**	$	1,190
Investments, measured at fair value		**23,956**		22,787
Accrued investment income		**24**		16
Total Assets	**$**	**25,284**	$	23,993
Net Position				
Restricted for employees' pension benefits	**$**	**25,284**	$	23,993

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

Statement of Changes in Fund Net Position – Pension Trust Fund
(in thousands)

Year ended September 30,		**2023**		2022
Additions				
Pension contributions	**$**	**1,264**	$	914
Investment income (loss), net		**2,555**		(5,316)
Total Additions, net of investment income (loss)		**3,819**		(4,402)
Deductions				
Pension benefit payments		**2,381**		1,999
Other expenses		**147**		156
Total Deductions		**2,528**		2,155
Net Increase (Decrease) in Net Position		**1,291**		(6,557)
Net Position – Restricted for Employees' Pension Benefits, beginning of year		**23,993**		30,550
Net Position – Restricted for Employees' Pension Benefits, end of year	**$**	**25,284**	$	23,993

See accompanying notes to consolidated financial statements.

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

Description of Reporting Entity

Lee Memorial Health System (LMHS) 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. LMHS operates pursuant to the Enabling Act, as amended.

LMHS includes four acute care hospitals: Lee Memorial Hospital, HealthPark Medical Center, Gulf Coast Medical Center (GCMC), and Cape Coral Hospital. Additionally, LHMS is comprised of other health care facilities and services, which include a 135-bed designated children's hospital, a 60-bed rehabilitation hospital, an 18-bed skilled nursing unit, a 75-bed skilled nursing unit, a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physicians' offices. LMHS operates primarily in Lee County, Florida.

Certain of these operations have been placed in subagencies for administrative purposes. Subagencies are created by resolution of LMHS's Board of Directors under authorization granted by its Enabling Act. These subagencies are not incorporated under the corporation laws of Florida. LMHS has also formed various legal entities that enable it to participate in business relationships that provide investment opportunities and increase the provision of health care services throughout the community.

The accompanying consolidated financial statements present LMHS and its component units, entities for which LMHS is considered to be financially accountable (collectively referred to as the System throughout these notes to the consolidated financial statements). Blended component units are, in substance, part of the System's operations, even though they are legally separate entities. The discrete component unit is both legally and substantively separate from LMHS. The component units discussed below are included in the reporting entity because of their operational or financial relationships with the System. Except as indicated below, separate financial statements for component units are not publicly available.

Blended Component Units

- 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). LMHS is the sole owner of Cape Coral Hospital, and ten members of LMHS's Board of Directors comprise its Board of Directors. See Note 16 for presentation of Cape Coral Hospital's condensed statements of net position, revenue, expenses, and changes in fund net position and cash flows.
- HealthPark Care Center, Inc. (HPCC) is a not-for-profit corporation, which owns and operates the System's skilled nursing facility. LMHS is the sole owner of HPCC and HPCC's Board of Directors consists of the ten members of LMHS's Board of Directors.
- Lee Memorial Home Health, Inc. (LMHH) is a not-for-profit corporation, which owns and operates the System's home health agency. LMHS is the sole owner and LMHH's Board of Directors consists of the ten members of LMHS's Board of Directors. LMHH is the sole owner of Access Medical South, LC, which provides durable medical equipment, oxygen, and

respiratory services, and the sole member of Access Infusion Partners, LLP, which provides infusion services in Lee County.

- Bonita Community Health Center (BCHC) is a not-for-profit organization. BCHC operates an urgent care center, a diagnostic imaging center, and an outpatient rehabilitation center in Estero, Florida. LMHS is the sole owner of BCHC and BCHC's Board of Directors consists of the ten members of LMHS's Board of Directors.

- Lee Memorial Health System Foundation, Inc. (the Foundation) is a not-for-profit corporation created by LMHS'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 LMHS or members of such Board designated by the Chairman and the Chief Executive Officer or their designee. The Foundation's separately issued financial reports may be obtained on the System's website at www.leehealth.org.

- Lee County Trauma Services District (the Trauma District) is a not-for-profit organization located in Fort Myers, Florida. The Trauma 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 Trauma District is classified as an independent special district under the laws of Florida. The Trauma District serves as an integral member of the continuum of care offered by the System. Per an Interlocal Agreement pursuant to the provisions of Section 163.01, Florida Statutes, LMHS is obligated to provide monetary support to the Trauma District so there is no financial loss (or gain) to the Trauma District. The Trauma District's separately issued financial reports may be obtained on the System's website at www.leehealth.org.

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

- The System has population health services (Center for Care Transformation) aimed at furthering the System's mission to be a trusted partner empowering healthier lives through care and compassion. LMHS is the sole member or owner of the following entities that comprise Population Health:
  - Best Care Assurance, LLC (d/b/a Vivida Health) (Vivida Health) is a provider-sponsored health plan that administered Medicaid benefits to approximately 30,000 members in Region 8 in Southwest Florida under a Provider Service Network (PSN) contract with the

Florida Agency for Health Care Administration (AHCA) and Florida Medicaid. Effective November 1, 2022, Vivida Health sold its PSN contract and membership under a purchase agreement with Simply Healthcare Plans (Simply), a subsidiary of Elevance Health, Inc. Subsequent to that date, Vivida Health's operations were limited to final settlements with AHCA and the administration and payment of member claims with dates of service prior to November 1, 2022.

  - Best Care Collaborative, LLC holds the Medicare Next Generation Accountable Care Organization (ACO) contract with the Centers for Medicare and Medicaid Services (CMS).
  - Best Care Partners, Inc. holds the Clinically Integrated Network (CIN) of providers, as well as a commercial employer health insurance plan.

- Effective May 1, 2017, LMHS acquired 100% membership in Florida Radiology Leasing, LLC, which operates freestanding multi-diagnostic outpatient radiology centers in various leased locations.
- LMHS is the sole member of 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.
- On October 21, 2019, LMHS's Board of Directors approved the creation of an entity to participate in investments and advantageous business relationships. LMHS is the sole member of Community Healthcare Innovations, LLC (CHI) and CHI is the sole member of the following entities:
  - Lee Healthcare Holdings, LLC (LHH) was formed on November 7, 2019 as a wholly owned subsidiary of CHI. LHH was created to participate in joint ventures and future investment ventures.
  - Lee Healthcare Investments, LLC (LHI) was formed on November 7, 2019 as a wholly owned subsidiary of CHI. LHI was created to house all of the System's wholly owned ambulatory surgery centers (ASCs).

Discrete Component Units

On December 24, 2019, LHH acquired a 51% membership interest with Paramount Surgery Center, LLC (Paramount), which is a specialized orthopedic ambulatory surgical center. The accompanying consolidated financial statements do not present Paramount as a discrete component unit in accordance with applicable statements of the Governmental Accounting Standards Board (GASB), but as a blended component unit, as amounts are not material to these consolidated financial statements. See Note 16 for presentation of Paramount's condensed statements of net position, revenue, expenses, and changes in fund net position and cash flows. Paramount does not issue separate financial statements.

The pension trust fund is used to account for assets held in trust for the benefit of the employees of CCMC. The frozen pension plan is sponsored by the System and governed by a committee appointed by the System's Board of Directors; therefore, the pension plan is included as a component unit of the System.

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

Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, including all applicable effective GASB statements. The consolidated financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows.

Nonexchange transactions, in which the System receives (or gives) value without directly giving (or receiving) equal value in exchange, include certain grants and donations. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the grantor or donor have been met, if probable of collection.

The financial statements of the pension trust fund are prepared using the accrual basis of accounting. Actuarially determined employer contributions to the frozen retirement plan of former CCMC employees (the CCMC Plan) are made by the System in order to maintain sufficient assets to pay benefits and are recognized when due. Benefits are recognized when due and payable in accordance with the terms of the CCMC Plan.

Use of Estimates

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

Recently Adopted Accounting Standards

Effective October 1, 2022, the System adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. A SBITA is defined as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 96 establishes that a SBITA results in a right-of-use subscription asset and a corresponding subscription liability and requires additional disclosures. The System applied GASB 96 by retroactively adjusting the consolidated financial statements for the year ended September 30, 2022, and recognized and measured SBITAs using the facts and circumstances that existed at October 1, 2021.

(in thousands)

The consolidated statement of net position as of September 30, 2022 has been adjusted, as summarized below:

September 30, 2022

	As Previously Reported	Adjustment Related to GASB 96 Adoption	As Adjusted
Assets			
Current Assets			
Current assets excluding other current assets	$ 1,915,621	$ -	$ 1,915,621
Other current assets	64,116	(1,334)	62,782
Total Current Assets	1,979,737	(1,334)	1,978,403
Non-Current Assets			
Assets whose use is restricted	12,410	-	12,410
Capital assets, net	1,456,334	26,702	1,483,036
Other assets	56,725	-	56,725
Total Assets	$ 3,505,206	$ 25,368	$ 3,530,574
Total Deferred Outflows of Resources	$ 111,447	$ -	$ 111,447
Liabilities			
Current Liabilities			
Accrued expenses	$ 144,713	$ 78	$ 144,791
Current installments of long-term finance obligations	60,914	12,280	73,194
All other current liabilities	101,664	-	101,664
Total Current Liabilities	307,291	12,358	319,649
Non-Current Liabilities			
Long-term finance obligations, excluding current installments	986,026	13,010	999,036
All other non-current liabilities	143,224	-	143,224
Total Liabilities	$ 1,436,541	$ 25,368	$ 1,461,909
Total Deferred Inflows of Resources	$ 13,791	$ -	$ 13,791
Total Net Position	$ 2,166,321	$ -	$ 2,166,321

(in thousands)

The consolidated statement of revenues, expenses, and changes in fund net position for the year ended September 30, 2022 has been adjusted, as summarized below:

Year ended September 30, 2022

	As Previously Reported	Adjustment Related to GASB 96 Adoption	As Adjusted
Total Operating Revenues	$ 2,801,413	$ -	$ 2,801,413
Operating Expenses			
Salaries, wages, and benefits	1,525,027	-	1,525,027
Supplies and other services	711,577	(5,408)	706,169
Purchased services	259,657	(5,784)	253,873
Depreciation and amortization	115,458	11,044	126,502
Total Operating Expenses	2,611,719	(148)	2,611,571
Operating Income	189,694	148	189,842
Non-Operating Revenue (Expenses)			
Interest expense	(32,272)	(148)	(32,420)
All other non-operating expense, net	(160,695)	-	(160,695)
Total Non-Operating Loss	(192,967)	(148)	(193,115)
Deficit of Revenues and Income Over Expenses	$ (3,273)	$ -	$ (3,273)

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(in thousands)

The consolidated statement of cash flows for the year ended September 30, 2022 has been adjusted, as summarized below:

Year ended September 30, 2022

	As Previously Reported	Adjustment Related to GASB 96 Adoption	As Adjusted
Cash Flows from Operating Activities			
Payments to suppliers	$ (960,120)	$ 12,526	$ (947,594)
All other operating activities	1,088,790	-	1,088,790
Net Cash Provided by Operating Activities	128,670	12,526	141,196
Net Cash Provided by Noncapital Financing Activities	25,995	-	25,995
Cash Flows from Capital and Related Financing Activities			
Purchases of capital assets	(158,191)	(680)	(158,871)
Interest payments	(35,017)	(70)	(35,087)
Repayment of long-term finance obligations	(53,359)	(11,776)	(65,135)
All other capital and related financing activities	184,512	-	184,512
Net Cash Used in Capital and Related Financing Activities	(62,055)	(12,526)	(74,581)
Net Cash Used in Investing Activities	(154,020)	-	(154,020)
Net Change in Cash and Cash Equivalents	(61,410)	-	(61,410)
Cash and Cash Equivalents, beginning of year	207,953	-	207,953
Cash and Cash Equivalents, end of year	$ 146,543	$ -	$ 146,543
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	$ 189,694	$ 148	$ 189,842
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	115,458	11,044	126,502
Change in other assets	(4,949)	1,334	(3,615)
All other adjustments and changes in operating assets and liabilities	(171,533)	-	(171,533)
Net Cash Provided by Operating Activities	$ 128,670	$ 12,526	$ 141,196

Cash and Cash Equivalents

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

(in thousands)

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 that may be in excess of the federal insured amount of $250 thousand. 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.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of amounts held as bank deposits and highly liquid investments with original maturities of three months or less at date of purchase and are restricted by donors for specific purposes or are held under other regulatory or contractual agreements.

Inventories

Inventories consist principally of pharmaceuticals and medical and surgical supplies that are valued, using the first-in, first-out method, at the lower of cost or net realizable value.

Investments and Investment Income

Investment securities held by the System, including investments in companies that are deemed to be alternative investment funds, are carried at fair value. The fair value of alternative investment funds is measured using each fund's net asset value. Investment income, including interest, dividends, realized gains, and losses based on the specific identification method, and unrealized gains and losses, are included in non-operating revenues when earned.

The System's investments in companies deemed to be alternative investment funds and the approximate ownership interest in each company were as follows:

September 30,	**2023 (%)**	2022 (%)
SEI Core Property Fund, LP (Core Property Fund)	**4.39**	4.30
SEI Special Situations Fund, Ltd. (Special Situations Fund)	**7.23**	7.62
SEI Core Property Fund, LP (held by the Foundation)	**0.06**	0.06
SEI Vista Fund, Ltd. (held by the Foundation)	**0.21**	-

Assets Whose Use Is Restricted

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

Capital Assets, Net

Capital assets are defined by the System as assets with estimated useful lives in excess of one year at the date of acquisition, and include property, plant and equipment, right-of-use lease assets, and right-of-use subscription assets.

Property, plant and equipment are capitalized when the cost of the individual item exceeds $1 thousand and are recorded at historical cost or acquisition value at date of purchase or donation, respectively. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity, or extend the useful life of an asset are capitalized.

The straight-line method of computing depreciation is used for all depreciable plant and equipment. Buildings and equipment under lease arrangements are amortized under the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Major asset classifications and estimated useful lives of property, plant, and equipment are generally in accordance with those recommended by the American Hospital Association, adjusted from time to time as facts and circumstances change in regard to how assets are being used.

Estimated useful lives by major asset classification were as follows:

Asset Category	Years
Buildings and improvements	10–80
Equipment	2–20

Impairment of Long-Lived Assets

Long-lived assets are evaluated for recoverability whenever adverse events or changes in business climate indicate a decline in service utility of the capital asset. For the years ended September 30, 2023 and 2022, the System does not believe there were any adverse events or changes in business that would indicate that an impairment reserve is required.

Leases

Lessor

The System leases multiple nonfinancial assets to third parties. The System recognizes a lease receivable and a deferred inflow of resources in the consolidated financial statements.

At the commencement of the lease, the System measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments receivable. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgements include how the System determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts. The System uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the non-cancelable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee. The System monitors changes in circumstances that would require a re-measurement of its lease and will re-measure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Lessee

The System is party to multiple leases of nonfinancial assets as a lessee. The System recognizes a lease liability and an intangible right-of-use lease asset (lease asset) in the consolidated statements of net position.

At the commencement of a lease, the System initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life or lease term, whichever is shorter.

Key estimates and judgments related to leases include how the System determines (1) the discount rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The System uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the System generally uses its estimated incremental borrowing rate as the discount rate for leases. The lease term includes the non-cancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the System is reasonably certain to exercise.

The System monitors changes in circumstances that would require a re-measurement of its leases and will re-measure lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of any lease liability. Right-of-use lease assets are reported with capital assets and lease liabilities are reported with long-term finance obligations in the consolidated statements of net position.

The System recognizes short-term lease payments, property taxes, and common area maintenance (CAM) and certain other variable lease payments to supplies and other services expense as incurred.

Subscription-Based Information Technology Arrangements

The System is party to multiple SBITAs. The System recognizes a subscription liability and an intangible right-of-use subscription asset (subscription asset) in the consolidated financial statements. The System reports SBITA current expenditures in the consolidated statements of revenues, expenditures, and changes in fund net position. The System recognizes subscription liabilities for all SBITAs with an initial term greater than 12 months and annual payments exceeding $12 thousand. At December 31, 2023, remaining subscription terms range from one to five years with fixed payments due monthly, quarterly, or annually. For SBITAs with a maximum possible term of 12 months or less at commencement, the System recognizes expenses/expenditures as purchased services based on the provisions of the arrangement.

At the commencement of a SBITA, the System initially measures the subscription liability at the present value of expected subscription payments to be made over the SBITA term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial measurement of the subscription liability, adjusted for payments associated with the SBITA contract made to the vendor at the commencement of the subscription term, plus any capitalizable initial implementation costs, less any vendor incentives received at the commencement of the subscription term. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the useful life of the IT asset or subscription term. Key estimates and judgments related to SBITAs include how the System determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) the subscription term, and (3) subscription payments.

(in thousands)

The System uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, the System generally uses its estimated incremental borrowing rate as the discount rate. The subscription term includes the noncancelable period during which the System has a noncancelable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend if reasonably certain the System or vendor will exercise that option or to terminate if it is reasonably certain that the System or vendor will not exercise that option. Subscription payments included in the measurement of the subscription liability are composed of fixed payments.
The System monitors changes in circumstances that would require a remeasurement of a SBITA and will remeasure the subscription asset and subscription liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with capital assets and subscription liabilities are reported with long-term finance obligations in the accompanying consolidated statements of net position. The System capitalizes qualifying initial implementation costs of $500 or more as part of the subscription asset. Preliminary project stage outlays are expensed as included. Operation and additional implementation stage activities are expensed as incurred unless they meet specific capitalization criteria.

Excess Consideration Provided for Acquisition

Excess consideration provided for acquisition represents the consideration paid by the System for various acquisitions in excess of the estimated fair value of net position acquired. This deferred outflow is being attributed to future periods (i.e., amortized) in a systematic and rational manner over the periods presented in the table below. The System recognized approximately $3.7 million in amortization expense for the years ended September 30, 2023 and 2022 with such amounts being included as a component of depreciation and amortization in the consolidated statements of revenues, expenses, and changes in fund net position.

The table below depicts the components of this balance, annual amortization, and the weighted-average amortization period at the component level, as well as System totals:

September 30, 2023

		Balance		Annual Amortization	Weighted-Average Amortization Period (Years)
Gulf Coast Medical Center	$	76,300	$	2,484	39.8
Lee Memorial Hospital		15,250		745	31
Cape Coral Hospital		5,390		489	20
Total	$	96,940	$	3,718	38.2

During the year ended September 30, 2023, the System wrote off excess consideration of approximately $1.4 million due to the sale of related assets or termination of related business activities, recognizing a loss on the disposition that is included in other non-operating revenues and expenses in the accompanying consolidated statements of revenues, expenses and changes in fund net position. During the year ended September 30, 2022, the System acquired assets in a private entity as part of the System's strategic plan to deliver convenient and seamless care. Cash consideration of $1.1 million paid by the System was fully attributable to excess of consideration provided for the acquisition and was recorded as a deferred outflow of resources to be amortized over a period of 20 years.

Bond and Note Issuance Costs

Bond issuance costs are expensed at time of issuance.

Bond Premiums and Discounts

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

Compensated Absences

The System's policy is to record the cost of annual leave when earned. Employees earn annual leave at varying rates depending upon years of service and the leave plan in which they participate.

Paid Time Off Plan

The paid time off (PTO) program combines the various leave types that employees may earn into one earning rate that varies depending upon years of service. The policy does not provide for a maximum accumulation of unused PTO.

Upon termination of employment, employees are paid for their current balance in PTO at a prorated amount based upon their position. The PTO program also has a bi-annual PTO cash-in option with payouts in May and November. This PTO cash-in option allows employees to cash in any and all portions of earned PTO, provided they maintain a minimum balance of 80 hours. PTO is cashed in at a prorated value of 80% for non-management staff and 50% for management staff.

Liability Calculation

The liability for accumulated annual leave, holiday leave, and PTO leave for each employee at September 30 equals the leave carried forward at the previous September 30 plus the leave earned, less the leave taken between October 1 and September 30. The liability is equal to the accumulated hours multiplied by the employee's current hourly rate. The PTO liability is included in accrued expenses and other liabilities in the accompanying consolidated statements of net position, classified as current or non-current based on historical trends of PTO activity.

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.

(in thousands)

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are defined as a consumption of net assets by the System that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the System that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

Net Position

Net position of the System is classified in four components. Net position for investment in capital assets equals the balance of capital assets, net of accumulated depreciation, reduced by amounts due under outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position relates to 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 position is equal the principal portion of permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

When both restricted and unrestricted resources are available for use, the System uses the restricted resources first, then unrestricted resources as needed. Resources restricted by donors or grantors for specific operating purposes are reported in other operating revenue to the extent used in the period.

Net Patient Service Revenue and Patient Accounts Receivable

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported when earned 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.

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 is as follows:

September 30,	**2023 (%)**	2022 (%)
Medicare	32	34
Medicaid	12	9
Managed care	23	24
Commercial insurance	12	11
Self-pay and other	21	22
	100	100

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

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of these amounts, charity care is not reported as net patient service revenue. The level of direct charity care provided during the years ended September 30, 2023 and 2022 consisted of foregone revenues of approximately $359.3 million and $374.9 million, respectively.

Capitation Revenue

The System, through its component unit, Vivida Health, administered the PSN contract with AHCA under the Florida Statewide Medicaid Managed Care program. The System received a Per Member Per Month (PMPM) capitation payment and certain additional supplemental payments from in return for the obligation to pay for all covered medical services provided to its qualified members. AHCA made capitation payments to the System each month and the System was obligated to pay for its members covered services incurred during that month. The System recognized capitation revenue as the System satisfied the stand-ready obligation to fund members' medical care. The System recorded expense for paid claims and estimates a liability for incurred but not reported claims.

Effective November 1, 2022, Vivida Health entered into a purchase agreement with Simply. Simply purchased Vivida Health's assets, primarily the PSN contract and related membership, for cash consideration of $26 million, of which $24.9 million was recognized as a gain on sale and is reported within other non-operating revenues (expenses) in the accompanying consolidated statement of revenues, expenses, and changes in fund net position for the year ended September 30, 2023. Beginning November 1, 2022, all former Vivida Health Medicaid members are serviced by Simply. Vivida Health continued to pay claims incurred prior to the sale as the System wound down its operations following the sale. The System has continued as a contracted network provider to Simply's health plan.

Other Revenue

Other revenue is comprised of amounts earned by the System primarily for the provision of on-site pharmacy and specialty pharmacy services, but also includes amounts earned for food and beverage, gift store, unrestricted gifts and donations, rental income, and other amounts not directly related to patient care. The System recognizes pharmacy service revenue at the time of service at estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Non-Operating Revenues and Expenses

The System's consolidated statements of revenues, expenses, and changes in fund net position distinguish between operating and non-operating 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 non-operating revenues and expenses. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

On September 28, 2022, Hurricane Ian made landfall on Florida's western coast in Lee County, causing widespread damage, flooding, power outages, and water and communication services interruption, and severely disrupting normal economic activity in the region. In addition to the toll the storm put on the System's staff, health system, and the community, Hurricane Ian caused the System to suffer a significant interruption in normal operations. Increases in labor and supply expenses as the System operated in disaster response mode, coupled with declining revenue due to closures of various facilities and cancelation of procedures, both during in the immediate aftermath of the storm, resulted in financial losses in the months immediately following the storm.

During the year ended September 30, 2023, the System received $11.7 million in Federal Emergency Management Assistance (FEMA) reimbursement related to these losses. The System is currently working with a third-party consultant to complete the business interruption insurance claim, property insurance claims, and remaining FEMA claims. As of September 30, 2023, the System is not able to estimate the amount or probability of collection of additional recoveries and has not recorded a receivable related to the potential claims.

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.

Recently Issued Accounting Standards Not Yet Adopted

In April 2022, the GASB issued GASB Statement No. 99, *Omnibus 2022* (GASB 99). GASB 99 addresses comparability in accounting and financial reporting for a number of practice issues, a number of which were effective upon issuance and had no material impact on the System's consolidated financial statements. Practice issues related to the determination of a lease term and classification of leases as short-term in accordance with GASB 87 and clarification of provisions of GASB 96 relating to SITBAs, including classification as a short-term SITBA and recognition and measurement of a subscription liability, are effective for fiscal years beginning after June 15, 2023. GASB 99 also clarifies that a government extending an exchange or exchange-like financial guarantee should recognize a liability and expense/expenditure related to the guarantee when qualitative factors and historical data indicate that it is more likely than not a government will be required to make a payment related to the guarantee. GASB 99 excludes guarantees related to special assessment debt, financial guarantee contracts within the scope of GASB 53, or guarantees related to conduit debt obligations. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB 53 are also effective for fiscal years beginning after June 15, 2023. The System is currently evaluating the impact GASB 99 will have on its consolidated financial statements.

In June 2022, the GASB issued GASB Statement 100, *Accounting Changes and Error Corrections* (GASB 100). GASB 100 prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of GASB 100 for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. GASB 100 also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements. GASB 100 is effective for reporting periods beginning after June 15, 2023.

In June 2022, the GASB issued GASB Statement 101, *Compensated Absences* (GASB 101). GASB 101 aligns the recognition and measurement guidance for compensated absences under a unified model and amends certain previously required disclosures. GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. GASB 101 also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. GASB 101 is effective for reporting periods beginning after December 15, 2023. The System is currently evaluating the impact GASB 101 will have on its consolidated financial statements.

2. Third-Party Payors

The System has agreements with third-party payors that provide for payment at amounts different from its established rates. A summary of the basis of payment with major third-party payors is as follows:

Medicare

Inpatient acute care services, rehabilitative services, psychiatric services, skilled nursing services, hospital outpatient services, and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates based on the Ambulatory Payment Classification System (APC).

The System is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2017. 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

Medicaid reimburses the System for inpatient services on an interim basis under a prospective payment system using an All-Patient Refined Diagnosis Related Groups (APR DRG) methodology. 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. Medicaid reimburses most outpatient services, except for laboratory and pathology services, on an interim basis under a prospective payment system using an Enhanced Ambulatory Patient Groups (EAPG) methodology. Patients in each EAPG have similar clinical characteristics and similar resource use and cost.

The System's Medicaid cost reports have been audited and final settlements determined by the Medicaid intermediary for all years through September 30, 2017. 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. An allowance is provided for estimated retroactive adjustments for unsettled years through 2022.

Under the Medicaid Supplemental Payment Program (MSSP), AHCA makes payments to the System in addition to the above prospective fee for service payments received for services provided. As of September 30, 2023, Florida has nine supplemental payment programs, including Low Income Pool, Disproportionate Share Hospital, Graduate Medical Education, Physician Supplemental Payment, Multi-Visceral Transplant Program, Florida Cancer Hospital Program, Public Emergency Medical Transportation, Indirect Medical Education, and the Directed Payment Program. Funds available under the MSSP are authorized by the Florida legislature either through statute or the General Appropriations Act and are approved by CMS. AHCA collects Intergovernmental Transfers (IGTs) to pay the state match for Medicaid supplemental payments under Letters of Agreement (LOAs) signed between AHCA and the System each state fiscal year, which state the amount of funds the System intends to contribute. AHCA uses IGTs to draw down federal funds based on the Federal Medical Assistance Percentage. AHCA then distributes the combined state and federal funds to qualified providers based on a legislatively approved distribution funding model. Each supplemental payment program has defined participation requirements for providers. A distribution funding model is approved for each state fiscal year (July 1 through June 30). Generally, but not always, the supplemental payment programs are settled and reconciled by June 30 of each year. The System recognizes MSSP revenue ratably over each state fiscal year based on its qualifications and budgeted or final approved distribution funding models.

Other Payors

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.

(in thousands)

3. Net Patient Service Revenue

Net patient service revenue, including subagency service revenue, consists of the following:

Year ended September 30,	**2023**	2022
Gross patient service revenue	$ **12,938,670**	$ 11,747,817
Third-party payor and other contractual adjustments	**(9,957,679)**	(8,903,419)
Provision for uncollectible accounts	**(319,391)**	(305,931)
Net Patient Service Revenue	$ **2,661,600**	$ 2,538,467

4. Assets Whose Use Is Restricted

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

September 30,	**2023**	2022
Restricted by donors for specific purposes	$ **44,548**	$ 11,983
Held by trustee under bond indenture agreements	**1,024**	1,024
Held in trust for other uses	**4,323**	427
Held by Board of Directors for future use	**460**	411
Total Assets Whose Use Is Restricted	**50,355**	13,845
Less: amounts required to meet current obligations	**(36,255)**	(1,435)
Assets Whose Use Is Restricted, net of amounts required to meet current obligations	$ **14,100**	$ 12,410

5. Investments and Assets Whose Use Is Restricted

The System primarily invests its resources in domestic and international equity and fixed-income mutual funds and securities, alternative investment funds, and money market funds. The System's investment portfolios include investments available for current operations, as well as investments designated as assets whose use is restricted. 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 System's mutual fund and fixed-income securities investments are carried at fair value as determined through the use of quoted market prices (market approach). As the System's investments in alternative investment funds do not have readily determinable fair values, the System has established the fair value of these investments by using each investment's net asset value per share.

The System categorizes its fair value measurements within the fair value hierarchy, which is summarized in three levels:

Level 1 – This level consists of observable inputs that reflect quoted prices for identical investments.

(in thousands)

Level 2 – This level consists of other significant observable inputs, including quoted prices for similar investments, interest rates, or credit risk.

Level 3 – This level consists of unobservable inputs, including entity-specific inputs or inputs derived through extrapolation or interpolation that cannot be derived from market data.

The recurring fair value measurement of investments and assets whose use is restricted is as follows:

September 30, 2023

	Fair Value	Level 1	Level 2	Level 3
Investments and Assets Whose Use Is Restricted, in the fair value hierarchy				
Mutual funds:				
Domestic equity	$ 305,877	$ 305,877	$ -	$ -
International equity	391,305	391,305	-	-
Domestic fixed income	540,125	540,125	-	-
International fixed income	540	540	-	-
Total Mutual Funds	1,237,847	1,237,847	-	-
Fixed-income securities:				
U.S. government and agency obligations	61,290	-	61,290	-
Corporate bonds	9,879	-	9,879	-
Municipal bonds	6,211	-	6,211	-
Asset-backed securities	3,498	-	3,498	-
Non-agency commercial mortgage-backed securities	269	-	269	-
Total Fixed-Income Securities	81,147	-	81,147	-
Total Investments and Assets Whose Use Is Restricted, in the fair value hierarchy	1,318,994	$ 1,237,847	$ 81,147	$ -
Investments and Assets Whose Use Is Restricted, measured at net asset value				
SEI Core Property Fund, LP	104,303			
SEI Special Situations Fund, Ltd.	67,287			
SEI Vista Fund, Ltd	682			
Total Investments and Assets Whose Use Is Restricted, measured at net asset value	172,272			
Other				
Commercial paper and money market funds	5,501			
Total Investments and Assets Whose Use Is Restricted	$ 1,496,767			

(in thousands)

September 30, 2022

	Fair Value	Level 1	Level 2	Level 3
Investments and Assets Whose Use Is Restricted, in the fair value hierarchy				
Mutual funds:				
Domestic equity	$ 285,439	$ 285,439	$ -	$ -
International equity	363,767	363,767	-	-
Domestic fixed income	540,016	540,016	-	-
Total Mutual Funds	1,189,222	1,189,222	-	-
Fixed-income securities:				
U.S. government and agency obligations	30,566	-	30,566	-
Corporate bonds	9,463	-	9,463	-
Municipal bonds	6,302	-	6,302	-
U.S. Treasury obligations	476	476	-	-
Asset-backed securities	3,333	-	3,333	-
Non-agency commercial mortgage-backed securities	264	-	264	-
Total Fixed-Income Securities	50,404	476	49,928	-
Total Investments and Assets Whose Use Is Restricted, in the fair value hierarchy	1,239,626	$ 1,189,698	$ 49,928	$ -
Investments and Assets Whose Use Is Restricted, measured at net asset value				
SEI Core Property Fund, LP	114,687			
SEI Special Situations Fund, Ltd.	61,635			
Total Investments and Assets Whose Use Is Restricted, measured at net asset value	176,322			
Other				
Commercial paper and money market funds	1,398			
Total Investments and Assets Whose Use Is Restricted	$ 1,417,346			

The System has an investment management agreement with SEI Investments Company (SEI) to manage approximately 97.55% of their investments. Approximately 2.1% of investments are monitored and managed through the Foundation on a quarterly basis, with the remainder residing in money markets, which are monitored daily.

The System’s mutual fund investments can be liquidated within the trade date plus one business day and the fixed-income securities at the trade date plus two business days. SEI requires a 30-day notice for termination and full liquidation of public market funds held in the portfolio. The SEI Core Property Fund, LP can liquidate 90% of holdings quarterly with a 95-day notice. The SEI Special

Situations Fund, Ltd. can liquidate 90% of holdings semi-annually with a 95-day notice. The SEI Vista Fund, Ltd. can liquidate 25% quarterly, with a 95-day notice. SEI holds 10% of total redemptions until completion of the funds' audits.

As of September 30, 2023 and 2022, these alternative investment funds made up approximately 11.5% and 12.4%, respectively, of total investments and assets whose use is restricted in the accompanying consolidated statements of net position.

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

- *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, 2023 and 2022, the System's investments were not exposed to custodial credit risk since the full amount of investments was insured or registered, and securities held by the System or its agent are in the System's name.

- *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 represents 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, alternative investment funds, and other pooled investments are excluded from this requirement. The System has no investments from any one issuer that exceed 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%.

- *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.

  As of September 30, 2023, 94.2% of the System's portfolio was invested in mutual or alternative funds. Due to the nature of mutual or alternative funds, credit risk rating is not consistent with the credit risk ratings of individual stocks that are measured by Moody's Investors Services and Standard & Poor's. These rating agencies do not provide credit risk rating of mutual or alternative funds.

- *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.

(in thousands)

The distribution of the System's investments and assets whose use is restricted by maturity is as follows:

September 30, 2023

	Fair Value	Less Than 1 Year	13 to 24 Months	25 to 60 Months	Greater Than 60 Months	N/A
Mutual Funds						
Domestic equity	$ 305,877	$ -	$ -	$ -	$ -	$ 305,877
International equity	391,305					391,305
Domestic fixed income	540,125					540,125
International fixed income	540					540
Total Mutual Funds	1,237,847	-	-	-	-	1,237,847
Fixed-Income Securities						
U.S. government and agency obligations	61,290	30,654	745	526	28,168	1,197
Corporate bonds	9,879	-	729	4,435	4,715	-
Municipal bonds	6,211	1,008	588	3,931	684	-
Asset-backed securities	3,498	-	804	-	2,694	-
Non-agency CMBS	269	-	-	-	269	-
Total Fixed-Income Securities	81,147	31,662	2,866	8,892	36,530	1,197
Investments and Assets Whose Use Is Restricted, measured at net asset value	172,272	-	-	-	-	172,272
Other						
Commercial paper and money market funds	5,501	217	3,900	-	-	1,384
	$ 1,496,767	$ 31,879	$ 6,766	$ 8,892	$ 36,530	$ 1,412,700

September 30, 2022

	Fair Value	Less Than 1 Year	13 to 24 Months	25 to 60 Months	Greater Than 60 Months	N/A
Mutual Funds						
Domestic equity	$ 285,439	$ -	$ -	$ -	$ -	$ 285,439
International equity	363,767	-	-	-	-	363,767
Domestic fixed income	540,016	-	-	-	-	540,016
Total Mutual Funds	1,189,222	-	-	-	-	1,189,222
Fixed-Income Securities						
U.S. government and agency obligations	30,566	1,408	1,531	4,840	22,787	-
Corporate bonds	9,463	-	127	5,905	3,431	-
Municipal bonds	6,302	-	993	3,576	1,733	-
U.S. Treasury obligations	476	-	-	-	-	476
Asset-backed securities	3,333	-	-	571	2,762	-
Non-agency CMBS	264	-	-	-	264	-
Total Fixed-Income Securities	50,404	1,408	2,651	14,892	30,977	476
Investments and Assets Whose Use Is Restricted, measured at net asset value	176,322	-	-	-	-	176,322
Other						
Commercial paper and money market funds	1,398	-	-	-	-	1,398
	$ 1,417,346	$ 1,408	$ 2,651	$ 14,892	$ 30,977	$ 1,367,418

(in thousands)

During the years ended September 30, 2023 and 2022, the System recorded net realized gains of approximately $1.6 million and $4.3 million, respectively, from the sale or redemption of investments and assets whose use is restricted. 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 and assets whose use is restricted that have been held for more than one fiscal year and sold in the current year may have unrealized gains and losses recognized in the prior year due to a change in the fair value of the investments.

The System recognized net unrealized gains on the change in the fair value of investments and assets whose use is restricted of $60.2 million for the year ended September 30, 2023 and recognized net unrealized losses of $308.5 million on the change in the fair value of investments and assets whose use is restricted for the year ended September 30, 2022. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying consolidated statements of revenues, expenses, and changes in fund net position in the period such fluctuations occur.

Net unrealized gains of approximately $23.0 million and net unrealized losses of $37.2 million were included in recorded fair values of investments and assets whose use is restricted at September 30, 2023 and 2022, respectively.

6. Capital Assets, Net

Capital asset additions, retirements, and balances were as follows:

	* Balance as Adjusted, September 30, 2022	Additions and Transfers	Retirements and Transfers	**Balance, September 30, 2023**
Land	$ 166,423	$ 10,347	$ -	**$ 176,770**
Construction-in-progress	84,11 1	246,794	(203,639)	**127,266**
Total Capital Assets Not Depreciated	250,534	257,141	(203,639)	**304,036**
Buildings and improvements	1,140,267	43,009	(59)	**1,183,217**
Equipment	1,167,911	90,017	(7,642)	**1,250,286**
Right-of-use leased buildings	133,370	38,892	(24,777)	**147,485**
Right-of-use leased equipment	31,138	2,942	(864)	**33,216**
Right-of-use subscription assets	37,746	32,878	-	**70,624**
Total Capital Assets Being Depreciated	2,510,432	207,738	(33,342)	**2,684,828**
Less: accumulated depreciation for:				
Buildings and improvements	(449,936)	(24,884)	48	**(474,772)**
Equipment	(775,332)	(79,878)	7,813	**(847,397)**
Right-of-use leased buildings	(32,480)	(13,957)	2,061	**(44,376)**
Right-of-use leased equipment	(9,138)	(6,711)	671	**(15,178)**
Right-of-use subscription assets	(11,044)	(14,246)	-	**(25,290)**
Total Accumulated Depreciation	(1,277,930)	(139,676)	10,593	**(1,407,013)**
Total Capital Assets Being Depreciated, Net	1,232,502	68,062	(22,749)	**1,277,815**
Total Capital Assets, Net	$ 1,483,036	$ 325,203	$ (226,388)	**$ 1,581,851**

* Balances as of September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

(in thousands)

	Balance, September 30, 2021	Additions and Transfers	Retirements and Transfers	***As Adjusted Balance, September 30, 2022**
Land	$ 167,243	$ 17,905	$ (18,725)	**$ 166,423**
Construction-in-progress	60,499	150,141	(126,529)	**84,111**
Total Capital Assets Not Depreciated	227,742	168,046	(145,254)	**250,534**
Buildings and improvements	1,167,438	17,454	(44,625)	**1,140,267**
Equipment	1,166,111	96,105	(94,305)	**1,167,911**
Right-of-use leased buildings	108,467	29,578	(4,675)	**133,370**
Right-of-use leased equipment	30,606	6,273	(5,741)	**31,138**
Right-of-use subscription assets	-	37,746	-	37,746
Total Capital Assets Being Depreciated	2,472,622	187,156	(149,346)	2,510,432
Less: accumulated depreciation for:				
Buildings and improvements	(460,969)	(31,333)	42,366	**(449,936)**
Equipment	(796,498)	(68,699)	89,865	**(775,332)**
Right-of-use leased buildings	(26,197)	(6,282)	(1)	**(32,480)**
Right-of-use leased equipment	(4,348)	(5,387)	597	**(9,138)**
Right-of-use subscription assets	-	(11,044)	-	(11,044)
Total Accumulated Depreciation	(1,288,012)	(122,745)	132,827	**(1,277,930)**
Total Capital Assets Being Depreciated, Net	1,184,610	64,411	(16,519)	**1,232,502**
Total Capital Assets, Net	$ 1,412,352	$ 232,457	$ (161,773)	**$ 1,483,036**

* Balances and activity as of and for the year ended September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

Construction-in-progress at September 30, 2023 consists primarily of expenditures for computer equipment, surgical equipment, and building renovations and improvements. The numerous projects underway at September 30, 2023 are funded through operations and by assets designated by the System's Board of Directors for the replacement of plant and equipment.

Depreciation and amortization expense related to capital assets was approximately $139.7 million and $122.8 million for the years ended September 30, 2023 and 2022, respectively.

7. Other Assets

Other assets consist of the following:

September 30,	**2023**	2022
Deposits and other	**$ 7,969**	$ 5,826
Long-term lease receivable	**10,572**	9,265
Investments in joint ventures	**46,598**	41,634
Other Assets	**$ 65,139**	$ 56,725

On May 23, 2022, the System, through LHH, acquired a 49.0% membership interest in Encompass Health Rehabilitation Hospital of Cape Coral, LLC (Encompass Health) for cash consideration of $16.3 million and accounts for such interest under the equity method. Encompass Health owns and operates a 40-bed rehabilitation facility in Cape Coral, Florida. The System's interest in Encompass Health's equity was approximately $16.3 million and $15.6 million at September 30, 2023 and 2022, respectively, and is included in non-current assets. The System reported its interest in Encompass Health's net earnings of $0.5 million as non-operating gain and interest in Encompass Health's net loss of $0.7 million for the years ended September 30, 2023 and 2022, respectively. Encompass Health's operating expenses exceeded revenue due to the start-up nature of its operations. Separate financial statements of Encompass Health are not publicly available.

The System entered into an Ancillary Services Agreement with Encompass Health, effective May 18, 2022, to provide laboratory, radiology, cardiovascular imaging, and emergency room services to Encompass Health patients. The agreement is for a one-year term and automatically renews for additional one-year terms, unless otherwise terminated. Either party may terminate the agreement without cause with at least 60 days' prior written notice. Where permitted, the System directly bills the patient or insurer for services provided to Encompass Health patients. Where not permitted by law, government, or a commercial third party to directly bill the patient, Encompass Health pays the System for the services provided at rates equal to the Medicare fee schedule.

The System has a 44.45% membership interest in a not-for-profit organization, LeeSar, Inc. (LeeSar), and accounts for such interest under the equity method. The System, along with the two other member health systems, developed LeeSar to meet the participating health systems' materials services and distribution needs. The System's interest in the equity of LeeSar was approximately $27.2 million and $26.1 million at September 30, 2023 and 2022, respectively, and is included in other non-current assets. The System's interest in LeeSar's excess of revenues over expenses was approximately $1.1 million and $1.7 million for the years ended September 30, 2023 and 2022, respectively. The change in LeeSar's reported excess of revenues over expenses from 2022 to 2023 was driven primarily by a reduction in other income, driven by market gain on swaps as well as increased salary and benefits expense year compared to the prior year. Separate financial statements of LeeSar are not publicly available.

LeeSar provides supplies, storage and distribution services, meal preparation services, and medical equipment sterilization services to the System. Total payments to LeeSar for such services were $180.9 million and $174.8 million for the years ended September 30, 2023 and 2022. At September 30, 2023 and 2022, respectively, amounts due to LeeSar of approximately $13.6 million and $12.2 million are included in accounts payable and amounts due from LeeSar of approximately $8.9 million and $8.3 million are included in other current assets in the consolidated statements of net position.

As of September 30, 2023, the System, through LHH, holds a 50% interest in Bimini Square, LLC (Bimini Square), a Florida limited liability company that will develop a mixed residential and medical office building in Cape Coral, Florida. As of September 30, 2023, the System, through LHH, holds a 7.1% interest in Orthopedic Surgery Building, LLC (OSSWF). OSSWF owns and operates a medical office building in Fort Myers, Florida. The System accounts for such interest under the equity method and its interest in the equity of Bimini Square and OSSWF, respectively, was $3.0 million and $0.1 million at September 30, 2023.

(in thousands)

8. Accrued Expenses

Accrued expenses consist of the following:

September 30,		**2023**		*As Adjusted 2022
Employee compensation	**$**	**80,030**	$	58,637
Interest		**13,622**		13,657
Other		**80,248**		72,497
Accrued Expenses	**$**	**173,900**	$	144,791

* Balances as of September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

9. Revenue Bonds

Revenue bonds consist of the following outstanding principal balances. Payment descriptions refer to principal payments only.

September 30,		**2023**		2022
Revenue Bonds				
Hospital Revenue Bonds, 2019 Series A (2019 Series A Bonds), payable in variable annual installments beginning April 2020 through April 2049. Net of unamortized premium of approximately $44,440 and $48,143 in 2023 and 2022, respectively.	**$**	**432,640**	$	441,053
Hospital Revenue Bonds, 2019 Series B (2019 Series B Bonds), payable in variable annual installments beginning April 2038 through April 2049.		**50,315**		50,315
Hospital Revenue Bonds, 2010 Series A (2010 Series A Bonds), payable in variable annual installments beginning April 2025 through April 2027.		**42,000**		42,000
Total Revenue Bonds		**524,955**		533,368
Less: current installments		**(5,420)**		(4,710)
Revenue Bonds, excluding current installments	**$**	**519,535**	$	528,658

2019 Series A Bonds

In April 2019, the System issued Hospital Revenue Bonds, 2019 Series A, in the amount of $421.4 million. The proceeds of the bonds were used to finance capital improvements to the health care facilities of the System, as well as refund certain revenue bonds and loans and notes payable. Costs of bond issuance were covered through proceeds of the bond. The 2019 Series A Bonds were issued in two interest rate modes: (1) 2019 Series A-1 as fixed rate and (2) 2019 Series A-2 as term rate. Both modes pay interest semi-annually on April 1 and October 1 each year with the term rate of 5.0%. The issuance of the 2019 Series A Bonds resulted in a premium of $60.9 million to be amortized over the life of the bonds and bond issuance costs of $3.0 million.

2019 Series B Bonds

In April 2019, the System issued Hospital Revenue Bonds, 2019 Series B, in the amount of $50.3 million. The proceeds of the 2019 Series B Bonds were used to finance capital improvements to the health care facilities of the System. Costs of bond issuance were covered through proceeds of the bonds. The 2019 Series B Bonds were issued as variable in the R-FLOATS mode with interest rates reset weekly and payable monthly. Weekly rates are determined by the remarketing agent based off current relevant market conditions and credit rating factors. If the remarketing agent fails to determine the weekly rate, an alternate rate based off the Securities Industry and Final Markets Association (SIFMA) index is utilized. Principal is paid annually in April beginning in 2038. No premiums or discounts were recognized in the issuance of this debt.

2010 Series A Bonds

In May 2010, the System issued Hospital Revenue Bonds, 2010 Series A (Build America Bonds - Direct Payment), in the amount of $42.0 million. The proceeds of the 2010 Series A Bonds were used to finance a portion of the costs of acquisition, equipping, and construction of the System's health care facilities. The 2010 Series A Bonds were issued as fixed-rate bonds with interest payable semi-annually on April 1 and October 1 of each year at 7.281% with a 33.005% interest paid rebate from the Internal Revenue Service, which becomes an effective rate of 4.878%.

Master Trust Indenture

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

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

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

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

(in thousands)

10. Loans and Notes Payable

Loans and notes payable consist of the following outstanding principal balances. Payment descriptions refer to principal payments only.

September 30,	**2023**	2022
Loans and Notes Payable		
2022 TD Bank Loan, payable in variable annual installments beginning April 2023 through April 2052	**$ 73,300**	$ 75,000
2022 JP Morgan Chase Loan, payable in variable annual installments beginning April 2023 through April 2052	**73,300**	75,000
2020 TD Bank Loan, payable in variable annual installments beginning April 2021 through June 2035	**94,900**	97,300
2020 JP Morgan Chase Loan, payable in fixed annual installments beginning April 2021 through April 2032	**39,000**	43,333
2016 BAPCC Loan, payable in variable monthly installments beginning July 2016 through June 2023	**-**	2,810
2015 BAPCC Loan, payable in variable monthly installments beginning October 2015 through September 2025	**10,801**	16,045
2015 Bank of America Loan, payable in variable annual installments beginning April 2016 through April 2024	**14,965**	30,390
Other direct borrowings	**49,449**	58,428
Total Loans and Notes Payable	**355,715**	398,306
Less: current installments	**(36,521)**	(42,591)
Loans and Notes Payable, excluding current installments	**$ 319,194**	$ 355,715

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

2023 Revolving Line of Credit

On November 4, 2022, the System entered into a revolving line of credit agreement with TD Bank, N.A., under which the System may request advances, for general corporate and liquidity purposes, up to a maximum principal amount of $50 million. The revolving line of credit is secured by Obligation No. 36 issued under the MTI. All outstanding principal and interest are payable in full on the maturity date, November 2, 2023. During the year ended 2023, the System borrowed the full $50 million, and fully repaid the principle and interest as of September 30, 2023. The interest rate was variable based on the one-month Term SOFR rate plus the Applicable Margin set forth in the agreement. The Credit Agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 36 is an accelerable instrument. Obligation No. 36 and the credit agreement are located on the EMMA website for full disclosure. Issuance costs were paid with internal funds.

2022 TD Bank Loan

In March 2022, the System's Board of Directors approved the issuance of the new direct bank loan in the amount of $75 million to reimburse the System for prior capital expenditures. The 2022 TD Bank Loan closed April 12, 2022 and is secured by Obligation No. 34 issued under the MTI. Principal payments are paid annually in April and amortized over 30 years with a mandatory purchase date of April 12, 2037. Interest is payable quarterly accruing at a fixed rate of 2.42% per annum and is subject to adjustments. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 34 is an accelerable instrument upon an event of default. Obligation No. 34 and the loan agreement are located on the EMMA website for full disclosure. Issuance costs were paid with internal funds.

2022 JP Morgan Chase Loan

In March 2022, the System's Board of Directors approved the issuance of the new direct bank loan in the amount of $75 million to reimburse the System for prior capital expenditures. The 2022 JP Morgan Chase Loan (DNT Asset Trust) closed April 12, 2022 and is secured by Obligation No. 35 under the MTI. Principal payments are paid annually in April and amortized over 30 years with a mandatory purchase date of April 12, 2037. Interest is payable semi-annually in October and April accruing at a fixed rate of 2.33% per annum and is subject to adjustments. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 35 is an accelerable instrument upon an event of default. Obligation No. 35 and the loan agreement are located on the EMMA website for full disclosure. Issuance costs were paid with internal funds.

2020 TD Bank Loan

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

2020 JP Morgan Chase Loan

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

2016 BAPCC Loan

On April 28, 2016, the System's Board of Directors approved the issuance of new debt in the amount of $25 million to reimburse the System for prior capital expenditures through a lease under a master lease agreement. The 2016 BAPCC Loan had a fixed-interest rate of 1.55% paid monthly and matured in June 2023. Issuance costs were paid with internal funds.

2015 BAPCC Loan

On August 27, 2015, the System's Board of Directors approved the issuance of new debt in the amount of $50 million to reimburse the System for prior capital expenditures through a lease under a master lease agreement. The 2015 BAPCC Loan bears a fixed-interest rate of 1.97% paid monthly and matures in September 2025. Issuance costs were paid with internal funds. If the System is unable to make payment within 30 days of written notice, it will be considered in default. The lessor may terminate the lease, demand payment of all amounts up to the original term and any contemplated renewal terms, and require the return of all equipment under the lease.

2015 Bank of America Loan

On June 25, 2015, the System's Board of Directors approved the refunding and refinancing of certain revenue bonds 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. Issuance costs were paid with internal funds. Inability to make debt service payments for this loan or any general debt obligations, or the inability to meet specified debt covenants, will be considered an event of default. If such events occur, at the discretion of the lender, the balance outstanding of this loan, along with other obligations of the System to the lender, become immediately due and payable within 15 days of declaration and/or the rate of interest on the unpaid principal shall be increased at the lender's discretion to the lesser of the prime rate plus 3% per annum, or the maximum rate permitted by law. Unpaid interest or fees, for the purpose of calculating interest, may become part of the principal balance, and are compounded on a daily basis until the entire outstanding principal and interest balance is paid.

Other Direct Borrowings

In September 2005, the System entered into a ground lease with CB Medical South, LLC and a ground lease with CB Medical North, LLC (collectively, the Lessors), whereby CB Medical South, LLC and CB Medical North, LLC are leasing constructed medical office buildings to the System. Since the System had continuing involvement with the assets as discussed in lease guidance addressing sale-leaseback transactions involving real estate, the System was unable to remove the assets and related debt from its consolidated statements of net position after construction of the assets was 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 finance obligations recordings to reflect the purchase transaction. The CB Medical South, LLC and CB Medical North, LLC values for capital assets and long-term finance obligations 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, 2023 and 2022, the value included in capital assets, net of accumulated depreciation, amounted to approximately $20.8 million and $21.3 million, respectively, for the Sanctuary Regional Cancer Center, and the total outstanding debt amounted to approximately $19.6 million and $20.7 million, respectively. At September 30, 2023 and 2022, the value included in capital assets, net of accumulated depreciation, amounted to approximately $23.1 million and $23.7 million, respectively, for the Sanctuary Outpatient Center, and the total outstanding debt amounted to approximately $26.7 million and $28.1 million, respectively.

In April 2018, the System entered into a Purchase Money Mortgage with Lee Healthcare Resources, a Florida not-for-profit corporation, in the amount of $10.3 million plus approximately $1.9 million in cash for the Med Plaza One Building containing medical and administrative offices. Principal payments of $2.1 million plus interest were paid annually through maturity in April 2023.

In November 2018, the System entered into a 20-year lease agreement with Plantation Medical Center SNU, LLC, a Florida Limited Liability Company. The System utilizes the 57,650-square-foot facility as the Skilled Nursing Unit at GCMC. The System has accounted for the debt obligation in its consolidated financial statements with a total value of $22.0 million and the remaining balance of $16.7 million as of September 30, 2023. There is a 2.5% annual increase to the rent obligation each November until the 11th year of the agreement, at which point the rent is adjusted to the Market Lease Rate as determined by an appraiser. The rate will continue to increase annually by 2.5% for the remainder of the lease. The System has the option to purchase the premises at year ten and every five years thereafter.

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

The MTI and direct borrowing loan and lease agreements require the System to maintain specified financial ratios, the most restrictive of which are a minimum debt service coverage ratio, long-term debt-to-capital ratio, and minimum cash and investment balances, and provide a pledge of revenues of the System on a parity basis. The System was in compliance with the financial covenants for the years ended September 30, 2023 and 2022. The nonobligated group members include the Trauma District; LMHH; Health Park Care Center, Inc.; the Lee Health Foundation, Inc.; LCH; Best Care Assurance, LLC.; Best Care Collaborative, LLC; Best Care Partners, Inc.; BCHC; LHH; and Paramount.

(in thousands)

11. Right-of-Use Lease Obligations

Right-of-use lease obligations are as follows:

September 30,		**2023**		2022
Right-of-use lease obligations	**$**	**123,671**	$	115,266
Less: current installments		**(15,631)**		(13,613)
Right-of-Use Lease Obligations, less current installments	**$**	**108,040**	$	101,653

During the years ended September 30, 2023 and 2022, respectively, interest expense of approximately $6.4 million and $5.3 million was incurred related to the lease obligations with interest rates ranging from 0.66% to 29.75% and from 0.33% to 4.89%. During the years ended September 30, 2023 and 2022, respectively, the System incurred and reported approximately $3.4 million and $2.1 million in short-term and variable lease-related expense within supplies and other services expense in the accompanying consolidated statements of revenues, expenses, and changes in fund net position.

12. Subscription Liabilities

Subscription liabilities are as follows:

September 30,		**2023**		*As Adjusted 2022
Subscription liabilities	**$**	**40,404**	$	25,290
Less: current installments		**(17,758)**		(12,280)
Subscription Liabilities, less current installments	**$**	**22,646**	$	13,010

* Balances as of September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

During the year ended September 30, 2023 and 2022, interest expense of approximately $0.1 million was incurred related to the subscription liabilities with interest rates ranging from 0.54% to 4.2%.

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(in thousands)

13. Long-Term Obligations

Long-term obligations is comprised of revenue bonds and related bond premium, loans and notes payable, lease obligations, and subscription liabilities. Long-term obligations activity was as follows:

	*As Adjusted Balance, September 30, 2022	Increases	Decreases	**Balance, September 30, 2023**	Due Within One Year
Revenue Bonds					
2019 Series A Bonds	$ 441,053	$ -	$ (8,413)	**$ 432,640**	$ 5,420
2019 Series B Bonds	50,315	-	-	**50,315**	-
2010 Series A Bonds	42,000	-	-	**42,000**	-
Total Revenue Bonds	533,368	-	(8,413)	**524,955**	5,420
Loans and Notes Payable					
2023 TD Bank revolving line of credit	-	50,000	(50,000)	**-**	-
2022 TD Bank loan	75,000	-	(1,700)	**73,300**	1,740
2022 JP Morgan Chase Loan	75,000	-	(1,700)	**73,300**	1,740
2020 TD Bank Loan	97,300	-	(2,400)	**94,900**	2,500
2020 JP Morgan Chase Loan	43,333	-	(4,333)	**39,000**	4,333
2016 BAPCC Loan	2,810	-	(2,810)	**-**	-
2015 BAPCC Loan	16,045	-	(5,244)	**10,801**	5,347
2015 Bank of America Loan	30,390	-	(15,425)	**14,965**	14,965
Other direct borrowings	58,428	-	(8,979)	**49,449**	5,896
Total Loans and Notes Payable	398,306	50,000	(92,591)	**355,715**	36,521
Right-of-Use Lease Obligations	115,266	40,530	(32,125)	**123,671**	15,631
Subscription Liabilities	25,290	32,877	(17,763)	**40,404**	17,758
Total	$ 1,072,230	$ 123,407	$ (150,892)	**$ 1,044,745**	$ 75,330

* Balances as of September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

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(in thousands)

	Balance, September 30, 2021	Increases	Decreases	*As Adjusted Balance, September 30, 2022	Due Within One Year
Revenue Bonds					
2019 Series A Bonds	$ 453,650	$ -	$ (12,597)	**$ 441,053**	$ 4,710
2019 Series B Bonds	50,315	-	-	**50,315**	-
2010 Series A Bonds	42,000	-	-	**42,000**	-
Total Revenue Bonds	545,965	-	(12,597)	**533,368**	4,710
Loans and Notes Payable					
2022 TD Bank loan	-	75,000	-	**75,000**	1,700
2022 JP Morgan Chase Loan	-	75,000	-	**75,000**	1,700
2020 TD Bank Loan	99,700	-	(2,400)	**97,300**	2,400
2020 JP Morgan Chase Loan	47,667	-	(4,334)	**43,333**	4,333
2016 BAPCC Loan	6,506	-	(3,696)	**2,810**	2,810
2015 BAPCC Loan	21,186	-	(5,141)	**16,045**	5,243
2015 Bank of America Loan	40,010	-	(9,620)	**30,390**	15,425
Other direct borrowings	64,332	2,930	(8,834)	**58,428**	8,980
Total Loans and Notes Payable	279,401	152,930	(34,025)	**398,306**	42,591
Right-of-Use Lease Obligations	107,862	17,862	(10,458)	**115,266**	13,613
Subscription Liabilities	-	37,066	(11,776)	**25,290**	12,280
Total	$ 933,228	$ 207,858	$ (68,856)	**$ 1,072,230**	$ 73,194

* Balances and activity for the year ended September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

Maturities of long-term obligations and corresponding interest over the five years following September 30, 2023 and in five-year increments thereafter are as follows:

Fiscal Year(s)	Revenue Bonds		Loans and Notes Payable		Right-of-Use Lease Obligations		Subscription Liabilities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2024	$ 5,420	$ 21,650	$ 36,521	$ 9,454	$ 15,631	$ 6,630	$ 17,758	$ 910
2025	21,860	21,379	19,045	8,470	13,322	6,260	9,573	683
2026	23,055	20,289	14,023	7,999	12,222	5,726	6,300	409
2027	24,180	19,160	14,590	7,561	9,750	4,056	5,459	191
2028	24,080	17,975	15,165	7,104	1,161	1,495	1,314	11
2029-2033	114,375	72,357	80,637	27,393	23,609	16,072	-	-
2034-2038	137,240	39,963	41,664	17,381	16,481	15,952	-	-
2039-2043	50,555	19,257	45,680	12,701	9,952	4,603	-	-
2044-2048	65,280	8,674	51,830	7,415	7,841	3,131	-	-
2049-2053	14,470	429	36,560	1,783	12,841	2,719	-	-
2054-2057	-	-	-	-	861	8	-	-
	480,515	241,133	355,715	107,261	123,671	66,652	40,404	2,204
Unamortized premium	44,440	-	-	-	-	-	-	-
	$ 524,955	$ 241,133	$ 355,715	$ 107,261	$123,671	$ 66,652	$ 40,404	$ 2,204

14. 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 Annuity 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 Annuity Plan by matching approximately 5% of the participating employees' salaries. The Board of Directors of the System has the sole discretion to amend the Annuity Plan and change the contribution amount. Contribution expense incurred by the System in connection with the Annuity Plan was $28.6 million and $25.0 million for the years ended September 30, 2023 and 2022, respectively.

Retiree Health Insurance Plan

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

Plan Description

The System's RHI Plan provides medical benefits to eligible retired employees under a defined benefit post-employment health care plan.

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

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

Benefits Provided

The RHI Plan provides for a $2,500 per-retiree benefit to be paid on an annual basis. The RHI Plan also sets forth an increase of 2% per year after retirement. To be eligible for benefits, an employee must meet one of four eligibility requirements. The first is to retire after attaining age 65 with 20 years of continuous full-time (or equivalent) service and retire after January 1, 2009. The second is to be age 63 or older on May 1, 1993 and retire after attaining age 65 with 20 years of full-time (or equivalent) service. The third is to become disabled with 20 years continuous full-time (or equivalent) service, before attaining age 65. Last, an employee would need to have 30 or more years of full-time (or equivalent) service on September 30, 2009. Part-time services count as ½ of full-time service. Temporary or PRN service is not eligible.

(in thousands)

Contributions

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

Employees Covered by Benefit Terms

As of April 1, 2022, the census date for the OPEB liability, the following employees were covered by the benefit terms:

Participant data, as of April 1, 2022:	
Retirees	613
Fully eligible	810
Other	1,244
	2,667

Net OPEB Liability

The System's OPEB service cost and total OPEB liability were measured as of December 31,2022, the measurement date, based on participant data as of the census date.

The total OPEB liability in the September 30, 2023 actuarial valuation was projected from the measurement date using standard methodology, adjusting for benefit payments, expected growth in benefit obligations, changes in key assumptions and plan provisions, and any significant changes in plan demographics that occurred during the year. Assumptions and methods used in the estimate are as follows:

Current health care cost trend rate	7.5%
Investment rate of return	0.0%, due to the unfunded nature of the RHI Plan
Salary increases	3.0%

Healthy mortality rates were based on the following demographic assumptions: a base table of Pri-2012, a base mortality table year 2012, table type – no collar, table weighting – headcount, blending of separate rates for annuitants and non-annuitants (based on Employees table), blending of retirees, and contingent annuitants of combined non-disabled annuitant mortality. The mortality improvement scale (male table for males and female table for females) was MP-2021.

The disability mortality rates (non-sunset employees only) were based on the following demographic assumptions: a base table of Pri-2012, base mortality table year 2012, table type – no collar, table weighting – headcount, and a base scale of MP-2021.

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

The discount rate used to measure the total OPEB liability was 4.05%. The individual EAN Cost Method is used in completing the actuarial valuation. Under this method, the normal cost is the level percentage of pay contribution that would have been required from age on the valuation date coincident with or next following the date the employee is hired in order to fund the employed participant's OPEB benefits if the current plan provisions regarding accrual of benefits had always been in effect. The total OPEB liability is the excess of the present value of future benefits over the present value of future service costs for employed participants. The service cost and total OPEB liability for the RHI Plan are the sums of the individually computed service costs and OPEB liabilities for all plan participants.

(in thousands)

The discount rate for an unfunded OPEB plan is based on a 20-year high-quality municipal bond rate as of the last business day preceding or coincident with the measurement date. The discount rate used in the valuation was determined using the 20-year yields on the Fidelity AA Municipal General Obligation Fund (rounded to two decimal places).

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

Net OPEB Liability, September 30, 2022	$	71,239
Changes for the year:		
Service cost		979
Interest cost		1,164
Changes in benefit terms		-
Differences between expected and actual experience		(7,253)
Changes of assumptions		(15,116)
Benefit payments		(1,866)
Net Change		(22,092)
Net OPEB Liability, September 30, 2023	$	49,147

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

The following table presents, as of September 30, 2023, the System's net OPEB liability calculated using the discount rate of 4.05%, as well as the net OPEB liability using a discount rate that is 1% lower (3.05%) or 1% higher (5.05%):

		1% Decrease (3.05%)		Current Discount Rate (4.05%)		1% Increase (5.05%)
Net OPEB Liability	$	55,317	$	49,147	$	43,950

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

The following presents, as of September 30, 2023, the System's net OPEB liability calculated using the health care cost trend rate of 7.5%, as well as the net OPEB liability using a rate that is 1% lower (6.5%) or 1% higher (8.5%):

		1% Decrease (6.5%)		Current Health Care Cost Trend Rate (7.5%)		1% Increase (8.5%)
Net OPEB Liability	$	48,323	$	49,147	$	50,258

The System is currently funding the OPEB obligation as benefits are paid; therefore, no assets have been segregated and/or restricted to provide the postemployment benefits.

(in thousands)

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

Discount rate on 20-year general obligation municipal bonds	4.05% as of the last business day preceding the measurement date
Rates of increase in compensation	5.0% based on the System's budgetary salary increase for the fiscal year 2023 budget year

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

The System recognized OPEB expense of approximately $0.2 million and $5.8 million for the years ended September 30, 2023 and 2022, respectively. At September 30, 2023, the System reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

September 30, 2023

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,123	$ 6,283
Changes of assumptions	3,383	12,554
Total	$ 4,506	$ 18,837

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

Year ending September 30,	
2024	$ (2,279)
2025	(2,279)
2026	(2,725)
2027	(3,636)
2028	(3,412)
Thereafter	-

Payable to the OPEB Plan

As of September 30, 2023, there are no payables to the RHI Plan.

Defined Benefit Pension Plan

Plan Description

The System sponsors a frozen, noncontributory, single-employer, defined-benefit plan retirement plan (the CCMC 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 (ARC) prescribed by GASB and determined by the actuary. For the years ended September 30, 2023 and 2022, respectively, the ARC was $1.0 and $1.2 million.

(in thousands)

Benefits Provided

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

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

Employees Covered by Benefit Terms

At July 1, 2023, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data, July 1, 2023:	
Active	55
Terminated vested	402
Retired	458
	915

Contributions

The System's funding policy is to make contributions to meet the minimum funding requirements of the Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, the Plan Sponsor may contribute an amount above the required contribution. For the years ended September 30, 2023 and 2022, the Plan Sponsor's contributions of approximately $0.6 million and $2.1 million, respectively, met the minimum funding requirements.

Net Pension Liability

The System's net pension liability was measured as of July 1, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2023. The net pension liability of $5.0 million and $7.1 million is included in pension and post-employment benefit plan liabilities in the accompanying consolidated statements of net position at September 30, 2023 and 2022, respectively.

(in thousands)

The total pension liability in the September 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.3%
Investment rate of return*	6.4%
Salary increases	N/A

* Net of pension plan investment expense, including inflation.

Effective September 30, 2023, the assumption for mortality amounts weighted rates from the Pri-2012 mortality study projected generationally from 2012 with Scale MP-2021.

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

The best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2023 are summarized as follows:

	Target Allocation (%)	Real Rate of Return (%)
Asset Class		
Domestic equity	36.5	4.8
International equity	14.0	5.2
Corporate fixed income	23.0	1.7
Government fixed income	20.7	1.8
Cash	5.8	0.9
Total	100	

The discount rate used to measure the total pension liability was 6.35% and 5.70% for the years ended September 30, 2023 and 2022, respectively. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. For the year ended September 30, 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.35%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(in thousands)

Changes in the net pension liability are summarized as follows:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Beginning Balance, September 30, 2022	$ 32,599	$ 25,521	$ 7,078
Changes for the year:			
Interest	1,801	-	1,801
Differences between expected and actual experience	295	-	295
Changes of assumptions	(1,647)	-	(1,647)
Net investment income	-	2,034	(2,034)
Benefit payments	(2,013)	(2,013)	-
Contributions from the System	-	597	(597)
Administrative expense	-	(120)	120
Net Change	(1,564)	498	(2,062)
Ending Balance, September 30, 2023	$ 31,035	$ 26,019	$ 5,016
Plan Fiduciary Net Position, as a percentage of the total pension liability		84%	

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

The following presents, as of September 30, 2023, the System's net pension liability calculated using the discount rate of 6.35%, as well as the net pension liability using a discount rate that is 1% lower (5.35%) or 1% higher (7.35%):

	1% Decrease (5.35%)	Current Discount Rate (6.35%)	1% Increase (7.35%)
Net Pension Liability	$ 7,615	$ 5,016	$ 2,758

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

The System recognized a $0.4 million decrease of total pension liability as a reduction of pension benefit expense for the year ended September 30, 2023. The System recognized a $0.8 million increase of total pension liability as pension benefit expense for the year ended September 30, 2022.

The System reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources as of September 30, 2023:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,734	$ -
Contributions made after measurement date	597	-
Total	$ 2,331	$ -

(in thousands)

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:

Year ending September 30,		
2024	$	466
2025		317
2026		1,075
2027		(124)
2028		-

Payable to the Defined Benefit Pension Plan

As of September 30, 2023 and 2022, there are no payables to the CCMC Plan.

15. Commitments and Contingencies

Risk Management

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

Professional Liability Insurance

The System is subject to various medical malpractice claims arising in the normal course of its business activities. The System is self-insured for professional liability claims and is relying on a limitation of its liability established by the Waiver of Sovereign Immunity Act of the State of Florida (the Act). The Act limits the amount of damages the System would be required to pay up to $100 thousand per claimant or $200 thousand per incident. Effective October 1, 2011, the sovereign immunity limits in Florida were increased to $200 thousand per claimant or $300 thousand per incident. In 1986, the Florida Supreme Court affirmed the constitutionality of the Act and its applicability to public hospitals. Various suits and claims arising in the ordinary course of business are pending against the System. Management is of the opinion that future potential uninsured losses from incidents occurring prior to September 30, 2023, if any, will not be materially different from the amounts recorded in the accompanying consolidated financial statements.

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

(in thousands)

Cape Coral Hospital's and LMHH'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.

Professional liability losses that are subject to the deductible provisions have been estimated and accrued in the accompanying consolidated financial statements. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such losses. Management of the System has established a liability that provides for estimated malpractice claims identified under the System's risk management program based on several factors, including the nature of each claim, past experience, advice from legal counsel, and actuarial studies, which reflect liabilities discounted at 4% for the years ended September 30, 2023 and 2022. Management believes the established reserves are adequately stated as of September 30, 2023 and 2022.

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

Year ended September 30,		**2023**		2022
Amount of Claims Liabilities, beginning of year	**$**	**18,400**	$	17,173
Incurred claims		**8,600**		3,878
Payments on claims attributable to events of both the current fiscal year and prior fiscal years		**(8,040)**		(2,651)
Amount of Claims Liabilities, end of year	**$**	**18,960**	$	18,400

Malpractice liabilities are classified as current or non-current according to the timing of expected future payments and reported within accrued expenses and other liabilities in the accompanying consolidated statements of net position. Malpractice liabilities estimated to be due within one year were $4.8 million as of September 30, 2023 and 2022.

Health Insurance

The System is self-insured for group health insurance. Group health expense, net of employee contributions, under this program amounted to approximately $85.9 million and $70.4 million for the years ended September 30, 2023 and 2022, respectively. Group health insurance claims payable, including an estimate for incurred but not reported claims, are reported within accrued expenses in the accompanying consolidated statements of net position. Although actual future results may differ from estimates of incurred but not reported claims, management believes the estimated accrual is adequately stated as of September 30, 2023 and 2022.

(in thousands)

The estimated claims incurred, payments on claims, and the balance of reserves for group health insurance claims were as follows:

Year ended September 30,		**2023**		2022
Amount of Claims Liabilities, beginning of year	**$**	**20,212**	$	18,712
Incurred claims		**135,151**		122,653
Payments on claims attributable to events of both the current fiscal year and prior fiscal years		**(134,151)**		(121,153)
Amount of Claims Liabilities, end of year	**$**	**21,212**	$	20,212

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 2023 and 2022. The reserve for workers' compensation claims included in the consolidated financial statements was discounted at a rate of 4% for the years ended September 30, 2023 and 2022. The estimated claims incurred, payments on claims, and the balance of the reserve for workers' compensation claims were as follows:

Year ended September 30,		**2023**		2022
Amount of Claims Liabilities, beginning of year	**$**	**13,800**	$	13,205
Incurred claims		**6,871**		6,718
Payments on claims attributable to events of both the current fiscal year and prior fiscal years		**(5,288)**		(6,123)
Amount of Claims Liabilities, end of year	**$**	**15,383**	$	13,800

Workers' compensation liabilities are classified as current or non-current according to the timing of expected future payments and reported within accrued expenses and other liabilities in the accompanying consolidated statements of net position. Workers' compensation liabilities estimated to be due within one year were $5.7 million and $4.1 million as of September 30, 2023 and 2022, respectively.

Accrued Employee PTO

The activity related to accrued employee PTO liabilities was as follows:

Year ended September 30,		**2023**		2022
Amount of PTO Liabilities, beginning of year	**$**	**51,014**	$	45,744
Earned PTO		**88,868**		80,120
PTO used, forfeit, or paid		**(86,865)**		(74,850)
Amount of PTO Liabilities, end of year	**$**	**53,017**	$	51,014

Employee PTO liabilities are classified as current or non-current according to the timing of expected utilization based on historical experience and are reported as accrued expense and other liabilities in the accompanying consolidated statements of net position. Employee PTO liabilities estimated to be due within one year were $23.0 million and $20.7 million as of September 30, 2023 and 2022, respectively.

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 health care providers. Such investigations and allegations often take multiple years to resolve. Violations of these laws and regulations could result in significant fines and penalties, including repayments for patient services previously reimbursed.

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

The Health Insurance Portability and Accountability Act (HIPAA) was enacted on August 21, 1996 to assure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Effective August 2009, the Health Information Technology for Economic and Clinical Health Act (HITECH Act) was introduced, imposing notification requirements in the event of certain security breaches relating to protected health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in these laws and accompanying regulations.

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.

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(in thousands)

16. Component Unit Information

Cape Coral Hospital is the System's only major blended component unit. Paramount is the System's only discrete component unit. The condensed statements of net position, adjusted for intercompany receivables and payables, are as follows:

September 30, 2023

	System and Other Blended Components	Cape Coral Hospital	Paramount Surgery Center, LLC	Total
Assets				
Current and other assets	$ 1,499,731	$ 643,744	$ 5,157	$ 2,148,632
Capital assets	1,473,281	108,385	185	1,581,851
Total Assets	$ 2,973,012	$ 752,129	$ 5,342	$ 3,730,483
Total Deferred Outflows of Resources	$ 97,883	$ 6,018	$ -	$ 103,901
Liabilities				
Current liabilities	$ 301,204	$ 33,996	$ 1,438	$ 336,638
Long-term liabilities	1,059,462	25,720	2,027	1,087,209
Total Liabilities	$ 1,360,666	$ 59,716	$ 3,465	$ 1,423,847
Total Deferred Inflows of Resources	$ 36,380	$ (3,942)	$ -	$ 32,438
Net Position				
Restricted	$ 64,195	$ -	$ 920	$ 65,115
Net investment in capital assets	454,334	82,584	185	537,103
Unrestricted	1,155,320	619,789	772	1,775,881
Total Net Position	$ 1,673,849	$ 702,373	$ 1,877	$ 2,378,099

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(in thousands)

September 30, 2022, as adjusted

	System and Other Blended Components	Cape Coral Hospital	Paramount Surgery Center, LLC	Total
Assets				
Current and other assets	$ 1,415,684	$ 626,884	$ 4,970	$ 2,047,538
Capital assets	1,388,871	93,922	243	1,483,036
Total Assets	$ 2,804,555	$ 720,806	$ 5,213	$ 3,530,574
Total Deferred Outflows of Resources	$ 104,512	$ 6,935	$ -	$ 111,447
Liabilities				
Current liabilities	$ 271,221	$ 47,224	$ 1,204	$ 319,649
Long-term liabilities	1,096,624	43,402	2,234	1,142,260
Total Liabilities	$ 1,367,845	$ 90,626	$ 3,438	$ 1,461,909
Total Deferred Inflows of Resources	$ 19,872	$ (6,081)	$ -	$ 13,791
Net Position				
Restricted	$ 58,845	$ -	$ 870	$ 59,715
Net investment in capital assets	356,454	52,697	243	409,394
Unrestricted	1,106,051	590,499	662	1,697,212
Total Net Position	$ 1,521,350	$ 643,196	$ 1,775	$ 2,166,321

* Balances as of September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

The condensed statements of revenues, expenses, and changes in fund net position are as follows:

Year ended September 30, 2023

	System and Other Blended Components	Cape Coral Hospital	Paramount Surgery Center, LLC	Total
Operating revenues	$ 2,484,450	$ 391,882	$ 18,248	$ 2,894,580
Operating expenses	2,473,813	330,444	10,669	2,814,926
Operating Income	10,637	61,438	7,579	79,654
Non-operating expense	122,278	(2,261)	(150)	119,867
Federal and state appropriations	11,711	-	-	11,711
Contributions and grants	4,136	-	-	4,136
Total Non-Operating Income (Loss)	138,125	(2,261)	(150)	135,714
Excess of Revenues and Income Over Expenses	148,762	59,177	7,429	215,368
Other Changes in Net Position				
Distributions to minority interest in joint venture	3,737	-	(7,327)	(3,590)
Increase in Net Position	$ 152,499	$ 59,177	$ 102	$ 211,778

(in thousands)

*Year ended September 30, 2022, as adjusted**

	System and Other Blended Components	Cape Coral Hospital	Paramount Surgery Center, LLC	Total
Operating revenues	$ 2,398,700	$ 385,871	$ 16,842	$ 2,801,413
Operating expenses	2,312,540	288,753	10,278	2,611,571
Operating Income	86,160	97,118	6,564	189,842
Non-operating expense	(208,916)	(2,221)	(81)	(211,218)
Federal and state appropriations	15,005	-	-	15,005
Contributions and grants	3,098	-	-	3,098
Total Non-Operating Loss	(190,813)	(2,221)	(81)	(193,115)
(Deficit) Excess of Revenues and Income Over Expenses	(104,653)	94,897	6,483	(3,273)
Other Changes in Net Position				
Distributions to minority interest in joint venture	3,621	-	(7,100)	(3,479)
(Decrease) Increase in Net Position	$ (101,032)	$ 94,897	$ (617)	$ (6,752)

* Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

The condensed statements of cash flows are as follows:

Year ended September 30, 2023

	System and Other Blended Components	Cape Coral Hospital	Paramount Surgery Center, LLC	Total
Net cash provided by (used in):				
Operating activities	$ 59,650	$ 46,898	$ 6,876	$ 113,424
Noncapital financing activities	40,595	-	(92)	40,503
Capital and related financing activities	(255,820)	(46,920)	-	(302,740)
Investment activities	53,752	22	(7,327)	46,447
Net Change in Cash and Cash Equivalents*	(101,823)	-	(543)	(102,366)
Cash and Cash Equivalents*, beginning of year	145,518	-	1,025	146,543
Cash and Cash Equivalents*, end of year	$ 43,695	$ -	$ 482	$ 44,177

(in thousands)

*Year ended September 30, 2022, as adjusted***

	System and Other Blended Components	Cape Coral Hospital	Paramount Surgery Center, LLC	Total
Net cash provided by (used in):				
Operating activities	$ 69,010	$ 65,824	$ 6,362	$ 141,196
Noncapital financing activities	69,545	(43,518)	(32)	25,995
Capital and related financing activities	(52,266)	(22,315)	-	(74,581)
Investment activities	(148,299)	9	(5,730)	(154,020)
Net Change in Cash and Cash Equivalents*	(62,010)	-	600	(61,410)
Cash and Cash Equivalents*, beginning of year	207,528	-	425	207,953
Cash and Cash Equivalents*, end of year	$ 145,518	$ -	$ 1,025	$ 146,543

* Unrestricted and restricted cash and cash equivalents.

** Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

17. COVID-19 Pandemic

In response to the novel coronavirus (COVID-19) global pandemic and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills that have provided certain financial benefits to the System. Principal among these was the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), enacted on March 27, 2020. Under the CARES Act, the System received approximately $88.2 million, of which the System recognized $7.0 million as non-operating revenue within federal and state appropriations in the consolidated statements of revenues, expenses, and changes in fund net position for the year ended September 30, 2022. The remaining $81.2 million was recognized as non-operating revenue prior to October 1, 2021.

The System received a $7.9 million FEMA grant program during the year ended September 30, 2022, also reported as non-operating revenue within federal and state appropriations in the consolidated statements of revenues, expenses, and changes in fund net position, to help to offset $17.0 million in COVID-19 supplied and equipment costs incurred through December 31, 2020 but not included in the System's CARES Act reported expenses.

The System also received approximately $176.8 million as part of the expanded Accelerated and Advance Payment Program under the CARES Act. The Continuing Appropriations Act, 2021 and Other Extensions waived interest charges for accelerated payments repaid within 30 months of receipt. As of September 30, 2022, $1.8 million remained unpaid, classified as Medicare advance payments within current liabilities in the consolidated statements of net position. All amounts were repaid as of September 30, 2023.

18. Subsequent Events

The System has assessed the impact of subsequent events through January 30, 2024, the date the audited consolidated financial statements were issued, and has concluded that there are no items that require disclosure in the consolidated financial statements.

Required Supplementary Information

Lee Memorial Health System

Schedule of Changes in the Net Pension Liability and Related Ratios - CCMC Plan
(unaudited)
(in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015*	2014*
Total Pension Liability										
Service cost	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest	**1,801**	1,830	1,790	1,922	1,999	2,072	2,018	1,992	1,955	-
Changes of benefit terms	**-**	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	**295**	(289)	61	314	240	(108)	292	415	45	-
Changes of assumptions	**(1,647)**	230	(1,218)	2,560	2,306	617	130	(402)	-	-
Benefit payments	**(2,013)**	(1,976)	(1,946)	(1,870)	(1,810)	(1,747)	(1,718)	(1,586)	(1,458)	-
Net Change in Total Pension Liability	**(1,564)**	(205)	(1,313)	2,926	2,735	834	722	419	542	-
Total Pension Liability, beginning of year	**32,599**	32,804	34,117	31,191	28,456	27,622	26,900	26,481	25,939	-
Total Pension Liability, end of year	**31,035**	32,599	32,804	34,117	31,191	28,456	27,622	26,900	26,481	25,939
Plan Fiduciary Net Position										
Employer contributions	**597**	1,786	1,595	1,073	502	687	774	903	977	-
Net investment income	**2,034**	(4,262)	5,149	850	1,686	1,720	2,561	260	463	-
Benefit payments	**(2,013)**	(1,976)	(1,946)	(1,870)	(1,810)	(1,747)	(1,718)	(1,586)	(1,458)	-
Administrative expense	**(120)**	(137)	(127)	(114)	(108)	(140)	(108)	(105)	(108)	-
Net Change in Plan Fiduciary Net Position	**498**	(4,589)	4,671	(61)	270	520	1,509	(528)	(126)	-
Plan Fiduciary Net Position, beginning of year	**25,521**	30,110	25,439	25,500	25,230	24,710	23,201	23,729	23,855	-
Plan Fiduciary Net Position, end of year	**26,019**	25,521	30,110	25,439	25,500	25,230	24,710	23,201	23,729	23,855
Net Pension Liability, end of year	**$ 5,016**	$ 7,078	$ 2,694	$ 8,678	$ 5,691	$ 3,226	$ 2,912	$ 3,699	$ 2,752	$ 2,084
Plan Fiduciary Net Position, as a percentage of total pension liability (%)	**83.84**	78.29	91.79	74.57	81.76	88.66	89.46	86.25	89.61	91.97

* 2015 opening balances and 2014 ending balances established for purpose of GASB 68 year-one disclosure requirements effective October 1, 2014.

See accompanying notes to required supplementary information - CCMC Plan.

Lee Memorial Health System

Schedule of Employer Contributions - CCMC Plan
(unaudited)
(in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	**$ 1,161**	$ 1,198	$ 1,724	$ 1,208	$ 669	$ 658	$ 774	$ 903	$ 949	$ 1,062
Contributions in relation to the actuarially determined contribution	**597**	1,786	1,595	1,073	502	687	774	903	977	1,062
Contribution Deficiency (Excess)	**$ 564**	$ (588)	$ 129	$ 135	$ 167	$ (29)	$ -	$ -	$ (28)	$ -

See accompanying notes to required supplementary information - CCMC Plan.

Lee Memorial Health System

Schedule of Investment Returns - CCMC Plan
(unaudited)

	2023 (%)	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)
Annual Money-Weighted Rate of Return*, net of investment expense	**8.2**	(14.1)	20.5	3.4	6.9	7.1	11.3	1.1	2.0

* Reported returns for GASB 67 disclosure requirements effective October 1, 2014 or fiscal year 2015.

See accompanying notes to required supplementary information - CCMC Plan.

1. The accompanying schedules are intended to display information for ten years. 2015 opening balances were established for purposes of year-one disclosure requirements effective October 1, 2014. Additional years will be displayed as they become available.
2. Covered payroll information is not provided as the CCMC Plan is frozen and contributions are not determined by current payroll as benefit accruals ceased September 30, 1995.
3. The information presented was determined as part of the actuarial valuation as of September 30, 2023. Additional information as of the latest actuarial valuation presented is as follows:

Actuarial cost method	Entry Age Normal Cost Method
Asset valuation method	Five-year smoothing
Investment rate of return	6.35% net of pension plan investment expense, including inflation
Discount rate	6.35%
Inflation	2.3%
Salary increases	Not applicable due to plan freeze
Internal Revenue Service Limit increases	2.5%
Retirement age	65

4. Changes with respect to actuarial assumptions in the current and prior years are as follows:
   a. From 2022 to 2023, the discount rate changed from 5.70% to 6.35% and the mortality improvement projection scale was updated from Scale MP-2020 to MP-2021.
   b. From 2021 to 2022, the discount rate changed from 5.75% to 5.70% and the mortality improvement projection scale was updated from Scale MP-2020 to Scale MP-2021.
   c. From 2020 to 2021, the discount rate changed from 5.40% to 5.75% and the mortality improvement projection scale was updated from Scale MP-2019 to Scale MP-2020.
   d. From 2019 to 2020, the discount rate changed from 6.35% to 5.40%. Mortality assumptions were updated from RP-2006 fully generational projected using Scale MP-2018 to weighted rates from the Pri-2012 mortality study projected generationally from 2012 with Scale MP-2019.
   e. From 2018 to 2019, the discount rate changed from 7.25% to 6.35%. The mortality projection scale was updated from MP-2017 to MP-2018.
   f. From 2017 to 2018, the discount rate was changed from 7.50% to 7.25%.
   g. From 2016 to 2017, the expected return on assets and discount rate changed from 7.75% to 7.5%. The mortality projection scale was updated from MP-2015 to MP-2017.

Lee Memorial Health System

Schedule of Changes in Total Other Post-Employment Benefits (OPEB) Liability (unaudited) (in thousands)

Year ended September 30,	**2023**	2022	2021	2020	2019	2018
Total OPEB Liability						
Service cost	**$ 979**	$ 1,445	$ 777	$ 640	$ 673	$ 683
Interest	**1,164**	1,354	1,674	1,994	1,870	1,728
Changes of benefit terms	**-**	-	(15)	-	-	-
Differences between expected and actual experience	**(7,253)**	(402)	2,395	(450)	2,114	-
Changes of assumptions	**(15,116)**	1,753	3,078	6,947	(2,552)	-
Benefit payments	**(1,866)**	(1,746)	(1,792)	(1,376)	(1,207)	(1,104)
Net Change in Total OPEB Liability	**(22,092)**	2,404	6,117	7,755	898	1,307
Total OPEB Liability, beginning of year	**71,239**	68,835	62,718	54,963	54,065	52,758
Total OPEB Liability, end of year	**49,147**	71,239	68,835	62,718	54,963	54,065
Plan Fiduciary Net Position						
Employer contributions	**-**	-	-	-	-	-
Net investment income	**-**	-	-	-	-	-
Benefit payments	**-**	-	-	-	-	-
Administrative expense	**-**	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	**-**	-	-	-	-	-
Plan Fiduciary Net Position, beginning of year	**-**	-	-	-	-	-
Plan Fiduciary Net Position, end of year	**-**	-	-	-	-	-
Net OPEB Liability, end of year	**$ 49,147**	$ 71,239	$ 68,835	$ 62,718	$ 54,963	$ 54,065
Plan Fiduciary Net Position, as a percentage of total OPEB liability	**-**	-	-	-	-	-
Covered Employee Payroll	**$ 170,584**	$ 243,673	$ 243,673	$ 255,827	$ 255,827	$ 268,355
Net OPEB Liability, as a percentage of covered employee payroll (%)	**28.81**	29.2	28.2	23.9	21.5	20.1

See accompanying notes to required supplementary information - Other Post-Employment Benefits (OPEB).

Lee Memorial Health System

Schedule of Total Other Post-Employment Benefits (OPEB) Contributions (unaudited) (in thousands)

Year ended September 30,	**2023**	2022	2021	2020	2019	2018
Actuarially determined contribution	**$ -**	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the actuarially determined contribution	**-**		-	-	-	-
Contribution Deficiency	**$ -**	$ -	$ -	$ -	$ -	$ -
Covered-Employee Payroll	**$ 170,584**	$ 243,673	$ 243,673	$ 255,827	$ 255,827	$ 268,355
Contributions, as a percentage of covered-employee payroll (%)	**-**	-	-	-	-	-

See accompanying notes to required supplementary information - Other Post-Employment Benefits (OPEB).

1. The accompanying schedules are intended to display information for ten years. Disclosure requirements were effective October 1, 2018. Additional years will be displayed as they become available.
2. The System funds the Other Post-Employment Benefits (OPEB) obligation on a pay-as-you-go basis, so no assets have been segregated and/or restricted to provide the post-employment benefits.
3. Methods and assumptions used for the most recent year include:

Valuation date	Actuarially determined contribution rates are calculated as of December 31, 2022, December 31, 2021, December 31, 2020, and December 31, 2019 for fiscal years 2023, 2022, 2021, and 2020, respectively.
Actuarial cost method	Entry Age
Amortization method	Average remaining service life of all participants
Asset valuation method	None, no plan assets
Rate of compensation increase	3.0%
Health care cost trend rates	7.5% (2023), 6.25% (2022), 6.00% (2021), and 6.25% (2020), initial, decreasing 0.50% in 2024 and 0.25% per year thereafter to an ultimate rate of 5.00%
Salary increases	3.0%, average, including inflation
Investment rate of return	0.0%, no plan assets
Retirement age	*Sunset Employees* - Employees who had 30 or more years of full-time (or equivalent) service as of September 30, 2009. These employees are entitled to retiree health plan coverage starting when they retire on or after age 55 or the $2,500 subsidy on or after retiring at age 65.
	Non-Sunset Employees - Employees hired prior to July 1, 2008 who had not attained 30 or more years of full-time (or equivalent) service as of September 30, 2009. These employees are only entitled to receive the $2,500 subsidy benefit when they retire on or after age 65.
Mortality	*2023: Healthy Mortality Rates* – MP-2022 Mortality Improvement Scale for males and females. Base table – Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants: separate rates for annuitants and non-annuitants (based on employees table), blending of retirees and contingent annuitants: combined non-disabled annuitant mortality.
	2023: Disabled Mortality Rates – MP-2012 Base mortality table for males and females, base mortality table year: 2012, no collar, disabled, table weighting: headcount.
	2022: Healthy Mortality Rates - MP-2021 Mortality Improvement Scale for males and females. Base table: Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants (based on employee table), separate rates for annuitants and non-annuitants (based on Employees table), blending of retirees, and contingent annuitants: combined non-disabled annuitant mortality.
	2022: Disabled Mortality Rates - MP-2021 Mortality Improvement Scale for males and females. Base table: Pri-2012, base mortality table year: 2012, table type: no collar, healthy or disabled: disabled, table weighting: headcount.

Mortality (continued)	*2021: Healthy Mortality Rates* - MP-2020 Mortality Improvement Scale for males and females. Base table: Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants (based on employee table), separate rates for annuitants and non-annuitants (based on Employees table), blending of retirees, and contingent annuitants: combined non-disabled annuitant mortality. *2021: Disabled Mortality Rates* - MP-2020 Mortality Improvement Scale for males and females. Base table: Pri-2012, Base mortality table year: 2012, table type: no collar, healthy or disabled: disabled, table weighting: headcount. *2020: Healthy Mortality Rates* - MP-2019 Mortality Improvement Scale for males and females. Base table: Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants (based on employee table), separate rates for annuitants and non-annuitants (based on Employees table), blending of retirees and contingent annuitants: combined non-disabled annuitant mortality. *2020: Disabled Mortality Rates* - MP-2019 Mortality Improvement Scale for males and females. Base table: Pri-2012; base mortality table year: 2012, table type: no collar, healthy or disabled: disabled, table weighting: headcount. *2018 and 2019: Healthy Mortality Rates* - RP-2014 Employee and Annuitant Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward to 2006 using generational projection Scale MP-2018 for males and females. *2018 and 2019: Disabled Mortality Rates* - RP-2014 Disabled Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward to 2006 using generational Scale MP-2017 for males and females.

4. Changes with respect to actuarial methods and assumptions used in the current and prior years are as follows:

   a. From 2022 to 2023, the discount rate increased from 1.84% to 4.05%. Assumed per-capita costs increased for all retirees based on the most recent claims experience and to reflect changes in distribution of enrollment by plan options. The trend rate for retiree contributions was the same as claims costs trend rate as participant contributions are intended to remain a fixed percentage of total plan costs. The generational mortality projection scale was updated from MP-2020 to MP-21 to better reflect assumed future mortality improvements. The retirement and termination assumptions were updated to reflect the results of an experience study and the unusually high experience during the 12-month period following the valuation date.

   b. From 2021 to 2022, the discount rate decreased from 2.00% to 1.84%. Assumed per-capita costs decreased for post-65 retirees and increased for pre-65 retirees based on the most recent claims experience and to reflect changes in distribution of enrollment by plan options. The trend rate for retiree contributions was the same as claims costs trend rate as participant contributions are intended to remain a fixed percentage of total plan costs. The generational mortality projection scale was updated from MP-2019 to MP-20 to better reflect assumed future mortality improvements. The retirement and termination assumptions were updated to reflect the results of an experience study and the unusually high experience during the 12-month period following the valuation date.

   c. From 2020 to 2021, the discount rate decreased from 2.75% to 2.00%. Assumed per-capita costs decreased for post-65 retirees and increased for pre-65 retirees based on the most recent claims experience and to reflect changes in distribution of enrollment by plan options. The trend rate for retiree contributions was set at 0% based on the System's intentions to not increase the retiree's portion of the cost in future years. The generational mortality projection scale was updated from MP-2019 to MP-20 to better reflect assumed future mortality improvements. The retirement and termination assumptions were updated to reflect the results of an experience study and the unusually high experience during the 12-month period following the valuation date.

d. From 2019 to 2020, the discount rate decreased from 3.71% to 2.75%. Assumed per-capita claims costs were decreased for post-65 retirees based on most recent claims experience and to reflect changes in distribution of enrollment by plan options. The health and disabled base table mortality assumptions were updated from RP-2014 to Pri-2012 to better reflect assumed future mortality. The generational mortality projection scale was updated from MP-2018 to MP-2019 to better reflect assumed future mortality improvements.

e. From 2018 to 2019, the discount rate increased from 3.31% to 3.71%. Assumptions related to the decrement timing were updated to reflect changes in the System's valuation software. Assumed per-capita claims costs were decreased for post-65 and increased for pre-65 retirees based on most recent claims experience and to reflect changes in distribution of enrollment by plan options. Retiree contributions were updated to reflect the actual 2018 retiree contributions. The trend assumption was updated to better reflect anticipated market conditions. The healthy and disabled mortality projection scale assumptions were updated to better reflect adjustments to assumed future mortality improvements.

f. From 2017 to 2018, the discount rate was updated from 4.00% to 3.31%. A salary assumption was added since the prior valuation, which is needed for the Entry Age Normal actuarial cost method.

Other Supplementary Information

Lee Memorial Health System

Consolidating Schedule of Net Position
(in thousands)

September 30, 2023

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Total Population Health	Paramount Surgery Center, LLC	Eliminations	Total
Assets												
Current Assets												
Cash and cash equivalents	$ 13,367	$ -	$ -	$ 7	$ -	$ -	$ -	$ 2,606	$ 10,013	$ 482	$ -	$ 26,475
Restricted cash and cash equivalents	2,000	-	-	-	-	-	-	13,178	2,524	-	-	17,702
Investments	1,446,412	-	-	-	-	-	-	-	-	-	-	1,446,412
Assets whose use is restricted	4,360	-	1,024	-	-	-	-	30,871	-	-	-	36,255
Patient accounts receivable, net	197,783	47,443	113,878	678	2,491	2,616	5,642	-	-	-	-	370,531
Inventories	29,076	4,634	15,116	-	614	8	750	-	-	-	-	50,198
Estimated third-party payor settlements	43,709	(14,656)	12,072	-	(216)	(243)	(217)	-	-	-	-	40,449
Other current assets	62,628	1,288	2,864	12	117	-	338	10,225	1,724	2,175	-	81,371
Total Current Assets	1,799,335	38,709	144,954	697	3,006	2,381	6,513	56,880	14,261	2,657	-	2,069,393
Non-Current Assets												
Assets whose use is restricted	319	-	-	-	-	5	-	13,776	-	-	-	14,100
Capital assets, net	977,266	108,385	467,622	1,538	2,033	4,301	16,631	36	3,854	185	-	1,581,851
Due from subsidiaries	-	605,035	177,769	-	-	-	-	-	27,517	-	(810,321)	-
Other assets	58,437	-	-	-	4	-	-	5,350	-	2,305	(957)	65,139
Total Assets	$ 2,835,357	$ 752,129	$ 790,345	$ 2,235	$ 5,043	$ 6,687	$ 23,144	$ 76,042	$ 45,632	$ 5,147	$ (811,278)	$ 3,730,483
Deferred Outflows of Resources												
Deferred loss on debt refunding	$ -	$ 124	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 124
Deferred outflows on pension and post-employment benefit plan	5,211	504	876	9	52	55	95	7	28	-	-	6,837
Excess consideration provided for acquisition	14,548	5,390	76,300	-	702	-	-	-	-	-	-	96,940
Total Deferred Outflows of Resources	$ 19,759	$ 6,018	$ 77,176	$ 9	$ 754	$ 55	$ 95	$ 7	$ 28	$ -	$ -	$ 103,901
Liabilities												
Current Liabilities												
Accounts payable	$ 73,905	$ 4,464	$ 5,430	$ 271	$ 281	$ 73	$ 1,589	$ 47	$ 890	$ 458	$ -	$ 87,408
Accrued expenses	111,101	13,356	33,055	367	975	1,013	410	842	11,801	980	-	173,900
Medicare advance payments	-	-	-	-	-	-	-	-	-	-	-	-
Current installments of long-term finance obligations	48,832	16,176	9,371	-	64	35	852	-	-	-	-	75,330
Total Current Liabilities	233,838	33,996	47,856	638	1,320	1,121	2,851	889	12,691	1,438	-	336,638
Non-Current Liabilities												
Long-term finance obligations, excluding current installments	470,154	9,624	478,523	-	1,832	131	9,151	-	-	-	-	969,415
Due to subsidiaries	656,433	-	-	1,358	60,229	50,565	36,489	5,247	-	-	(810,321)	-
Pension and post-employment benefit plan liabilities	25,946	11,767	15,707	189	772	418	(659)	115	(92)	-	-	54,163
Other liabilities	50,554	4,329	5,777	110	366	482	74	107	-	1,832	-	63,631
Total Liabilities	$ 1,436,925	$ 59,716	$ 547,863	$ 2,295	$ 64,519	$ 52,717	$ 47,906	$ 6,358	$ 12,599	$ 3,270	$ (810,321)	$ 1,423,847
Deferred Inflows of Resources												
Deferred gain on debt refunding	$ (1,294)	$ (4)	$ 3,885	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,587
Deferred inflows on pension and post-employment benefit plan	21,608	(3,938)	(2,015)	(51)	(12)	435	2,339	(10)	481	-	-	18,837
Deferred inflows on leases	11,014	-	-	-	-	-	-	-	-	-	-	11,014
Total Deferred Inflows of Resources	$ 31,328	$ (3,942)	$ 1,870	$ (51)	$ (12)	$ 435	$ 2,339	$ (10)	$ 481	$ -	$ -	$ 32,438
Net Position												
Restricted for:												
Nonexpendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,398	$ -	$ 920	$ -	$ 10,318
Expendable	-	-	-	-	-	-	-	54,797	-	-	-	54,797
Net investment in capital assets	458,279	82,584	(20,272)	1,538	137	4,135	6,627	36	3,854	185	-	537,103
Unrestricted	928,584	619,789	338,060	(1,538)	(58,847)	(50,545)	(33,633)	5,470	28,726	772	(957)	1,775,881
Total Net Position	$ 1,386,863	$ 702,373	$ 317,788	$ -	$ (58,710)	$ (46,410)	$ (27,006)	$ 69,701	$ 32,580	$ 1,877	$ (957)	$ 2,378,099

See accompanying note to consolidating schedules.

Lee Memorial Health System

Consolidating Schedule of Net Position
(in thousands)

September 30, 2022 (as adjusted)*

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Total Population Health	Paramount Surgery Center, LLC	Eliminations	Total
Assets												
Current Assets												
Cash and cash equivalents	$ 69,663	$ -	$ -	$ 1	$ -	$ -	$ -	$ 2,245	$ 29,075	$ 1,025	$ -	$ 102,009
Restricted cash and cash equivalents	2,000	-	-	-	-	-	-	40,018	2,516	-	-	44,534
Investments	1,403,501	-	-	-	-	-	-	-	-	-	-	1,403,501
Assets whose use is restricted	411	-	1,024	-	-	-	-	-	-	-	-	1,435
Patient accounts receivable, net	167,531	46,310	99,243	559	2,362	1,658	1,684	-	-	-	-	319,347
Inventories	24,431	4,533	14,371	-	613	4	843	-	-	-	-	44,795
Other current assets	43,792	1,066	1,712	9	108	-	146	14,053	605	1,291	-	62,782
Total Current Assets	1,711,329	51,909	116,350	569	3,083	1,662	2,673	56,316	32,196	2,316	-	1,978,403
Non-Current Assets												
Assets whose use is restricted	319	-	-	-	-	5	-	12,086	-	-	-	12,410
Capital assets, net	890,607	93,922	472,368	1,584	2,292	4,140	13,658	47	4,175	243	-	1,483,036
Due from subsidiaries	-	574,975	181,062	-	-	-	-	-	-	1	(756,038)	-
Other assets	52,065	-	-	-	4	-	-	2,908	-	2,653	(905)	56,725
Total Assets	$ 2,654,320	$ 720,806	$ 769,780	$ 2,153	$ 5,379	$ 5,807	$ 16,331	$ 71,357	$ 36,371	$ 5,213	$ (756,943)	$ 3,530,574
Deferred Outflows of Resources												
Deferred loss on debt refunding	$ -	$ 373	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 373
Deferred outflows on pension and post-employment benefit plan	6,643	724	1,272	13	70	79	157	10	37	-	-	9,005
Excess consideration provided for acquisition	16,701	5,838	78,743	-	787	-	-	-	-	-	-	102,069
Total Deferred Outflows of Resources	$ 23,344	$ 6,935	$ 80,015	$ 13	$ 857	$ 79	$ 157	$ 10	$ 37	$ -	$ -	$ 111,447
Liabilities												
Current Liabilities												
Accounts payable	$ 74,007	$ 2,725	$ 8,961	$ 89	$ 502	$ 254	$ 1,322	$ -	$ 2,103	$ 274	$ -	$ 90,237
Accrued expenses	94,564	11,273	26,170	156	622	833	147	94	10,002	930		144,791
Medicare advance payments	(3,183)	1,748	3,321	-	-	-	-	-	-	-	-	1,886
Current installments of long-term finance obligations	46,401	16,308	9,828	-	107	33	517	-	-	-	-	73,194
Estimated third-party payor settlements	(5,259)	15,170	(560)	-	-	(27)	217	-	-	-	-	9,541
Total Current Liabilities	206,530	47,224	47,720	245	1,231	1,093	2,203	94	12,105	1,204	-	319,649
Non-Current Liabilities												
Long-term finance obligations, excluding current installments	481,410	24,917	488,246	-	1,895	140	2,428	-	-	-	-	999,036
Due to subsidiaries	607,303	-	-	1,677	54,130	41,014	39,678	6,109	6,127	-	(756,038)	-
Pension and post-employment benefit plan liabilities	42,158	14,168	19,965	226	971	674	9	144	2	-	-	78,317
Other liabilities	50,260	4,317	5,571	102	360	480	71	1,512	-	2,234	-	64,907
Total Liabilities	$ 1,387,661	$ 90,626	$ 561,502	$ 2,250	$ 58,587	$ 43,401	$ 44,389	$ 7,859	$ 18,234	$ 3,438	$ (756,038)	$ 1,461,909
Deferred Inflows of Resources												
Deferred gain on debt refunding	$ (1,430)	$ 22	$ 4,225	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,817
Deferred inflows on pension and post-employment benefit plan	10,288	(6,103)	(5,850)	(84)	(191)	205	1,736	(36)	397	-	-	362
Deferred inflows on leases	10,612	-	-	-	-	-	-	-	-	-	-	10,612
Total Deferred Inflows of Resources	$ 19,470	$ (6,081)	$ (1,625)	$ (84)	$ (191)	$ 205	$ 1,736	$ (36)	$ 397	$ -	$ -	$ 13,791
Net Position												
Restricted for:												
Nonexpendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,094	$ -	$ 870	$ -	$ 8,964
Expendable	-	-	-	-	-	-	-	50,751	-	-	-	50,751
Net investment in capital assets	361,384	52,697	(25,706)	1,584	290	3,967	10,713	47	4,175	243	-	409,394
Unrestricted	909,149	590,499	315,624	(1,584)	(52,450)	(41,687)	(40,350)	4,652	13,602	662	(905)	1,697,212
Total Net Position	$ 1,270,533	$ 643,196	$ 289,918	$ -	$ (52,160)	$ (37,720)	$ (29,637)	$ 63,544	$ 17,777	$ 1,775	$ (905)	$ 2,166,321

See accompanying note to consolidating schedules.

* Balances as of September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

Lee Memorial Health System

Consolidating Schedule of Revenues, Expenses, and Changes in Fund Net Position
(in thousands)

Year ended September 30, 2023

	Lee Memorial Hospital	Physicians	Others	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Total Population Health	Paramount Surgery Center, LLC	Eliminations	Total
Operating Revenues															
Net patient service revenue	$ 1,299,487	$ 174,963	$ 8	$ 1,474,458	$ 386,538	$ 709,107	$ 2,118	$ 17,959	$ 13,187	$ 58,233	$ -	$ -	$ -	$ -	$ 2,661,600
Capitation revenue	-	-	-	-	-	-	-	-	-	-	-	1,702	-	-	1,702
Other revenue	108,336	617	16,190	125,143	5,344	6,288	688	121	(14)	71,609	4,174	3,466	18,248	(3,789)	231,278
Total Operating Revenues	1,407,823	175,580	16,198	1,599,601	391,882	715,395	2,806	18,080	13,173	129,842	4,174	5,168	18,248	(3,789)	2,894,580
Operating Expenses															
Salaries, wages, and benefits	665,267	245,752	6,527	917,546	186,554	373,232	6,818	14,152	16,343	77,713	2,673	6,396	-	-	1,601,427
Supplies and other services	411,084	23,180	2,890	437,154	75,618	170,695	309	7,980	2,621	26,644	1,590	3,807	10,669	-	737,087
Purchased services	145,826	21,983	565	168,374	52,852	85,915	(4,309)	1,670	2,082	19,382	457	6,595	-	-	333,018
Depreciation and amortization	72,945	10,203	1,260	84,408	15,420	38,725	88	712	741	2,673	81	546	-	-	143,394
Total Operating Expenses	1,295,122	301,118	11,242	1,607,482	330,444	668,567	2,906	24,514	21,787	126,412	4,801	17,344	10,669	-	2,814,926
Operating Income (Loss)	112,701	(125,538)	4,956	(7,881)	61,438	46,828	(100)	(6,434)	(8,614)	3,430	(627)	(12,176)	7,579	(3,789)	79,654
Non-Operating (Loss) Income															
Interest expense	(11,594)	(2,603)	(394)	(14,591)	(2,181)	(19,036)	(9)	(116)	(76)	(825)	(15)	-	-	-	(36,849)
Investment income, including realized and unrealized gains on investments	197	-	129,496	129,693	22	179	-	-	-	-	1,506	19	-	-	131,419
Contributions and grants	(1)	-	-	(1)	-	-	-	-	-	-	4,137	-	-	-	4,136
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	1,213	-	-	-	1,213
(Loss) gain on sale of capital assets	(1,346)	25	13	(1,308)	(102)	15	-	-	-	(11)	-	-	-	-	(1,406)
Transfer to Population Health	-	-	(2,000)	(2,000)	-	-	-	-	-	-	-	2,000	-	-	-
Federal and state appropriations	-	-	11,711	11,711	-	-	-	-	-	-	-	-	-	-	11,711
Other	424	-	283	707	-	(116)	109	-	-	37	(57)	24,960	(150)	-	25,490
Total Non-Operating (Loss) Income	(12,320)	(2,578)	139,109	124,211	(2,261)	(18,958)	100	(116)	(76)	(799)	6,784	26,979	(150)	-	135,714
Excess (Deficit) of Revenues and Income Over Expenses	100,381	(128,116)	144,065	116,330	59,177	27,870	-	(6,550)	(8,690)	2,631	6,157	14,803	7,429	(3,789)	215,368
Other Changes in Net Position															
Distributions to minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(7,327)	3,737	(3,590)
Increase (Decrease) in Net Position	$ 100,381	$ (128,116)	$ 144,065	116,330	59,177	27,870	-	(6,550)	(8,690)	2,631	6,157	14,803	102	(52)	211,778
Net Position, beginning of year				1,270,533	643,196	289,918	-	(52,160)	(37,720)	(29,637)	63,544	17,777	1,775	(905)	2,166,321
Net Position, end of year				$ 1,386,863	$ 702,373	$ 317,788	$ -	$ (58,710)	$ (46,410)	$ (27,006)	$ 69,701	$ 32,580	$ 1,877	$ (957)	$ 2,378,099

See accompanying notes to consolidating schedules.

Lee Memorial Health System

Consolidating Schedule of Revenues, Expenses, and Changes in Fund Net Position
(in thousands)

Year ended September 30, 2022 (as adjusted)*

	Lee Memorial Hospital	Physicians	Others	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Community Healthcare, Inc.	Lee Memorial Health System Foundation, Inc.	Total Population Health	Paramount Surgery Center, LLC	Eliminations	Total
Operating Revenues															
Net patient service revenue	$ 1,271,931	$ 166,905	$ 8	$ 1,438,844	$ 382,138	$ 651,864	$ 2,562	$ 16,698	$ 10,880	$ 35,481	$ -	$ -	$ -	$ -	$ 2,538,467
Capitation revenue	-	-	-	-	-	-	-	-	-	-	-	79,994	-		79,994
Other revenue	105,505	2,457	15,594	123,556	3,733	4,478	626	34	-	20,498	6,414	10,077	16,842	(3,306)	182,952
Total Operating Revenues	1,377,436	169,362	15,602	1,562,400	385,871	656,342	3,188	16,732	10,880	55,979	6,414	90,071	16,842	(3,306)	2,801,413
Operating Expenses															
Salaries, wages, and benefits	675,601	243,757	4,884	924,242	168,133	343,613	6,181	15,767	14,228	42,003	2,826	8,034	-	-	1,525,027
Supplies and other services	357,365	20,551	3,185	381,101	72,588	158,277	214	8,065	2,077	11,261	567	61,741	10,278	-	706,169
Purchased services	120,476	18,558	839	139,873	36,067	58,933	(1,611)	1,176	1,536	4,655	526	12,718	-	-	253,873
Depreciation and amortization	69,872	8,020	918	78,810	11,965	31,954	179	638	605	1,770	42	539	-	-	126,502
Total Operating Expenses	1,223,314	290,886	9,826	1,524,026	288,753	592,777	4,963	25,646	18,446	59,689	3,961	83,032	10,278	-	2,611,571
Operating Income (Loss)	154,122	(121,524)	5,776	38,374	97,118	63,565	(1,775)	(8,914)	(7,566)	(3,710)	2,453	7,039	6,564	(3,306)	189,842
Non-Operating (Loss) Income															
Interest expense	(9,266)	(2,117)	(503)	(11,886)	(2,062)	(17,742)	(10)	(92)	(41)	(577)	(8)	(2)	-	-	(32,420)
Investment income, including realized and unrealized gains on investments	157	-	(200,952)	(200,795)	10	239	-	-	-	-	138	28	-	-	(200,380)
Contributions and grants	(1)	-	(2)	(3)	-	-	-	-	-	-	3,101	-	-	-	3,098
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	(1,635)	-	-	-	(1,635)
(Loss) gain on sale of capital assets	(1,830)	(3)	13,289	11,456	(168)	(584)	-	2	-	-	-	-	-	-	10,706
Federal and state appropriations	-	-	15,005	15,005	-	-	-	-	-	-	-	-	-	-	15,005
Other	3,778	1	6,738	10,517	(1)	(1,785)	1,785	-	11	20	2,044	1	(81)	-	12,511
Total Non-Operating Income (Loss)	(7,162)	(2,119)	(166,425)	(175,706)	(2,221)	(19,872)	1,775	(90)	(30)	(557)	3,640	27	(81)	-	(193,115)
Excess (Deficit) of Revenues and Income Over Expenses	146,960	(123,643)	(160,649)	(137,332)	94,897	43,693	-	(9,004)	(7,596)	(4,267)	6,093	7,066	6,483	(3,306)	(3,273)
Other Changes in Net Position															
Other	-	-	1,220	1,220	-	-	-	-	-	-	-	-	-	(1,220)	-
Distributions to minority interests	-	-	-	-	-	-	-	-	-	-	-	-	(7,100)	3,621	(3,479)
Increase (Decrease) in Net Position	$ 146,960	$ (123,643)	$ (159,429)	(136,112)	94,897	43,693	-	(9,004)	(7,596)	(4,267)	6,093	7,066	(617)	(905)	(6,752)
Net Position, beginning of year				1,406,645	548,299	246,225	-	(43,156)	(30,124)	(25,370)	57,451	10,711	2,392	-	2,173,073
Net Position, end of year				$ 1,270,533	$ 643,196	$ 289,918	$ -	$ (52,160)	$ (37,720)	$ (29,637)	$ 63,544	$ 17,777	$ 1,775	$ (905)	$ 2,166,321

See accompanying notes to consolidating schedules.

* Balances for the year ended September 30, 2022 were adjusted for the adoption of GASB 96 (see Note 1).

The accompanying consolidating information presents the financial position and results of operations of each of the significant component operating units and affiliates of Lee Memorial Health System (the System) as of September 30, 2023 and 2022 and for the years then ended, in conformity with accounting principles generally accepted in the United States of America, including applicable Government Accounting Standards Board (GASB) statements, on the accrual basis of accounting. The accompanying consolidating information presents adjustments necessary to eliminate significant intercompany accounts and transactions. The accompanying consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual components and is not a required part of the basic consolidated financial statements.

Recently Adopted Accounting Standard

During the year ended September 30, 2023, the System adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end-users. A SBITA is defined as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. GASB 96 establishes that a SBITA results in a right-of-use subscription asset and a corresponding subscription liability and requires additional disclosures. The System applied GASB 96 by retroactively adjusting the consolidated financial statements for the year ended September 30, 2022, and recognized and measured SBITAs using the facts and circumstances that existed at October 1, 2021. Accordingly, the consolidating schedule of net position and consolidating schedule of revenues, expenses, and changes in fund net position as of, and for the year ended, September 30, 2022 have been adjusted.

Internal Control and Compliance Matters

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

The Audit Committee of the Board of Directors
Lee Memorial Health System
Fort Myers, Florida

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Lee Memorial Health System and its subsidiaries and the pension trust fund (the System), which comprise the consolidated statement of net position as of September 30, 2023, and the related consolidated statements of revenues, expenses, and changes in fund net position and of cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 30, 2024. The financial statements of Lee Memorial Health System Foundation were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Lee Memorial Health System Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

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

Finding 2023-001 - Identification of Subscription-Based Information Technology Arrangements

Criteria

In accordance with accounting principles generally accepted in the United States of America, specifically Government Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), subscription-based information technology arrangements (SBITAs) meeting certain criteria result in a right-of-use subscription asset, to be amortized over the term of the arrangement, and a corresponding subscription liability.

Condition

Audit adjustments were recorded to properly state right-of-use subscription assets, other current assets, subscription liabilities, accrued interest, and amortization and interest expense related to SBITAs.

Cause

The System's SBITA accounting and reporting process did not include sufficient controls to ensure the completeness of identified arrangements meeting GASB 96 criteria.

Effect

The System's consolidated financial statements were not properly stated, resulting in misstatements of financial position and results of operations, which constitutes a significant deficiency in internal control over financial reporting.

Recommendation

We recommend management design and implement internal controls to ensure that personnel with sufficient knowledge of GASB 96 criteria review all new and renewed IT subscription and license agreements that meet the criteria are properly capitalized and amortized. Additionally, a quarterly review of monthly disbursements and expenses posted to selected IT general ledger account and department criteria by accounting personnel to identify potential SBITAs not communicated to or received by accounting personnel will help ensure that recorded SBITA right-of-use assets and subscription liabilities are complete.

Views of Responsible Officials and Planned Corrective Actions

The System will continue to streamline its SBITA accounting and reporting process, including a periodic review of IT expenses and contracts. The System's finance and information technology departments will work together to continually review any new or amended contracts. The System will also develop a process/workflow for contract approval, establishing an oversite committee to help ensure GASB 96 arrangements are identified on or before the respective effective dates.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lee Memorial Health System's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the findings identified in our audit and previously described. The System's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

BDO USA, P.C.

January 30, 2024