Lee Memorial Health System

Consolidated Financial Statements,
Required Supplementary Information,
and Other Supplementary Information
Years Ended September 30, 2021 and 2020

Lee Memorial Health System

Contents

Contents

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Independent Auditor's Report

The Board of Directors
Lee Memorial Health System
Ft. Myers, Florida

Report on the Audit 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 as of and for the year ended September 30, 2021 (collectively, the System), 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, 2021, and the changes in its fund net position and its cash flows for the year then ended, and the financial position of the pension trust fund as of September 30, 2021 and the respective change in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 Audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of Lee Memorial Health System Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

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 within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit 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 audit.
- 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 audit 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

The consolidated financial statements of Lee Memorial Health System and its subsidiaries as of September 30, 2020, and for the year then ended, were audited by other auditors, who expressed an unqualified opinion on those consolidated financial statements in their report dated January 28, 2021.

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 17 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 66 through 73 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 Governmental Accounting Standards Board 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit 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 audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements that collectively comprise the System's basic consolidated financial statements. The supplemental consolidating schedules on pages 75 through 79 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 audit 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 auditing standards generally accepted in the United States of America. 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 February 3, 2022 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.

BDO USA, LLP

Certified Public Accountants
February 3, 2022

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, 2021 with comparative information as of and for the years ended September 30, 2020 and 2019. 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 1,812 acute care hospital beds located at four campuses, which includes a 134-bed designated children's hospital, a 60-bed rehabilitation hospital, a 75-bed skilled nursing unit, and an 18-bed skilled nursing unit. In addition, the System operates a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physician offices. For further detail on these entities, refer to Note 1 of the consolidated 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 our 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; (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 our lean operating system. The strategies will be driven by data analytics to improve processes, standardize to best practices, and utilize human capital and technology to achieve the highest probability of success in improving outcomes and lowering costs.

Overview of the Consolidated Financial Statements

Our 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.

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

Condensed Consolidated Statements of Net Position

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

September 30,	**2021**	2020	2019
Assets			
Current and other assets	**$ 2,129,045**	$ 1,822,114	$ 1,425,347
Capital assets, net	**1,344,067**	1,323,478	1,256,531
Total Assets	**$ 3,473,112**	$ 3,145,592	$ 2,681,878
Total Deferred Outflows of Resources	**$ 113,740**	$ 114,395	$ 102,017
Liabilities			
Current liabilities	**$ 459,682**	$ 482,343	$ 262,750
Long-term liabilities	**947,790**	986,224	854,324
Total Liabilities	**$ 1,407,472**	$ 1,468,567	$ 1,117,074
Total Deferred Inflows of Resources	**$ 6,307**	$ 4,853	$ 9,273
Net Position			
Restricted	**$ 58,552**	$ 52,034	$ 41,220
Net investment in capital assets	**478,971**	415,307	469,837
Unrestricted	**1,635,550**	1,319,226	1,146,491
Total Net Position	**$ 2,173,073**	$ 1,786,567	$ 1,657,548

Total assets increased in 2021 and 2020 by $327.5 million, or 10.4%, and $463.7 million, or 17.3%, respectively, due primarily to increases in short-term investments of $269.3 million, or 22.4%, and $264.4 million, or 28.2%, in 2021 and 2020, respectively. The increases in investments were due to strong market performance of investment returns and purchases of new investments. Growth in patient accounts receivable in 2021 also contributed to the 2021 increase in total assets, increasing by $81.8 million, or 36.1%, over the prior year as a result of a 7.1% increase in patient volume. The other driver of the 2020 increase in total assets was a $109.8 million, or 90.7%, increase in unrestricted and restricted cash and cash equivalents stemming from advance funds received under the Medicare Accelerated and Advanced Payment Program and through the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act).

Deferred outflows of resources decreased in 2021 by $0.7 million, or 0.6%, due to $3.8 million amortization of excess consideration provided for acquisitions and deferred loss on debt refunding in 2021, partially offset by an increase in deferred outflows on pension and post-employment benefit plans of $3.2 million. Deferred outflows of resources increased by $12.4 million in 2020 due to the payment of additional excess consideration provided for acquisitions, net of 2020 amortization expense, of $7.9 million and an increase in deferred outflows on pension and post-employment benefit plans of $5.0 million.

Total liabilities decreased by $61.1 million, or 4.2%, in 2021, due primarily to the recoupment of $35.2 million of the advance funds received under the Medicare Accelerated and Advanced Payment Program and a $48.4 million decrease in long-term debt. In 2020, total liabilities increased by $351.5 million, or 31.5%, due to the $162.6 million advance funds received under the Medicare Accelerated and Advanced Payment Program and through the CARES Act and $168.1 million of additional indebtedness, partially offset by a $46.6 million decrease in long-term debt.

Deferred Inflows of resources increased in 2021 by $1.5 million, or 30.0%, related to an increase in the deferred inflows on pension and post-employment benefit plans. In 2020, deferred inflows of resources decreased by $4.4 million, or 47.7%, related to an increase in the deferred inflows on pension and post-employment benefit plans.

Fund net position increased by $386.5 million, or 21.6%, and $129.0 million, or 7.8%, in 2021 and 2020, respectively. The 2021 increase reflects positive operating income of $219.0 million and nonoperating income of $167.5 million. The 2020 increase reflects positive operating income of $32.2 million and nonoperating income of $96.8 million.

Capital Assets

The System's investment in net capital assets was $1,344.1 million at September 30, 2021, representing a $20.6 million net increase over the prior year's net capital assets of $1,323.5 million. 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 $170.8 million in fiscal year 2022. Of this amount, an estimated $20.7 million pertains to the expansion of Gulf Coast Medical Center. The remaining capital expenditures are primarily for facility upgrades, information systems, and patient care equipment. These capital purchases will be funded directly from operations.

Debt Outstanding

As of September 30, 2021 and 2020, the System owed $865.1 million and $908.2 million, respectively, under long-term debt arrangements (revenue bonds, loans and notes payable, and capital lease obligations). In 2021 and 2020, 94% and 91% of the System's total debt and total revenue bonds, respectively, incur interest at fixed rates. Long-term debt is described in more detail in Notes 8 through 11 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,	**2021**	2020	2019
Operating revenues	**$ 2,471,292**	$ 2,063,231	$ 1,973,863
Operating expenses	**2,252,321**	2,031,056	1,871,602
Operating Income	**218,971**	32,175	102,261
Nonoperating revenues and expenses, net	**143,276**	24,710	14,162
Federal and state appropriations	**20,146**	61,218	-
Contributions and grants	**4,113**	10,916	821
Total Nonoperating Income	**167,535**	96,844	14,983
Increase in Net Position	**$ 386,506**	$ 129,019	$ 117,244

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,	**2021 (%)**	2020 (%)	2019 (%)	**(%) Change 2020-2021**	(%) Change 2019-2020
Salaries, wages, and benefits	**49.8**	55.5	52.9	**(10.3)**	4.9
Supplies and other services	**26.6**	25.8	24.5	**3.1**	5.3
Purchased services	**9.1**	10.8	11.6	**(15.7)**	(6.9)
Capital costs (depreciation, amortization, and interest expense)	**6.8**	7.8	7.0	**(12.8)**	11.4

Operating Revenues

Total operating revenues increased in 2021 and 2020 by $408.1 million, or 19.8%, and $89.4 million, or 4.5%, respectively. In 2021, net patient service revenue increased by $339.0 million, or 17.3%, reflecting an increase in adjusted admissions of 7.1% and an increase to net revenue per adjusted admission of 9.6%, a result of favorable payor mix shifts and upward trends in patient severity. In 2020, net patient service revenue increased by $63.5 million, or 3.4%, reflecting an increase of net revenue per adjusted admission of 6.2%, a result of favorable payor mix shifts and upward trends in patient severity, which was offset by a decrease in adjusted admissions of 2.6%.

Capitation and other operating revenue increased by $70.4 million, or 66.2%, and $25.9 million, or 32.2%, in 2021 and 2020, respectively, due primarily to revenue received from the System's Provider Service Network (PSN) contract with the Florida Agency for Health Care Administration and Florida Medicaid, as well as the continued growth of the specialty pharmacy services at the Lee Health Coconut Point facility.

Operating Expenses

Total operating expenses increased in fiscal year 2021 by $221.3 million, or 10.9%. Salaries, wages, and benefits increased by approximately $85.9 million, or 7.5%, primarily due to a 5.1% increase in average hourly pay rate over the prior year. Increases in hourly rates were driven by staffing needs related to the COVID-19 pandemic, which required the use of more premium labor. The System also increased personnel related to its continued expansion in outpatient services and other programs aimed at improving community health and patient access. Benefit costs increased by $10.7 million, or 6.8%, over the prior year but remained comparable as a percent of salaries and wages of 13.6%. Salaries, wages, and benefits, as a percent of total operating revenues, decreased from 55.5% to 49.8% in 2021. Supplies and other services expenses increased in 2021 by $125.1 million, or 23.5%, due mostly to a 16.7% 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 7.1% increase in patient volumes. Purchased services increased by $3.2 million, or 1.4%, due primarily to increased expenses for physician contracts, contract services pertaining to new technology initiatives, and specialty pharmacy services.

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

Depreciation and amortization expense increased by $7.2 million over the prior year, to $138.4 million in 2021, due to the System's continued investments in expansion, renovation, and upgrades in technology. Depreciation and amortization increased to $131.2 million in 2020, a $15.6 million increase over the prior year.

Nonoperating Revenues and Expenses

Total 2021 nonoperating income increased by $70.7 million, or 73.0%, over the prior year, primarily attributable to unrealized gains on investments due to changes in the fair market value, which can vary significantly from year-to-year dependent on financial market performance. Total investment income increased in 2021 by $95.3 million. 2021 investment income included unrealized gains of $111.7 million and investment income and realized gains of $59.3 million, increases of $67.8 million and $27.5 million over 2020 amounts, respectively. The System recognized federal and state appropriations of $20.1 million and $61.2 million related to the CARES Act Provider Relief Funds received in 2020. In 2020, the System deferred recognition of the $20.0 million for funds at risk for potential payback based on continuously evolving eligibility criteria published by the United States of America (U.S.) Department of Health and Human Services (HHS). Interest expense remained comparable at $29.5 million for 2021 and 2020.

Total 2020 nonoperating income increased by $81.9 million, or 546.4%, over 2019, primarily due to the recognition of federal and state appropriations of $61.2 million related to the CARES Act Provider Relief Funds. Additionally, total investment income increased by $41.9 million over 2019 attributable to $43.9 million in unrealized gains from the 2020 financial market performance. These increases in nonoperating revenues were partially offset by a $7.0 million increase in interest expense, largely due to interest incurred for the issuance of additional debt of $154.0 million in fiscal year 2020, and a $18.1 million increase in other nonoperating expenses related to the System's acquisition of membership interest in Paramount Surgery Center, LLC.

The System's net position, as of the fiscal year ended September 30, 2021, increased by $386.5 million, resulting in a profit margin of 15.6%. In 2020, the increase in net position over the previous year was approximately $129.0 million, resulting in a profit margin of 6.3%.

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,

	2020 Moody's Median	**2021**	2020	2019
Profitability Ratios				
Operating margin*	1.4%	**7.7%**	0.1%	4.0%
Excess margin**	4.8%	**14.5%**	5.9%	5.8%
EBITDA margin***	7.6%	**14.5%**	7.9%	11.0%
Liquidity Ratios				
Days cash on hand	261.4	**279.5**	271.8	219.4
Cushion ratio	28.8	**20.1**	18.0	14.6
Cash-to-debt	200.8%	**189.7%**	157.8%	135.9%
Capitalization Ratios				
Debt to capitalization	31.7%	**29.0%**	34.4%	32.7%
Annual debt service coverage	5.2	**5.8**	3.3	3.7
Debt to cash flow	3.0	**2.1**	4.2	3.4

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

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

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

Annually, the Board establishes targets for these key ratios and then monitors these ratios each month to ensure that the System remains an A-rated organization. The cushion and cash-to-debt liquidity ratios fall outside the range of the Moody's 2020 Medians.

Consolidated Statements of Cash Flows

Unrestricted and restricted cash and cash equivalents decreased $54.6 million in 2021. Cash used in capital and related financing activities and to purchase additional investments exceed the System's positive cash flow from operating activities.

Net cash provided by operating activities was $264.8 million 2021 and $392.0 million for the years ended September 30, 2021 and 2020, respectively. In 2021, the System made additional payments of $82.5 million and $170.2 million to employees and suppliers, respectively, as compared to the prior year. The impact of these additional payments was partially offset additional cash of $55.9 million and $69.5 million, received for patient care and from other operations, respectively.

Net cash provided by noncapital financing activities in 2021 was $4.3 million, compared to $68.3 million provided by noncapital financing activities in the prior year. The decrease in noncapital financing cash flows is due primarily to the $81.2 million CARES Act Provider Relief Funds received in 2020.

Net cash used in capital and related financing activities was $223.9 million in fiscal year 2021 and $130.3 million in fiscal year 2020. Net proceeds from borrowings of long-term debt of $166.2 million significantly offset capital and related financing activities' cash outflows in 2020; however, the decrease in 2020 cash outflows was partially offset by higher expenditures for capital assets of $31.6 million and cash paid for acquisitions of $44.1 million.

Net cash used in investing activities was $99.9 million for fiscal year 2021 compared to $188.6 million in the prior year. The System invested an additional $157.1 million in 2021 compared to the investment of $220.7 million in 2020, a decrease of $63.6 million in cash outflows. Additionally, investment income received through interest earnings and realized gains was $57.2 million and $32.4 million in 2021 and 2020, an increase of $24.8 million cash provided by investing activities.

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 our 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 $117.5 million for 2021, $68.9 million for 2020, and $77.1 million for 2019. 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.

The System estimates the benefit of the services provided to the community to be $685.1 million in 2021, $481.9 million in 2020, and $531.7 million in 2019. 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), and other services provided at a loss, such as community wellness and health education programs.

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

Year ended September 30,	**2021**	2020	2019
Cost of charity care for low-income patients	**$ 82,661**	$ 72,800	$ 69,986
Cost of community outreach and educational programs and one-of-a-kind medical services	**45,056**	59,129	70,050
Cost of unpaid Medicaid services	**159,673**	77,425	100,171
Cost of unpaid Medicare and other government programs	**397,769**	272,551	291,477
	$ 685,159	$ 481,905	$ 531,684

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 table below, the System is dependent on the State and Federal government programs for the majority of its revenues, with 64.7% 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.

September 30,	**2021 (%)**	2020 (%)	2019 (%)
Medicare	**51.3**	52.2	52.4
Medicaid	**13.4**	12.6	13.4
Commercial	**24.7**	23.8	24.0
Other	**10.6**	11.4	10.2
	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. On March 13, 2020, President Trump declared a national emergency in response to the COVID-19 pandemic. Shortly thereafter, President Trump and the Center for Medicare and Medicaid Services (CMS) recommended health care providers limit all "non-essential" elective medical and surgical procedures. On March 20, 2020, Florida Governor DeSantis issued Executive Order 20-72, which prohibited "any medically unnecessary, non-urgent or non-emergency procedure or surgery which, if delayed, does not place a patient's immediate health, safety, or well-being at risk…" The System immediately complied with Executive Order 20-72 by canceling all elective procedures and began preparing for an anticipated surge in COVID-19 patients. On April 29, 2020, Governor DeSantis issued Executive Order 20-112, with an effective date of May 4, 2020, lifting the prohibition on elective procedures established by Executive Order 20-72. On May 4, 2020, the System resumed elective surgeries and procedures at all of its inpatient and outpatient facilities. A number of measures were enhanced to safeguard the health of patients, visitors, and caregivers. These measures, including conducting COVID-19 testing for all patients admitted, will continue for the foreseeable future as management works with epidemiologists and infectious disease experts, considers the Centers for Disease Control and Prevention and Florida Department of Health guidelines, and makes adjustments as indicated by the burden of the disease and the state of the science.

The financial impact of the COVID-19 pandemic has been driven by lost revenue due to sharp declines in patient volume resulting from Executive Order 20-72, and increased expenses due to an increased need for personal protective equipment for caregivers and visitors, and materials and staffing necessary for COVID-19 testing (i.e., swabs, collection kits, reagents, etc.).

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills, which have provided certain financial benefits to the System. The following is a summary of the key benefits provided to the System as part of the various stimulus funding packages passed by Congress:

- The CARES Act was enacted on March 27, 2020 and authorized $100 billion in direct funding to hospitals and other healthcare providers. The authorized funding was later increased to $175 billion. This funding (referred to as Provider Relief Funds) is intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and is not required to be repaid, provided recipients attest to and comply with certain terms and conditions. In April 2020, HHS made general distributions totaling $50 billion (in two tranches of $30 billion and $20 billion) to all health care providers in proportion to providers' share of 2018 net patient service revenue. In May 2020, HHS provided $22 billion to high-impact COVID-19 providers along with $4.9 billion for Skilled Nursing Facilities. In the year ended September 30, 2020, the System received approximately $81.2 million in Provider Relief Funds, comprised of approximately $37.8 million from the general distribution, approximately $42.7 million in targeted high-impact funds, and approximately $0.7 million in other funds. Of the $81.2 million received, the System recognized $20.0 million and $61.2 million as nonoperating revenue within federal and state appropriations in the consolidated statements of revenues, expenses, and changes in fund net position for the years ended September 30, 2021 and 2020.

- Throughout the pandemic, and as recent as June 2021, HHS has released updated guidance on reporting the appropriate use of Provider Relief Funds received under the CARES Act.

Based on the most recent guidance, recipients may use Provider Relief Funds for health care-related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse, and then for lost operating income related to health care services measured through December 31, 2020, and then if necessary, through June 30, 2021. In November 2021, the System filed the first supporting documentation for $75.2 million of Provider Relief Funds received through June 30, 2020 and related increased labor expenses attributable to COVID-19 and lost patient revenue totaling $160 million. HHS guidance allows the System to carryforward a portion of the excess expenses and lost revenue to support the remaining $6.9 million of Provider Relief Funds required to be filed with HHS by March 31, 2022. 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 CARES Act also expanded the Medicare Accelerated and Advance Payment Program as a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. Acute care hospitals may request accelerated payments of up to 100% of their total Medicare payment amount for a six-month period based on the last six months of 2019. The Continuing Appropriations Act, 2021 and Other Extensions Act was signed into law on October 1, 2020 and resulted in the accelerated payments being interest free if repaid within 30 months of receipt. Beginning in April 2021, Medicare withholds 25% of all Medicare remittance advice payments for 11 months and then 50% of payments for the next six months or until fully recovered. The System does not anticipate any issue with repaying all of the funds before interest would begin to accrue in September 2022. The System received $162.6 million of accelerated payments in April 2020 and an additional $14.0 million in October 2021. As of September 30, 2021, the balance remaining to be withheld was $127.4 million, classified as Medicare advance payments within current liabilities in the consolidated statement of net position.

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

Lee Memorial Health System

Consolidated Statements of Net Position
(in thousands)

September 30,		**2021**		2020
Assets				
Current Assets				
Cash and cash equivalents	$	**170,289**	$	228,916
Restricted cash and cash equivalents		**37,664**		33,646
Investments		**1,471,069**		1,201,742
Assets whose use is restricted		**1,499**		1,943
Patient accounts receivable, net of allowance for estimated uncollectible accounts of $131,579 in 2021 and $88,434 in 2020		**308,299**		226,521
Inventories		**41,307**		37,675
Other current assets		**49,700**		43,798
Total Current Assets		**2,079,827**		1,774,241
Noncurrent Assets				
Assets whose use is restricted		**14,257**		12,294
Capital assets, net		**1,344,067**		1,323,478
Other assets		**34,961**		35,579
Total Assets	$	**3,473,112**	$	3,145,592
Deferred Outflows of Resources				
Deferred loss on debt refunding	$	**622**	$	871
Deferred outflows on pension and post-employment benefit plans		**8,496**		5,286
Excess consideration provided for acquisition		**104,622**		108,238
Total Deferred Outflows of Resources	$	**113,740**	$	114,395
Liabilities				
Current Liabilities				
Accounts payable	$	**84,817**	$	93,819
Accrued expenses:				
Employee compensation		**61,524**		62,766
Interest		**12,470**		12,847
Other		**67,725**		80,599
Medicare advance payments		**127,391**		162,574
Current installments of long-term debt		**47,714**		44,731
Estimated third-party payor settlements		**58,041**		25,007
Total Current Liabilities		**459,682**		482,343
Noncurrent Liabilities				
Long-term debt, excluding current installments		**817,382**		863,442
Pension and post-employment benefit plan liabilities		**71,529**		70,570
Other liabilities		**58,879**		52,212
Total Liabilities	$	**1,407,472**	$	1,468,567
Deferred Inflows of Resources				
Deferred gain on debt refunding	$	**3,047**	$	3,277
Deferred inflows on pension and post-employment benefit plans		**2,869**		1,277
Deferred inflows on split-interest agreements		**391**		299
Total Deferred Inflows of Resources	$	**6,307**	$	4,853
Net Position				
Restricted for:				
Nonexpendable	$	**9,132**	$	8,669
Expendable		**49,420**		43,365
Net investment in capital assets		**478,971**		415,307
Unrestricted		**1,635,550**		1,319,226
Total Net Position	$	**2,173,073**	$	1,786,567

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,	**2021**	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts of $293,242 in 2021 and $235,152 in 2020	**$ 2,296,033**	$ 1,956,992
Capitation revenue	**54,498**	33,813
Other revenue	**120,761**	72,426
Total Operating Revenues	**2,471,292**	2,063,231
Operating Expenses		
Salaries, wages, and benefits	**1,230,212**	1,144,341
Supplies and other services	**657,691**	532,636
Purchased services	**226,042**	222,872
Depreciation and amortization	**138,376**	131,207
Total Operating Expenses	**2,252,321**	2,031,056
Operating Income	**218,971**	32,175
Nonoperating Revenues (Expenses)		
Interest expense	**(29,547)**	(29,531)
Investment income, including realized and unrealized gains on investments	**170,982**	75,659
Contributions and grants	**4,113**	10,916
Investment activity on restricted nonexpendable investments	**2,063**	(932)
Loss on sale of capital assets	**(513)**	(5,232)
Federal and state appropriations	**20,146**	61,218
Other	**291**	(15,254)
Total Nonoperating Income	**167,535**	96,844
Increase in Net Position	**386,506**	129,019
Net Position, beginning of year	**1,786,567**	1,657,548
Net Position, end of year	**$ 2,173,073**	$ 1,786,567

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

Consolidated Statements of Cash Flows
(in thousands)

Year ended September 30,		2021		2020
Cash Flows from Operating Activities				
Received from patient care services	$	**2,212,106**	$	2,156,158
Salaries and benefits paid to employees		**(1,231,477)**		(1,148,940)
Payments to suppliers		**(890,880)**		(720,778)
Other receipts from operations		**175,076**		105,545
Net Cash Provided by Operating Activities		**264,825**		391,985
Cash Flows from Noncapital Financing Activities				
Restricted gifts received (noncapital related)		**7,308**		3,064
Assets donated via Lee Memorial Health System Foundation, Inc.		**4,654**		1,375
Federal and state appropriations		**6,865**		81,218
Miscellaneous nonoperating items		**(14,495)**		(17,350)
Net Cash Provided by Noncapital Financing Activities		**4,332**		68,307
Cash Flows from Capital and Related Financing Activities				
Proceeds from long-term borrowings		**-**		166,184
Purchases of capital assets		**(149,993)**		(181,647)
Proceeds from sale of capital assets		**161**		54
Interest payments		**(33,607)**		(31,688)
Repayment of long-term debt		**(41,029)**		(39,191)
Restricted gifts received (capital related)		**630**		139
Purchase of remaining interest in Bonita Community Health Center		**-**		(23,623)
Acquisition of interest in Paramount Surgery Center, LLC		**-**		(20,500)
Net Cash Used in Capital and Related Financing Activities		**(223,838)**		(130,272)
Cash Flows from Investing Activities				
Investment income received		**57,217**		32,428
Increase in investments		**(157,145)**		(220,742)
Joint venture funding and activity		**-**		(250)
Net Cash Used in Investing Activities		**(99,928)**		(188,564)
Net Change in Cash and Cash Equivalents		**(54,609)**		141,456
Cash and Cash Equivalents, beginning of year		**262,562**		121,106
Cash and Cash Equivalents, end of year	$	**207,953**	$	262,562
Unrestricted cash and cash equivalents	$	**170,289**	$	228,916
Restricted cash and cash equivalents		**37,664**		33,646
Total Cash and Cash Equivalents	$	**207,953**	$	262,562
Supplemental Disclosure of Cash Flow Information				
Capital assets financed through capital lease obligations	$	**5,356**	$	1,890

Lee Memorial Health System

Consolidated Statements of Cash Flows
(in thousands)

Year ended September 30,		**2021**		2020
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	**$**	**218,971**	$	32,175
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization		**138,376**		131,207
Provision for uncollectible accounts		**293,242**		235,152
Changes in:				
Patient accounts receivable		**(423,498)**		(209,003)
Inventories		**(3,632)**		(4,234)
Other assets		**(5,878)**		(13,927)
Accounts payable		**(9,002)**		20,076
Accrued expenses		**5,886**		21,433
Estimated third-party payor settlements		**32,063**		10,444
Medicare advance payments		**14,266**		162,574
Other liabilities		**4,031**		6,088
Net Cash Provided by Operating Activities	**$**	**264,825**	$	391,985

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

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

September 30,		**2021**		2020
Assets				
Cash and cash equivalents	**$**	**1,747**	$	1,537
Investments (measured at fair value)		**28,792**		25,146
Accrued investment income		**11**		5
Total Assets	**$**	**30,550**	$	26,688
Net Position				
Restricted for employees' pension benefits	**$**	**30,550**	$	26,688

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, 2021		
Additions		
Pension contributions	$	2,032
Investment income, net		3,936
Total Additions		5,968
Deductions		
Pension benefit payments		1,948
Other expenses		158
Total Deductions		2,106
Net Increase in Net Position		3,862
Net Position – Restricted for Employees' Pension Benefits, beginning of year		26,688
Net Position – Restricted for Employees' Pension Benefits, end of year	$	30,550

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

The System includes four acute care hospitals, Lee Memorial Hospital, HealthPark Medical Center, Gulf Coast Medical Center (GCMC), and Cape Coral Hospital. Additionally, the System is comprised of other healthcare facilities and services, which include a 134-bed designated children's hospital, a 60-bed rehabilitation hospital, an 18-bed skilled nursing unit, a 75-bed skilled nursing unit, a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physicians' offices. The System operates primarily in Lee County, Florida.

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

The accompanying consolidated financial statements present the System and its component units, entities for which the System is considered to be financially accountable (referred to as 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 the System. The component units discussed below are included in the System's 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) on July 1, 1996, upon acquisition of Cape Coral Hospital. The System is the sole owner of Cape Coral Hospital and ten members of the System's Board of Directors comprise its Board of Directors. See Note 14 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. The System is the sole owner of HPCC and HPCC's Board of Directors consists of the ten members of the System'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. The System is the sole owner and LMHH's Board of Directors consists of the ten members of the System's Board of Directors. LMHH is the

sole member of Access Medical South, LC, which was formed in 2001 to provide durable medical equipment, oxygen, and respiratory services, and Access Infusion Partners, LLP, formed in 1997 to provide infusion services in Lee County.

- Bonita Community Health Center (BCHC) is a not-for-profit organization. BCHC operates an urgent care center, an ambulatory surgical care center, a diagnostic imaging center, and an outpatient rehabilitation center in Estero, Florida. Previously, the System had a 50% membership interest in BCHC and accounted for its interest under the equity method. On November 29, 2019, the System acquired the remaining 50% membership interest.
- Lee Memorial Health System Foundation, Inc. (the Foundation) is a not-for-profit corporation created by the System's Board of Directors and community leaders to serve as a fund-raising organization in support of the System. Its Board of Directors consists of persons prominent in the community and interested in serving the community and the System's needs. Two Board positions are also reserved on an ex-officio basis for the Chairman of the Board of Directors of the System or members of such Board designated by the Chairman and the Chief Executive Officer of the System or his/her designee. 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 District) is a not-for-profit organization located in Fort Myers, Florida. The District is a special purpose unit of local government created by a special act of the 2003 Florida Legislature, Chapter 63-1552, Laws of Florida, Special Acts, 1963 as recodified by Chapter 2003-357, Laws of Florida, Special Acts 2003. The District is classified as an independent special district under the laws of Florida. The District serves as an integral member of the continuum of care offered by the System. Per an Interlocal Agreement pursuant to the provisions of Section 163.01, Florida Statutes, the System is obligated to provide monetary support to the District so there is no financial loss (or gain) to the District. The 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; and Lehigh Acres. LCH serves as an integral member of the continuum of care offered by the System.
- The System has population health services (Population Health) aimed at furthering the System's mission to be a trusted partner empowering healthier lives through care and compassion. The System is the sole member or owner of the following entities that comprise Population Health:
  - Best Care Assurance, LLC (d/b/a Vivida Health) holds the Provider Service Network (PSN) contract with the Florida Agency for Health Care Administration and Florida Medicaid.

- Best Care Collaborative, LLC holds the Medicare Next Generation Accountable Care Organization (ACO) contract with the Centers for Medicare and Medicaid Services (CMS).
- Best Care Partners, Inc. holds the Clinically Integrated Network (CIN) of providers, as well as the provider-led Medicare Advantage and/or a commercial employer health insurance plan. As of December 31, 2020, the Medicare Advantage plan no longer has members.

- Effective May 1, 2017, the System acquired 100% membership in Florida Radiology Leasing, LLC., which operates freestanding multi-diagnostic outpatient radiology centers in various leased locations.
- The System 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 building housing the Outpatient Center at the Sanctuary.
- On October 21, 2019, the System's Board of Directors approved the creation of an entity to participate in investments and advantageous business relationships. The System 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 Unit

On December 24, 2019, LHH acquired a 51% membership interest with Paramount Surgery Center, LLC (Paramount), which is a specialized orthopedic ambulatory surgical center, for a purchase price of $20.5 million. The consideration in excess of the value of the net assets was expensed. The accompanying consolidated financial statements do not present Paramount as a discrete component unit, but as a blended component unit, as amounts are not material to these consolidated financial statements. See Note 14 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 statements of the Governmental Accounting Standards Board (GASB). 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.

(in thousands)

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 Cape Coral Medical Center, Inc. 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.

Reclassification of Prior-Year Amounts

Certain prior-year amounts have been reclassified for consistency with the current-year presentation.

Reclassifications to the System's consolidated statement of net position had no effect on the previously reported total current assets, total noncurrent liabilities or net position, and are as follows:

September 30, 2020

	As Previously Reported	Reclassification	As Reported
Cash and cash equivalents	$ 262,562	$ (33,646)	$ 228,916
Restricted cash and cash equivalents	-	33,646	33,646
Pension and post-employment benefit plan liabilities	-	70,570	70,570
Other liabilities	122,782	(70,570)	52,212

(in thousands)

Reclassifications to the System's consolidated statement of revenues, expenses, and changes in fund net position had no effect on the previously reported total operating revenues, total operating income, or increase in net position or net position, end of year, and are as follows:

Year Ended September 30, 2020

	As Previously Reported	Reclassification	As Reported
Capitation revenue	$ -	$ 33,813	$ 33,813
Other revenue	106,239	(33,813)	72,426

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.

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 $250,000. However, the System is a Qualified Public Depositor with the state of Florida. As such, deposits at Qualified Public Depositories are insured at the full amount on deposit. Management does not anticipate nonperformance risk by the financial institutions.

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. Investment income, including interest, dividends, realized gains and losses based on the specific identification method, and unrealized gains and losses, are included in nonoperating 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,	**2021 (%)**	2020 (%)
SEI Core Property Fund, LP (Core Property Fund)	**3.81**	3.11
SEI Special Situations Fund, Ltd. (Special Situations Fund)	**8.07**	6.39
SEI Core Property Fund, LP (held by the Foundation)	**0.05**	0.05

(in thousands)

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. An asset is capitalized when the cost of the individual item exceeds $1,000. Capital assets have been recorded at historical cost or acquisition value at date of purchase or donation, respectively. Equipment under capital leases is stated at the present value of minimum lease payments at the inception of the lease. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity, or extend the useful life of an asset are capitalized. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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

	Years
Buildings and improvements	10-40
Equipment	2-15

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, 2021 and 2020, the System does not believe there were any adverse events or changes in business that would indicate that an impairment reserve is required.

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 $3.6 million and $3.3 million in amortization expense for the years ended September 30, 2021 and 2020, respectively, 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.

(in thousands)

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, 2021

		Balance		Annual Amortization	Weighted-Average Amortization Period (Years)
Gulf Coast Medical Center	$	80,078	$	2,427	40
Lee Memorial Hospital		18,220		702	31
Cape Coral Hospital		6,324		486	20
Total	$	104,622	$	3,615	38

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

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 (PTO) Plan - The 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 salaries and benefits and other noncurrent liabilities in the accompanying consolidated statements of net position, classified as current or noncurrent 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.

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.

(in thousands)

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,	**2021 (%)**	2020 (%)
Medicare	**30**	33
Medicaid	**10**	9
Managed care	**27**	24
Commercial insurance	**10**	8
Self-pay and other	**23**	26
	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, 2021 and 2020 consisted of foregone revenues of approximately $370.0 million and $344.8 million, respectively.

Capitation Revenue

The System, through its component unit, Best Care Assurance, LLC (d/b/a Vivida Health), administers the PSN contract with the Florida Agency for Health Care Administration (AHCA) under the Florida Statewide Medicaid Managed Care program. The System receives a Per Member Per Month (PMPM) capitation payment and certain additional supplemental payments in return for the obligation to pay for all covered medical services provided to its qualified members. The Agency for Health Care Administration (AHCS) makes capitation payments to the System each month and the System is obligated to pay for its members covered services incurred during that month. The System recognizes capitation revenue as the System satisfies the stand-ready obligation to fund members' medical care. The System records expense for paid claims on a monthly basis and estimates a liability for incurred but not reported claims on a monthly basis.

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.

Nonoperating Revenues and Expenses

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

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 Adopted Accounting Standards

Effective October 1, 2021, the System adopted GASB Statement No. 84, *Fiduciary Activities* (GASB No. 84), which established criteria for identifying and reporting fiduciary activities for all state and local governments. The objective of this Statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments and improve usefulness of the fiduciary information. As a result, a statement of net position and a statement of changes in fund net position of the Pension Trust Fund for the frozen retirement plan of former Cape Coral Medical Center, Inc. employees (the CCMC Plan) are reported separately within the consolidated financial statements.

Other Accounting Pronouncements

In June 2017, the GASB issued GASB Statement No. 87, *Leases* (GASB No. 87). GASB No. 87 establishes standards of accounting and financial reporting by lessees and lessors. GASB No. 87 will require a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will require a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The effective date, as amended by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB No. 95), is for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. The System will adopt GASB No. 87 on October 1, 2021. The System is currently evaluating the impact GASB No. 87 will have on its consolidated financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB No. 89). Upon adoption of GASB No. 89, interest cost incurred before the end of a construction period will be recognized as an expense in the period in which the cost is incurred. The effective date, as amended by GASB No. 95, is for periods beginning after December 15, 2020. The System is currently evaluating the impact GASB No. 89 will have on its consolidated financial statements.

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

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

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

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Reporting for Internal Revenue Code Section 457: Deferred Compensation Plans* (GASB No. 97). The primary objective of GASB No. 97 is to increase the consistency and comparability of reporting fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board would typically perform for certain defined contribution pension plans, defined contribution other postemployment benefit plans, and other employee benefit plans. This Statement also enhances the relevance and comparability of the accounting and financial reporting for the Code Section 457: deferred compensation plans. Paragraphs 4 and 5 of GASB No. 97 are effective immediately. The requirements in paragraphs 6 - 9 are effective for fiscal years beginning after June 15, 2021 and the remainder of GASB No. 97 is effective for reporting periods beginning after June 15, 2021. The adoption of paragraphs 4 and 5 of GASB No. 97 did not have a material impact on the consolidated financial statements, and the System is currently evaluating the impact the remaining provisions of GASB No. 97 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, 2016. 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, 2016. 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 2021.

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,		**2021**		2020
Gross patient service revenue	$	**10,765,853**	$	9,117,775
Third-party payor and other contractual adjustments		**(8,176,578)**		(6,925,631)
Provision for uncollectible accounts		**(293,242)**		(235,152)
Net Patient Service Revenue	$	**2,296,033**	$	1,956,992

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,		**2021**		2020
Restricted by donors for specific purposes	$	**13,666**	$	11,641
Held by trustee under bond indenture agreements		**1,024**		1,529
Held in trust for other uses		**587**		654
Held by Board of Directors for future use		**479**		413
Total Assets Whose Use is Restricted		**15,756**		14,237
Less: amounts required to meet current obligations		**(1,499)**		(1,943)
Assets Whose Use is Restricted, net of amounts required to meet current obligations	$	**14,257**	$	12,294

5. Investments and Assets Whose Use is Restricted

The System primarily invests its resources in domestic and international equity and fixed-income mutual funds, 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 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 (NAV) 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, 2021

	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Domestic equity mutual funds	$ 320,990	$ 320,990	$ -	$ -
International equity mutual funds	393,580	393,580	-	-
Domestic fixed-income mutual funds	614,567	614,567	-	-
Total Investments by Fair Value Level	1,329,137	$ 1,329,137	$ -	$ -
Investments Measured at NAV				
SEI Core Property Fund, LP	92,203			
SEI Special Situations Fund, Ltd.	63,970			
Total Investments Measured at NAV	156,173			
Other				
Commercial paper and money market funds	1,515			
	$ 1,486,825			

September 30, 2020

	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Domestic equity mutual funds	$ 269,837	$ 269,837	$ -	$ -
International equity mutual funds	260,147	260,147	-	-
Domestic fixed-income mutual funds	447,217	447,217	-	-
Total Investments by Fair Value Level	977,201	$ 977,201	$ -	$ -
Investments Measured at NAV				
SEI Core Property Fund, LP	78,214			
SEI Special Situations Fund, Ltd.	55,028			
Total Investments Measured at NAV	133,242			
Other				
Commercial paper and money market funds	105,536			
	$ 1,215,979			

The System has an investment management agreement with SEI Investments Company (SEI) to manage approximately 99.89% of their investments. Less than 0.1% of investments are monitored and managed through the Foundation on a quarterly basis, with the remainder residing in money markets, which are monitored daily.

With the exception of the SEI Core Property Fund, LP and SEI Special Situations Funds, Ltd., the System can liquidate funds within the trade date plus one business day. SEI requires a 30-days' 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-days' pre-notification. The SEI Special Situations Fund, Ltd. can liquidate 90% of holdings semi-annually with a 95-days' pre-notification. SEI holds 10% of total redemptions until completion of the funds' audit for both hedge funds.

As of September 30, 2021 and 2020, these alternative investment funds made up approximately 10.5% and 11.0%, 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, 2021 and 2020, the System's investments were not exposed to custodial credit risk since the full amount of investments were insured or registered, or securities held by the System or its agent are in the System's name.

- *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 exceeds 5%. The System's investment policy states that no corporate fixed-income issue shall represent more than 5% of any portfolio at the time of purchase, nor shall any single corporate position exceed 10%. Equity assets of any one issuer, when purchased, shall represent no more than 3% of the portfolio and shall not grow to exceed 10%.

- *Credit Risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized, and total portfolio efficiency is enhanced.

  The System currently invests in mutual funds. Due to the nature of mutual funds, credit risk rating is not consistent with the credit risk ratings of individual stocks that are measured by

(in thousands)

Moody's Investors Services and Standard & Poor's. These rating agencies do not provide credit risk rating of mutual 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.

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

September 30, 2021

		Investment Maturities				
	Fair Value	Less than 1 Year	13 to 24 Months	25 to 60 Months	Greater than 60 Months	N/A
Commercial paper and money market funds	$ 1,515	$ -	$ -	$ -	$ -	$ 1,515
Mutual funds	1,329,137	-	-	-	-	1,329,137
External investment pools	156,173	-	-	-	-	156,173
	$ 1,486,825	$ -	$ -	$ -	$ -	$ 1,486,825

September 30, 2020

		Investment Maturities				
	Fair Value	Less than 1 Year	13 to 24 Months	25 to 60 Months	Greater than 60 Months	N/A
Commercial paper and money market funds	$ 105,536	$ -	$ -	$ -	$ -	$ 105,536
Mutual funds	977,201	-	-	-	-	977,201
External investment pools	133,242	-	-	-	-	133,242
	$ 1,215,979	$ -	$ -	$ -	$ -	$ 1,215,979

During the years ended September 30, 2021 and 2020, the System recorded net realized gains of approximately $26.0 million and $7.5 million, respectively, from the sale of investments. The calculations of realized gains and losses are independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that have been held for more than one fiscal year and sold in the current year may have unrealized gains and losses recognized in the prior year due to a change in the fair value of the investments.

The net increase in the fair value of investments for the years ended September 30, 2021 and 2020 was approximately $112.9 million and $44.1 million, respectively. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year.

The total unrealized gains on investments held at September 30, 2021 and 2020 were approximately $271.2 million and $158.3 million, respectively. 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.

(in thousands)

6. Capital Assets, Net

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

	Balance, September 30, 2020	Additions and Transfers	Retirements and Transfers	**Balance, September 30, 2021**
Land	$ 144,562	$ 22,681	$ -	**$ 167,243**
Construction-in-progress	102,562	150,397	(192,460)	**60,499**
Total Capital Assets Not Depreciated	247,124	173,078	(192,460)	**227,742**
Buildings and improvements	1,085,568	137,399	(904)	**1,222,063**
Equipment	1,157,677	37,985	(20,728)	**1,174,934**
Total Capital Assets Being Depreciated	2,243,245	175,384	(21,632)	**2,396,997**
Less: accumulated depreciation for:				
Buildings and improvements	(432,079)	(51,255)	878	**(482,456)**
Equipment	(734,812)	(83,506)	20,102	**(798,216)**
Total Accumulated Depreciation	(1,166,891)	(134,761)	20,980	**(1,280,672)**
Total Capital Assets Being Depreciated, Net	1,076,354	40,623	(652)	**1,116,325**
Total Capital Assets, Net	$ 1,323,478	$ 213,701	$ (193,112)	**$ 1,344,067**

	Balance, September 30, 2019	Additions and Transfers	Retirements and Transfers	**Balance, September 30, 2020**
Land	$ 137,931	$ 6,631	$ -	**$ 144,562**
Construction-in-progress	221,694	123,169	(242,301)	**102,562**
Total Capital Assets Not Depreciated	359,625	129,800	(242,301)	**247,124**
Buildings and improvements	912,977	184,249	(11,658)	**1,085,568**
Equipment	1,044,979	130,022	(17,324)	**1,157,677**
Total Capital Assets Being Depreciated	1,957,956	314,271	(28,982)	**2,243,245**
Less: accumulated depreciation for:				
Buildings and improvements	(398,725)	(42,946)	9,592	**(432,079)**
Equipment	(662,325)	(84,707)	12,220	**(734,812)**
Total Accumulated Depreciation	(1,061,050)	(127,653)	21,812	**(1,166,891)**
Total Capital Assets Being Depreciated, Net	896,906	186,618	(7,170)	**1,076,354**
Total Capital Assets, Net	$ 1,256,531	$ 316,418	$ (249,471)	**$ 1,323,478**

Construction-in-progress (CIP) at September 30, 2021 consists primarily of expenditures for computer equipment, surgical equipment, and building renovations and improvements. The numerous projects underway at September 30, 2021 are funded through operations and by assets designated by the System's Board of Directors for the replacement of plant and equipment. The System did not capitalize interest for the years ended September 30, 2021 or 2020.

Depreciation expense was approximately $134.7 million and $127.7 million for the years ended September 30, 2021 and 2020, respectively.

(in thousands)

7. Other Assets

Other assets consist of the following:

September 30,		**2021**		2020
Deposits and other	$	**11,924**	$	14,852
Investment in LeeSar, Inc.		**23,037**		20,727
Other Assets	$	**34,961**	$	35,579

The System has a 44.445% 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 $23.0 million and $20.7 million at September 30, 2021 and 2020, respectively, and is included in other noncurrent assets. The System's interest in LeeSar's excess of revenues over expenses was approximately $3.6 million and $2.1 million for the years ended September 30, 2021 and 2020, respectively. The change in LeeSar's reported excess of revenues over expenses from 2020 to 2021 was driven primarily by an increase in other income of $6.1 million, due primarily to a $4.9 million forgiveness of a Paycheck Protection Program Loan. 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 $194.8 million and $169.1 million for the years ended September 30, 2021 and 2020. At September 30, 2021 and 2020, respectively, amounts due to LeeSar of approximately $14.5 million and $12.5 million are included in accounts payable and amounts due from LeeSar of approximately $6.9 million and $7.7 million are included in other current assets in the consolidated statements of net position.

8. Revenue Bonds

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

September 30,		**2021**		2020
2019 Series A Bonds, payable in variable annual installments beginning April 2020 through April 2049. Net of unamortized premium of approximately $51,845 and $55,547 in 2021 and 2020, respectively	$	**453,650**	$	465,457
2019 Series B Bonds, payable in variable annual installments beginning April 2038 through April 2049		**50,315**		50,315
2010 Series A Bonds, payable in variable annual installments beginning April 2025 through April 2027		**42,000**		42,000
Total Revenue Bonds		**545,965**		557,772
Less: current installments		**(8,895)**		(8,105)
Revenue Bonds, excluding current installments	$	**537,070**	$	549,667

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 are paid 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. No premiums or discounts were recognized in the issuance of this debt.

2010 Series A Bonds

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

(in thousands)

- 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.

9. Loans and Notes Payable

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

September 30,	**2021**	2020
2020 TD Bank Loan, payable in variable annual installments beginning April 2021 through June 2035	**$ 99,700**	$ 102,000
2020 JP Morgan Chase Loan, payable in fixed annual installments beginning April 2021 through April 2032	**47,667**	52,000
2016 BAPCC Loan, payable in variable monthly installments beginning July 2016 through June 2023	**6,506**	10,146
2015 BAPCC Loan, payable in variable monthly installments beginning October 2015 through September 2025	**21,186**	26,227
2015 Bank of America Loan, payable in variable annual installments beginning April 2016 through April 2024	**40,010**	49,540
Other direct borrowings	**64,332**	71,305
Total Loans and Notes Payable	**279,401**	311,218
Less: current installments	**(32,469)**	(31,816)
Loans and Notes Payable, excluding current installments	**$ 246,932**	$ 279,402

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.

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 Gulf Coast Medical Center. The 2020 JP Morgan Chase Loan (DNT Asset Trust) closed March 3, 2020 and is secured by Obligation No. 32 under the MTI. Principal payments are paid annually in April with the loan set to mature in April 2032. Interest is payable semi-annually in October and April accruing at a fixed rate of 1.68% per annum. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 32 is an accelerable instrument upon an event of default. Obligation No. 32 and the loan agreement 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 bears a fixed rate of 1.55% paid monthly and matures in June 2023. Issuance costs were paid with internal funds. If the System is unable to make payment within 30 days of written notice, it will be considered in default. The lessor may terminate the lease, demand payment of all amounts up to the original term and any contemplated renewal terms, and require the return of all equipment under the lease.

2015 BAPCC Loan

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

2015 Bank of America Loan

On June 25, 2015, the System's Board of Directors approved the refunding and refinancing of 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 lenders discretion, to the lesser of the prime rate plus 3% per annum, or the maximum rate permitted by law. Unpaid interest or fees, for the purpose of calculating interest, may become part of the principal balance and is 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 were completed.

On August 26, 2010, the System's Board of Directors approved the acquisition of the ownership interest in CB Medical North, LLC, which owns the land and building housing the Lee Memorial Regional Cancer Center at the Sanctuary and CB Medical South, LLC, which owns the land and building housing the Outpatient Center at the Sanctuary. The System acquired full ownership effective October 1, 2010. As part of the transaction, the System assumed the mortgages on the properties, which totaled approximately $62.0 million plus approximately $2.3 million in cash. The System was required to update the previous capital asset and long-term debt recordings to reflect the purchase transaction. The CB Medical South, LLC and CB Medical North, LLC values for capital assets and long-term debt reported as of September 30, 2010 reflected the lease guidance addressing sale-leaseback transactions. The CB Medical South, LLC and CB Medical North, LLC values for capital assets and long-term debt reported as of September 30, 2014 reflect the full ownership interest resulting from the October 1, 2010 acquisition transaction. At September 30, 2021 and 2020, the value included in capital assets, net of accumulated depreciation, amounted to approximately $22.3 million and $22.6 million, respectively, for the Sanctuary Regional Cancer Center, and the total outstanding debt amounted to approximately $21.7 million and $22.6 million, respectively. At September 30, 2021 and 2020, the value included in capital assets, net of accumulated depreciation, amounted to approximately $24.9 million and $25.6 million, respectively, for the Sanctuary Outpatient Center, and the total outstanding debt amounted to approximately $29.3 million and $30.4 million, respectively.

In April 2018, the System entered into a Purchase Money Mortgage with Lee Healthcare Resources, a Florida not-for-profit corporation, in the amount of $10.3 million plus approximately $1.9 million in cash for the Med Plaza One Building. Principal payments of $2.1 million plus interest will be paid annually through April 2023. Interest on the principal sum of this note as of September 2021 was 0.99% per annum and is subject to annual adjustment based on the Applicable Federal Rate. The Med Plaza One Building is comprised of medical and administrative offices. If principal or interest payments are not made within 30 days of the due date, the System will be considered in default. In the event of default, interest on principal outstanding shall be computed at the rate of 10% per annum, but not in excess of the maximum rate permitted by Florida law. The holder may, at its option and without notice, require full payment of principal and accrued interest outstanding.

In November 2018, the System entered into a 20-year lease agreement with Plantation Medical Center SNU, LLC, a Florida Limited Liability Company. The System utilizes the 57,650 square-foot facility as the Skilled Nursing Unit at GCMC. The System has accounted for the debt obligation in its consolidated financial statements with a total value of $22.0 million and the remaining balance of $18.9 million as of September 30, 2021. There is a 2.5% annual increase to the rent obligation each November until the 11^{th} 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 thousands)

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, 2021 and 2020. The nonobligated group members include the District; Lee Memorial Home Health, Inc.; HPCC; the Foundation, Inc.; LCH; Best Care Assurance, LLC.; Best Care Collaborative, LLC; Best Care Partners, Inc.; BCHC; and Paramount.

10. Capital Lease Obligations

September 30,		**2021**		2020
Capital lease obligations	**$**	**39,730**	$	39,183
Less: current installments		**(6,350)**		(4,810)
Capital Lease Obligations, excluding current installments	**$**	**33,380**	$	34,373

At September 30, 2021 and 2020, assets under capital leases included in capital assets were approximately $58.1 million and $58.0 million, respectively. The accumulated amortization for these assets was approximately $26.8 million and $20.4 million as of September 30, 2021 and 2020, respectively. Amortization expense of approximately $4.1 million and $5.2 million is included in depreciation and amortization expense in the accompanying consolidated statements of revenues, expenses, and changes in fund net position for the years ended September 30, 2021 and 2020, respectively. During the years ended 2021 and 2020, interest expense of approximately $3.1 million and $3.3 million, respectively, was incurred related to the capital lease obligations.

(in thousands)

Future minimum lease payments are as follows:

Year ending September 30,		
2022	$	10,072
2023		10,228
2024		10,036
2025		7,412
2026		6,774
Thereafter		36,348
Total Minimum Lease Payments		80,870
Less: amount representing interest		(41,140)
Present Value of Net Minimum Lease Payments	$	39,730

11. Long-Term Debt

Long-term debt is comprised of revenue bonds and related bond premium, loans and notes payable, and capital leases. Long-term debt activity for the years ended September 30, 2021 and 2020 were as follows:

	Balance, September 30, 2020	Increases	Decreases	**Balance, September 30, 2021**	Due Within One Year
Revenue Bonds					
2019 Series A Bonds	$ 465,457	$ -	$ (11,807)	**$ 453,650**	$ 8,895
2019 Series B Bonds	50,315	-	-	**50,315**	-
2010 Series A Bonds	42,000	-	-	**42,000**	-
Total Bonds	557,772	-	(11,807)	**545,965**	8,895
Loans and Notes Payable					
2020 TD Bank Loan	102,000	-	(2,300)	**99,700**	2,400
2020 JP Morgan Chase Loan	52,000	-	(4,333)	**47,667**	4,333
2016 BAPCC Loan	10,146	-	(3,640)	**6,506**	3,696
2015 BAPCC Loan	26,227	-	(5,041)	**21,186**	5,141
2015 Bank of America Loan	49,540	-	(9,530)	**40,010**	9,620
Other direct borrowings	71,305	-	(6,973)	**64,332**	7,279
Total Loans and Notes Payable	311,218	-	(31,817)	**279,401**	32,469
Capital Leases	39,183	5,357	(4,810)	**39,730**	6,350
Total	$ 908,173	$ 5,357	$ (48,434)	**$ 865,096**	$ 47,714

(in thousands)

	Balance, September 30, 2019	Increases	Decreases	**Balance, September 30, 2020**	Due Within One Year
Revenue Bonds					
2019 Series A Bonds	$ 480,659	$ -	$ (15,202)	**$ 465,457**	$ 8,105
2019 Series B Bonds	50,315	-	-	**50,315**	-
2010 Series A Bonds	42,000	-	-	**42,000**	-
Total Bonds	572,974	-	(15,202)	**557,772**	8,105
Loans and Notes Payable					
2020 TD Bank Loan	-	102,000	-	**102,000**	2,300
2020 JP Morgan Chase Loan	-	52,000	-	**52,000**	4,333
2016 BAPCC Loan	13,730	-	(3,584)	**10,146**	3,640
2015 BAPCC Loan	31,170	-	(4,943)	**26,227**	5,041
2015 Bank of America Loan	49,765	-	(225)	**49,540**	9,530
2013 BAPCC Loan	5,625	-	(5,625)	**-**	-
2012 JP Morgan Chase Loan	2,815	-	(2,815)	**-**	-
2010 Bank Qualified Loan	3,215	-	(3,215)	**-**	-
Other direct borrowings	62,890	12,184	(3,769)	**71,305**	6,972
Total Loans and Notes Payable	169,210	166,184	(24,176)	**311,218**	31,816
Capital Leases	44,509	1,891	(7,217)	**39,183**	4,810
Total	$ 786,693	$ 168,075	$ (46,595)	**$ 908,173**	$ 44,731

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

	Revenue Bonds		Loans and Notes Payable		Capital Leases	
Year ending September 30,	Principal	Interest	Principal	Interest	Principal	Interest
2022	$ 8,895	$ 22,332	$ 32,469	$ 7,706	$ 6,350	$ 3,722
2023	4,710	21,888	37,817	6,900	6,231	3,997
2024	5,420	21,652	33,041	5,953	5,966	4,070
2025	21,860	21,381	15,474	5,058	3,634	3,778
2026	23,055	20,291	10,363	4,672	3,258	3,516
2027-2031	116,230	83,899	59,106	17,576	6,415	8,326
2032-2036	137,720	54,335	34,131	7,426	5,500	9,299
2037-2041	73,645	23,825	18,000	4,682	2,376	4,432
2042-2046	60,625	12,760	20,500	2,859	-	-
2047-2051	41,960	2,467	18,500	807	-	-
	$ 494,120	$ 284,830	$ 279,401	$ 63,639	$ 39,730	$ 41,140

12. 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 $20.0 million and $22.8 million for the years ended September 30, 2021 and 2020, respectively.

(in thousands)

Retiree Health Insurance Plan

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

Plan Description

As of September 30, 2021, the System's RHI Plan, which provides medical benefits to active employees, also provides medical benefits to eligible retired employees under a defined benefit post-employment healthcare plan.

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

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

Benefits Provided

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

Contributions

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

Employees Covered by Benefit Terms

As of April 1, 2018, the census date for the OPEB liability, the following employees were covered by the benefit terms:

Participant data, as of April 1, 2018:	
Retirees	463
Fully eligible	966
Other	2,070
	3,449

(in thousands)

Net OPEB Liability

The System's OPEB service cost and total OPEB liability were measured as of December 31, 2020, the measurement date, based on participant data as of the census date.

The total OPEB liability in the September 30, 2021 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	6.0%
Investment rate of return	0.0%, due to 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-2020.

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-2020.

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

The discount rate used to measure the total OPEB liability was 2.75%. The individual EAN Cost Method is used in completing the actuarial valuation. Under this method, the normal cost is the level percentage of pay contribution that would have been required from age on the valuation date coincident with or next following the date the employee is hired in order to fund the employed participant's OPEB benefits if the current plan provisions regarding accrual of benefits had always been in effect. The total OPEB liability is the excess of the present value of future benefits over the present value of future service costs for employed participants. The service cost and total OPEB liability for the RHI Plan are the sums of the individually computed service costs and OPEB liabilities for all plan participants.

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

(in thousands)

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

Net OPEB Liability, September 30, 2020	$	62,718
Changes for the year:		
Service cost		777
Interest cost		1,674
Changes in benefit terms		(15)
Differences between expected and actual experience		2,395
Changes of assumptions		3,078
Benefit payments		(1,792)
Net Change		6,117
Net OPEB Liability, September 30, 2021	$	68,835

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

The following table presents, as of September 30, 2021, the System's net OPEB liability calculated using the discount rate of 2.0%, as well as the net OPEB liability using a discount rate that is 1% lower (1.0%) or 1% higher (3.0%):

	1% Decrease (1.0%)	Current Discount Rate (2.0%)	1% Increase (3.0%)
Net OPEB Liability	$ 60,271	$ 68,835	$ 79,157

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

The following presents, as of September 30, 2021, the System's net OPEB liability calculated using the healthcare cost trend rate of 6.0%, as well as the net OPEB liability using a rate that is 1% lower (5.0%) or 1% higher (7.0%):

	1% Decrease (5.0%)	Current Healthcare Cost Trend Rate (6.0%)	1% Increase (7.0%)
Net OPEB Liability	$ 67,516	$ 68,835	$ 70,362

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.

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

Discount rate on 20-year general obligation municipal bonds	2.0% as of the last business day preceding the measurement date
Rates of increase in compensation	3.0% based on the System's budgetary salary increase for the fiscal year 2022 budget year

(in thousands)

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

The System recognized OPEB expense of approximately $5.0 million and $4.0 million for the years ended September 30, 2021 and 2020, respectively. At September 30, 2021, the System reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

September 30, 2021

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,116	$ 171
Changes of assumptions	5,949	174
Total	$ 8,065	$ 345

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,	
2022	$ 2,744
2023	1,603
2024	1,273
2025	1,273
2026	827
Thereafter	-

Payable to the OPEB Plan

As of September 30, 2021, there are no payables to the RHI Plan.

Defined Benefit Pension Plan

Plan Description

Effective July 1, 1996, the System became the sponsor of the frozen retirement plan of the CCMC Plan). The CCMC Plan was frozen on September 30, 1995 by the management in place at that time. The CCMC Plan is a noncontributory, single-employer defined benefit plan, administered by a committee appointed by the System. Under the provisions of the CCMC Plan, the System has the authority to make amendments. There have been no new members of the CCMC Plan since the date the CCMC Plan was frozen. The CCMC Plan provides life-only annuity benefits to plan members and beneficiaries. An actuarial report is prepared each year effective June 30 and is available from the System. The funding policy of the System is to contribute an amount at least equal to the annual required contribution prescribed by GASB and determined by the actuary. For the years ended September 30, 2021 and 2020, the Annual Required Contribution (ARC) was $1.2 million and $1.7 million, respectively.

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.

(in thousands)

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, 2021, the measurement date for the pension liability, the following employees were covered by the benefit terms:

Participant data, July 1, 2021:	
Active	72
Terminated vested	421
Retired	450
	943

Contributions

The CCMC Plan Sponsor'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, 2021 and 2020, the Plan Sponsor's contributions of approximately $1.6 million and $1.1 million, respectively, meet the minimum funding requirements.

Net Pension Liability

The System's net pension liability was measured as of July 1, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2021. The net pension liability of $2.7 million and $8.7 million is included in other noncurrent liabilities in the accompanying statements of net position at September 30, 2021 and 2020, respectively.

(in thousands)

The total pension liability in the September 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	2.1%
Investment rate of return*	5.75%
Salary increases	Not applicable due to plan freeze

* Net of pension plan investment expense, including inflation

Effective September 30, 2021, the assumption for mortality amounts weighted rates from the Pri-2012 mortality study projected generationally from 2012 with Scale MP-2020.

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, 2021 are summarized as follows:

	Target Allocation (%)	Real Rate of Return (%)
Asset Class		
Domestic equity	34.4	5.3
International equity	24.0	5.1
Corporate fixed income	11.8	0.7
Government fixed income	26.8	0.3
Cash	3.0	0.1
Total	100.0	

The discount rate used to measure the total pension liability was 5.4% for the year ending September 30, 2020 and 5.75% for the year ending September 30, 2021. 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, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.75%. 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, 2020	$ 34,117	$ 25,439	$ 8,678
Changes for the year:			
Interest	1,791	-	1,791
Differences between expected and actual experience	61	-	61
Changes of assumptions	(1,219)	-	(1,219)
Net investment income	-	5,149	(5,149)
Benefit payments	(1,946)	(1,946)	-
Contributions from the System	-	1,595	(1,595)
Administrative expense	-	(127)	127
Net Change	(1,313)	4,671	(5,984)
Ending Balance, September 30, 2021	$ 32,804	$ 30,110	$ 2,694
Plan Fiduciary Net Position, as a percentage of the total pension liability			92%

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

The following presents, as of September 30, 2021, the System's net pension liability calculated using the discount rate of 5.75%, as well as the net pension liability using a discount rate that is 1% lower (4.75%) or 1% higher (6.75%):

	1% Decrease (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
Net Pension Liability	$ 5,766	$ 2,694	$ 55

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

The System recognized a $1.3 million net reduction of total pension liability as a reduction of pension benefit expense for the year ended September 30, 2021. The System recognized pension benefit expense of approximately $3.7 million for the year ended September 30, 2020. 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, 2021:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net differences between projected and actual earnings on pension plan investments	$ -	$ 2,524
Contributions made during the year ended September 30, 2021 not yet recognized in net fiduciary position	431	-
Total	$ 431	$ 2,524

(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,		
2022	$	565
2023		591
2024		610
2025		758
2026		-
Thereafter		-

Payable to the Defined Benefit Pension Plan

As of September 30, 2021 and 2020, there are no payables to the CCMC Plan.

13. Commitments and Contingencies

Operating Leases

The System leases various equipment, office space, and land under operating leases, which expire at various times. Total rental expense for all operating leases was approximately $8.3 million and $8.2 million for the years ended September 30, 2021 and 2020, respectively.

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

Year ending September 30,		
2022	$	4,689
2023		3,248
2024		974
2025		711
2026		599
Thereafter		45,688
	$	55,909

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 $100,000 per claimant or $200,000 per incident. Effective October 1, 2011, the sovereign immunity limits in Florida have been increased to $200,000 per claimant or $300,000 per incident. In 1986, the Florida Supreme Court affirmed the constitutionality of the Act and its applicability to public hospitals. Various suits and claims arising in the ordinary course of business are pending against the System. Management is of the opinion that future potential uninsured losses from incidents occurring prior to September 30, 2021, 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.

Cape Memorial Hospital, Inc.'s and Lee Memorial Home Health, Inc.'s professional malpractice liability insurance is covered under the System's established program under the Act, effective for claims occurring on or after October 1, 2001 and January 1, 2005, respectively. The System's Board of Directors opted to cover its nursing home for professional liability using its established program under the Act, effective for claims occurring on and after October 1, 2000.

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, 2021 and 2020. Management believes the established reserves are adequately stated as of September 30, 2021 and 2020.

(in thousands)

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,		**2021**		2020
Amount of Claims Liabilities, beginning of year	**$**	**15,971**	$	17,614
Incurred claims		**6,943**		2,190
Payments on claims attributable to events of both the current fiscal year and prior fiscal years		**(5,741)**		(3,833)
Amount of Claims Liabilities, end of year	**$**	**17,173**	$	15,971

Malpractice liabilities are classified as current or noncurrent according to the timing of expected future payments and reported as other accrued expenses and other noncurrent liabilities in the accompanying consolidated statements of net position. Malpractice liabilities estimated to be due within one year were $4.8 million as of both September 30, 2021 and 2020.

Health Insurance

The System is self-insured for group health insurance. Group health expense, net of employee contributions, under this program amounted to approximately $100.0 million and $89.5 million for the years ended September 30, 2021 and 2020, respectively. Group health insurance claims payable, including an estimate for incurred but not reported claims, is reported as other 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, 2021 and 2020.

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

Year ended September 30,		**2021**		2020
Amount of Claims Liabilities, beginning of year	**$**	**16,711**	$	16,548
Incurred claims		**125,577**		111,161
Payments on claims attributable to events of both the current fiscal year and prior fiscal years		**(123,576)**		(110,998)
Amount of Claims Liabilities, end of year	**$**	**18,712**	$	16,711

(in thousands)

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 2021 and 2020. 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, 2021 and 2020. The estimated claims incurred, payments on claims, and the balance of the reserve for workers' compensation claims were as follows:

Year ended September 30,	**2021**	2020
Amount of Claims Liabilities, beginning of year	**$ 12,511**	$ 15,683
Incurred claims	**7,112**	(700)
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	**(6,418)**	(2,472)
Amount of Claims Liabilities, end of year	**$ 13,205**	$ 12,511

Workers' compensation liabilities are classified as current or noncurrent according to the timing of expected future payments and reported as other accrued expenses and other noncurrent liabilities in the accompanying consolidated statements of net position. Workers' compensation liabilities estimated to be due within one year were $3.9 million as of both September 30, 2021 and 2020.

Accrued Employee Paid Time Off (PTO)

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

Year ended September 30,	**2021**	2020
Amount of PTO Liabilities, beginning of year	**$ 45,940**	$ 41,503
Earned PTO	**70,531**	71,028
PTO used, forfeit, or paid	**(70,727)**	(66,591)
Amount of PTO Liabilities, end of year	**$ 45,744**	$ 45,940

Employee PTO liabilities are classified as current or noncurrent according to the timing of expected utilization based on historical experience and are reported as accrued employee compensation expense and other noncurrent liabilities in the accompanying consolidated statements of net position. Employee PTO liabilities estimated to be due within one year were $17.3 million and $17.4 million as of September 30, 2021 and 2020, 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 healthcare providers. Such investigations and allegations often take multiple years to resolve. Violations of these laws and regulations could result in significant fines and penalties, including repayments for patient services previously reimbursed.

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

14. Component Unit Information

Cape Coral Hospital is the System's only major blended component unit. Paramount is the System's only discrete component unit.

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(in thousands)

The condensed statements of net position are as follows:

September 30, 2021

	System and Other Blended Components	Cape Coral Hospital	Paramount	Total
Assets				
Current and other assets	$ 1,541,124	$ 585,134	$ 2,787	$ 2,129,045
Capital assets	1,263,096	80,753	218	1,344,067
Total Assets	$ 2,804,220	$ 665,887	$ 3,005	$ 3,473,112
Total Deferred Outflows of Resources	$ 106,794	$ 6,946	$ -	$ 113,740
Liabilities				
Current liabilities	$ 392,360	$ 66,709	$ 613	$ 459,682
Long-term liabilities	890,012	57,778	-	947,790
Total Liabilities	$ 1,282,372	$ 124,487	$ 613	$ 1,407,472
Total Deferred Inflows of Resources	$ 6,260	$ 47	$ -	$ 6,307
Net Position				
Restricted	$ 57,380	$ -	$ 1,172	$ 58,552
Net investment in capital assets	447,833	30,920	218	478,971
Unrestricted	1,117,169	517,379	1,002	1,635,550
Total Net Position	$ 1,622,382	$ 548,299	$ 2,392	$ 2,173,073

September 30, 2020

	System and Other Blended Components	Cape Coral Hospital	Paramount	Total
Assets				
Current and other assets	$ 1,323,578	$ 496,298	$ 2,238	$ 1,822,114
Capital assets	1,242,454	81,024	-	1,323,478
Total Assets	$ 2,566,032	$ 577,322	$ 2,238	$ 3,145,592
Total Deferred Outflows of Resources	$ 106,713	$ 7,682	$ -	$ 114,395
Liabilities				
Current liabilities	$ 437,703	$ 44,640	$ -	$ 482,343
Long-term liabilities	917,499	68,181	544	986,224
Total Liabilities	$ 1,355,202	$ 112,821	$ 544	$ 1,468,567
Total Deferred Inflows of Resources	$ 4,781	$ 72	$ -	$ 4,853
Net Position				
Restricted	$ 51,204	$ -	$ 830	$ 52,034
Net investment in capital assets	394,542	20,765	-	415,307
Unrestricted	867,016	451,346	864	1,319,226
Total Net Position	$ 1,312,762	$ 472,111	$ 1,694	$ 1,786,567

(in thousands)

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

Year ended September 30, 2021

	System and Other Blended Components	Cape Coral Hospital	Paramount	Total
Operating revenues	$ 2,113,590	$ 343,048	$ 14,654	$ 2,471,292
Operating expenses	1,979,335	264,460	8,526	2,252,321
Operating Income	134,255	78,588	6,128	218,971
Nonoperating revenues (expense)	151,106	(2,400)	(5,430)	143,276
Federal and state appropriations	20,146	-	-	20,146
Contributions and grants	4,113	-	-	4,113
Total Nonoperating Income (Loss)	175,365	(2,400)	(5,430)	167,535
Increase in Net Position	$ 309,620	$ 76,188	$ 698	$ 386,506

Year ended September 30, 2020

	System and Other Blended Components	Cape Coral Hospital	Paramount	Total
Operating revenues	$ 1,766,397	$ 287,527	$ 9,307	$ 2,063,231
Operating expenses	1,790,908	235,254	4,894	2,031,056
Operating Income (Loss)	(24,511)	52,273	4,413	32,175
Nonoperating revenues (expense)	29,674	(2,245)	(2,719)	24,710
Federal and state appropriations	61,218	-	-	61,218
Contributions and grants	10,916	-	-	10,916
Total Nonoperating Income (Loss)	101,808	(2,245)	(2,719)	96,844
Increase in Net Position	$ 77,297	$ 50,028	$ 1,694	$ 129,019

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(in thousands)

The condensed statements of cash flows are as follows:

Year ended September 30, 2021

	System and Other Blended Components	Cape Coral Hospital	Paramount	Total
Net cash provided by (used in):				
Operating activities	$ 158,843	$ 100,048	$ 5,934	$ 264,825
Noncapital financing activities	80,770	(75,450)	(988)	4,332
Capital and related financing activities	(199,300)	(24,617)	79	(223,838)
Investment activities	(95,347)	19	(4,600)	(99,928)
Net Change in Cash and Cash Equivalents*	(55,034)	-	425	(54,609)
Cash and Cash Equivalents*, beginning of year	262,562	-	-	262,562
Cash and Cash Equivalents*, end of year	$ 207,528	$ -	$ 425	$ 207,953

* Unrestricted and restricted cash and cash equivalents

Year ended September 30, 2020

	System and Other Blended Components	Cape Coral Hospital	Paramount	Total
Net cash provided by (used in):				
Operating activities	$ 295,248	$ 94,018	$ 2,719	$ 391,985
Noncapital financing activities	150,822	(79,796)	(2,719)	68,307
Capital and related financing activities	(115,894)	(14,378)	-	(130,272)
Investment activities	(188,578)	14	-	(188,564)
Net Change in Cash and Cash Equivalents*	141,598	(142)	-	141,456
Cash and Cash Equivalents*, beginning of year	120,964	142	-	121,106
Cash and Cash Equivalents*, end of year	$ 262,562	$ -	$ -	$ 262,562

* Unrestricted and restricted cash and cash equivalents

15. COVID-19 Pandemic

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

In response to COVID-19 and its effects on the U.S. economy and the health care delivery system, Congress passed various stimulus bills 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. The CARES Act authorized $100 billion in direct funding to hospitals and other healthcare providers from Provider Relief Funds, and provided other financial benefits, including the expansion of the Medicare Accelerated and Advance Payment Program. The authorized funding was later increased to $175 billion. Under the CARES Act, the System received approximately $37.8 million as part of general distributions, approximately $42.7 million in targeted high-impact funds, and approximately $0.7 million in other funds. Of the $81.2 million received, the System recognized $20.0 million and $61.2 million as nonoperating revenue within federal and state appropriations in the consolidated statements of revenues, expenses, and changes in fund net position for the years ended September 30, 2021 and 2020, respectively.

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 Act was signed into law on October 1, 2020 and resulted in the accelerated payments being interest free if repaid within 30 months of receipt. Beginning in April 2021, Medicare withholds 25% of all Medicare remittance advice payments for 11 months and then 50% of payments for the next six months or until fully recovered. The System does not anticipate any issue with repaying all of the funds before interest would begin to accrue in September 2022. The System received $162.6 million of accelerated payments in April 2020 and an additional $14.0 million in October 2020. As of September 30, 2021 and 2020, respectively, the balance remaining to be withheld was $127.4 million and $162.6 million, classified as Medicare advance payments within current liabilities in the consolidated statements of net position.

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

16. Subsequent Events

The System has assessed the impact of subsequent events through February 3, 2022, the date the audited consolidated financial statements were issued.

Required Supplementary Information

Lee Memorial Health System

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

	2021	2020	2019	2018	2017	2016	2015*	2014*
Total Pension Liability								
Service cost	$ **-**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Interest	**1,790**	1,922	1,999	2,072	2,018	1,992	1,955	-
Changes of benefit terms	**-**			-	-	-	-	-
Differences between expected and actual experience	**61**	314	240	(108)	292	415	45	-
Changes of assumptions	**(1,218)**	2,560	2,306	617	130	(402)	-	-
Benefit payments	**(1,946)**	(1,870)	(1,810)	(1,747)	(1,718)	(1,586)	(1,458)	-
Net Change in Total Pension Liability	**(1,313)**	2,926	2,735	834	722	419	542	-
Total Pension Liability, beginning of year	**34,117**	31,191	28,456	27,622	26,900	26,481	25,939	-
Total Pension Liability, end of year	$ **32,804**	$ 34,117	$ 31,191	$ 28,456	$ 27,622	$ 26,900	$ 26,481	$ 25,939
Plan Fiduciary Net Position								
Employer contributions	$ **1,595**	$ 1,073	$ 502	$ 687	$ 774	$ 903	$ 977	$ -
Net investment income	**5,149**	850	1,686	1,720	2,561	260	463	-
Benefit payments	**(1,946)**	(1,870)	(1,810)	(1,747)	(1,718)	(1,586)	(1,458)	-
Administrative expense	**(127)**	(114)	(108)	(140)	(108)	(105)	(108)	-
Net Change in Plan Fiduciary Net Position	**4,671**	(61)	270	520	1,509	(528)	(126)	-
Plan Fiduciary Net Position, beginning of year	**25,439**	25,500	25,230	24,710	23,201	23,729	23,855	-
Plan Fiduciary Net Position, end of year	$ **30,110**	$ 25,439	$ 25,500	$ 25,230	$ 24,710	$ 23,201	$ 23,729	$ 23,855
Net Pension Liability, end of year	$ **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	**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 No. 68 year-one disclosure requirements effective 10/1/2014.

See accompanying notes to Required Supplementary Information - CCMC Plan.

Lee Memorial Health System

Schedule of Employer Contributions (Unaudited)
CCMC Plan
(in thousands)

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

See accompanying notes to Required Supplementary Information – CCMC Plan.

Lee Memorial Health System

Schedule of Investment Returns (Unaudited)
CCMC Plan

	2021	2020	2019	2018	2017	2016	2015
Annual Money-Weighted Rate of Return*, net of investment expense	**5.8%**	3.4%	6.9%	7.1%	11.3%	1.1%	2.0%

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

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 July 1, 2021. Additional information as of the latest actuarial valuation presented is as follows:

Actuarial cost method	Unit Credit with various closed amortization periods for unfunded liability
Asset valuation method	5-year smoothing
Investment rate of return	5.75% net of pension plan investment expense, including inflation
Discount rate	5.75%
Inflation	2.1%
Salary increase	Not applicable due to plan freeze
Internal Revenue Service Limit increases	2.50%
Retirement age	65

4. Changes with respect to actuarial assumptions in the current and prior years are as follows:
   a. 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.
   b. 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.
   c. 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.
   d. From 2017 to 2018, the discount rate was changed from 7.50% to 7.25%
   e. 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,	**2021**	2020	2019	2018
Total OPEB Liability				
Service cost	**$ 777**	$ 640	$ 673	$ 683
Interest	**1,674**	1,994	1,870	1,728
Changes of benefit terms	**(15)**	-	-	-
Differences between expected and actual experience	**2,395**	(450)	2,114	-
Changes of assumptions	**3,078**	6,947	(2,552)	-
Benefit payments	**(1,792)**	(1,376)	(1,207)	(1,104)
Net Change in Total OPEB Liability	**6,117**	7,755	898	1,307
Total OPEB Liability, beginning of year	**62,718**	54,963	54,065	52,758
Total OPEB Liability, end of year	**$ 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	**$ 68,835**	$ 62,718	$ 54,963	$ 54,065
Plan Fiduciary Net Position, as a percentage of total OPEB liability	**-**	**-**	**-**	**-**
Covered Employee Payroll	**$ 243,673**	$ 255,827	$ 255,827	$ 268,355
Net OPEB Liability, as a percentage of covered employee payroll	**28.2%**	23.9%	21.5%	20.1%

See accompanying notes to Required Supplementary Information – OPEB.

Lee Memorial Health System

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

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

See accompanying notes to Required Supplementary Information – 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 postemployment benefits.
3. Methods and assumptions used for the most recent year include:

Valuation date:	Actuarially determined contribution rates are calculated as of December 31, 2020, December 31, 2019, and December 31, 2018 for fiscal years 2021, 2020, and 2019, 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%
Healthcare cost trend rates	6.00% (2021), 6.25% (2020), and 6.5% (2019 and 2018) initial, decreasing 0.5% per year to an ultimate rate of 5.0%
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	*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 & 2019: Healthy Mortality Rates* - RP-2014 Employee and Annuitant Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward to 2006 using generational projection Scale MP-2018 for males and females. *2018 & 2019: Disabled Mortality Rates* - RP-2014 Disabled Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward to 2006 using generational Scale MP-2017 for males and females.

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

   a. 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 Lee Health'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.

   b. 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.

   c. 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.

   d. 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, 2021

	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	$ 129,604	$ -	$ -	$ 2	$ -	$ -	$ -	$ 2,288	$ 37,970	$ 425	$ -	$ 170,289
Restricted cash and cash equivalents	2,000	-	-	-	-	-	-	33,148	2,516	-	-	37,664
Investments	1,471,069	-	-	-	-	-	-	-	-	-	-	1,471,069
Assets whose use is restricted	475	-	1,024	-	-	-	-	-	-	-	-	1,499
Patient accounts receivable, net	180,958	44,238	75,381	418	1,944	1,623	1,702	-	-	2,035	-	308,299
Inventories	23,593	4,458	12,294	-	360	13	589	-	-	-	-	41,307
Other current assets	37,811	853	1,438	-	-	-	-	3,815	5,465	318	-	49,700
Total Current Assets	1,845,510	49,549	90,137	420	2,304	1,636	2,291	39,251	45,951	2,778	-	2,079,827
Noncurrent Assets												
Assets whose use is restricted	432	-	-	-	-	12	-	13,809	4	-	-	14,257
Capital assets, net	791,110	80,753	455,627	1,236	592	4,066	6,106	52	4,307	218	-	1,344,067
Due from subsidiaries	-	535,585	-	-	(43,991)	-	-	-	-	-	(491,594)	-
Other assets	23,161	-	-	-	4	-	-	11,787	-	9	-	34,961
Total Assets	$ 2,660,213	$ 665,887	$ 545,764	$ 1,656	$ (41,091)	$ 5,714	$ 8,397	$ 64,899	$ 50,262	$ 3,005	$ (491,594)	$ 3,473,112
Deferred Outflows of Resources												
Deferred loss on debt refunding	$ -	$ 622	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 622
Deferred outflows on pension and post-employment benefit plan	8,496	-	-	-	-	-	-	-	-	-	-	8,496
Excess consideration provided for acquisition	18,220	6,324	80,078	-	-	-	-	-	-	-	-	104,622
Total Deferred Outflows of Resources	$ 26,716	$ 6,946	$ 80,078	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 113,740
Liabilities												
Current Liabilities												
Accounts payable	$ 72,637	$ 2,092	$ 2,780	$ 434	$ 42	$ 245	$ 225	$ -	$ 6,201	$ 161	$ -	$ 84,817
Accrued expenses:									-			
Employee compensation	50,047	3,883	6,022	187	619	359	144	68	195	-	-	61,524
Interest	1,885	782	9,803	-	-	-	-	-	-	-	-	12,470
Other	41,521	6,201	8,613	14	-	472	-	25	10,427	452	-	67,725
Medicare advance payments	68,505	21,806	37,080	-	-	-	-	-	-	-	-	127,391
Current installments of long-term debt	27,623	10,421	9,670	-	-	-	-	-	-	-	-	47,714
Estimated third-party payor settlements	20,060	21,524	15,709	-	-	(34)	-	-	782	-	-	58,041
Total Current Liabilities	282,278	66,709	89,677	635	661	1,042	369	93	17,605	613	-	459,682
Noncurrent Liabilities												
Long-term debt, excluding current installments	284,034	39,413	493,935	-	-	-	-	-	-	-	-	817,382
Due to subsidiaries	631,067	-	(233,704)	701	-	33,645	33,325	4,614	21,946	-	(491,594)	-
Pension and post-employment benefit plan liabilities	35,503	14,128	19,893	225	967	669	-	144	-	-	-	71,529
Other liabilities	46,099	4,237	5,250	95	437	482	73	2,206	-	-	-	58,879
Total Liabilities	$ 1,278,981	$ 124,487	$ 375,051	$ 1,656	$ 2,065	$ 35,838	$ 33,767	$ 7,057	$ 39,551	$ 613	$ (491,594)	$ 1,407,472
Deferred Inflows of Resources												
Deferred gain on debt refunding	$ (1,566)	$ 47	$ 4,566	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,047
Deferred inflows on pension and post-employment benefit plan	2,869	-	-	-	-	-	-	-	-	-	-	2,869
Deferred inflows on split-interest agreements	-	-	-	-	-	-	-	391	-	-	-	391
Total Deferred Inflows of Resources	$ 1,303	$ 47	$ 4,566	$ -	$ -	$ -	$ -	$ 391	$ -	$ -	$ -	$ 6,307
Net Position												
Restricted for:												
Nonexpendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,960	$ -	$ 1,172	$ -	$ 9,132
Expendable	-	-	-	-	-	-	-	49,420	-	-	-	49,420
Net investment in capital assets	479,452	30,920	(47,978)	1,236	592	4,066	6,106	52	4,307	218	-	478,971
Unrestricted	927,193	517,379	294,203	(1,236)	(43,748)	(34,190)	(31,476)	19	6,404	1,002	-	1,635,550
Total Net Position	$ 1,406,645	$ 548,299	$ 246,225	$ -	$ (43,156)	$ (30,124)	$ (25,370)	$ 57,451	$ 10,711	$ 2,392	$ -	$ 2,173,073

See accompanying note to consolidating schedules.

Lee Memorial Health System

Consolidating Schedule of Net Position
(in thousands)

September 30, 2020

	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	$ 191,365	$ -	$ -	$ 2	$ -	$ -	$ -	$ 1,303	$ 36,246	$ -	$ -	$ 228,916
Restricted cash and cash equivalents	2,000	-	-	-	-	-	-	29,130	2,516	-	-	33,646
Investments	1,201,742	-	-	-	-	-	-	-	-	-	-	1,201,742
Assets whose use is restricted	414	-	1,529	-	-	-	-	-	-	-	-	1,943
Patient accounts receivable, net	139,344	29,274	52,167	547	1,800	1,926	1,463	-	-	-	-	226,521
Inventories	21,325	3,986	11,496	-	282	12	574	-	-	-	-	37,675
Other current assets	32,794	916	1,321	160	-	-	-	5,273	3,334	-	-	43,798
Total Current Assets	1,588,984	34,176	66,513	709	2,082	1,938	2,037	35,706	42,096	-	-	1,774,241
Noncurrent Assets												
Assets whose use is restricted	432	-	-	-	-	12	-	11,851	(1)	-	-	12,294
Capital assets, net	791,356	81,024	436,762	154	795	4,211	4,541	60	4,575	-	-	1,323,478
Due from subsidiaries	-	462,122	-	-	(39,768)	-	-	-	-	-	(422,354)[(a)]	-
Other assets	20,889[(b)]	-	-	-	3	-	-	12,449	-	2,238	-	35,579
Total Assets	$ 2,401,661	$ 577,322	$ 503,275	$ 863	$ (36,888)	$ 6,161	$ 6,578	$ 60,066	$ 46,670	$ 2,238	$ (422,354)	$ 3,145,592
Deferred Outflows of Resources												
Deferred loss on debt refunding	$ -	$ 871	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 871
Deferred outflows on pension and post-employment benefit plan	5,286	-	-	-	-	-	-	-	-	-	-	5,286
Excess consideration provided for acquisition	18,922	6,811	82,505	-	-	-	-	-	-	-	-	108,238
Total Deferred Outflows of Resources	$ 24,208	$ 7,682	$ 82,505	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 114,395
Liabilities												
Current Liabilities												
Accounts payable	$ 79,071	$ 1,053	$ 5,234	$ 355	$ 30	$ 180	$ 89	$ -	$ 7,807	$ -	$ -	$ 93,819
Accrued expenses:												
Employee compensation	49,656	4,475	6,739	187	873	502	189	145	-	-	-	62,766
Interest	1,946	935	9,966	-	-	-	-	-	-	-	-	12,847
Other	58,710	5,566	7,218	14	-	472	-	39	8,580	-	-	80,599
Medicare advance payments	95,729	15,387	51,458	-	-	-	-	-	-	-	-	162,574
Current installments of long-term debt	25,275	10,259	9,197	-	-	-	-	-	-	-	-	44,731
Estimated third-party payor settlements	2,126	6,965	15,901	-	-	15	-	-	-	-	-	25,007
Total Current Liabilities	312,513	44,640	105,713	556	903	1,169	278	184	16,387	-	-	482,343
Noncurrent Liabilities												
Long-term debt, excluding current installments	307,038	49,999	506,405	-	-	-	-	-	-	-	-	863,442
Due to subsidiaries	576,933	-	(243,081)	(13)	-	44,845	22,014	4,695	16,961	-	(422,354)[(a)]	-
Pension and post-employment benefit plan liabilities	34,544	14,128	19,893	225	967	669	-	144	-	-	-	70,570
Other liabilities	41,581	4,054	4,817	95	437	482	73	129	-	544	-	52,212
Total Liabilities	$ 1,272,609	$ 112,821	$ 393,747	$ 863	$ 2,307	$ 47,165	$ 22,365	$ 5,152	$ 33,348	$ 544	$ (422,354)	$ 1,468,567
Deferred Inflows of Resources												
Deferred gain on debt refunding	$ (1,702)	$ 72	$ 4,907	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,277
Deferred inflows on pension and post-employment benefit plan	1,277	-	-	-	-	-	-	-	-	-	-	1,277
Deferred inflows on split-interest agreements	-	-	-	-	-	-	-	299	-	-	-	299
Total Deferred Inflows of Resources	$ (425)	$ 72	$ 4,907	$ -	$ -	$ -	$ -	$ 299	$ -	$ -	$ -	$ 4,853
Net Position												
Restricted for:												
Nonexpendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,839	$ -	$ 830	$ -	$ 8,669
Expendable	-	-	-	-	-	-	-	43,365	-	-	-	43,365
Net investment in capital assets	459,043	20,765	(78,838)	154	795	4,212	4,540	60	4,576	-	-	415,307
Unrestricted	694,642[(b)]	451,346	265,964	(154)	(39,990)	(45,216)	(20,327)	3,351	8,746	864	-	1,319,226
Total Net Position	$ 1,153,685	$ 472,111	$ 187,126	$ -	$ (39,195)	$ (41,004)	$ (15,787)	$ 54,615	$ 13,322	$ 1,694	$ -	$ 1,786,567

[(a)] To eliminate intercompany receivables and payables.

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

See accompanying note to consolidating schedules.

Lee Memorial Health System

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

Year ended September 30, 2021

	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	Total
Operating Revenues														
Net patient service revenue	$ 1,183,536	$ 169,430	$ 14	$ 1,352,980	$ 339,986	$ 546,329	$ 2,025	$ 20,551	$ 9,847	$ 24,315	$ -	$ -	$ -	$ 2,296,033
Capitation revenue	-	-	-	-	-	-	-	-	-	-	-	54,498	-	54,498
Other revenue	76,847	2,928	10,023	89,798	3,062	3,138	762	27	-	394	2,098	6,828	14,654	120,761
Total Operating Revenues	1,260,383	172,358	10,037	1,442,778	343,048	549,467	2,787	20,578	9,847	24,709	2,098	61,326	14,654	2,471,292
Operating Expenses														
Salaries, wages, and benefits	559,649	220,540	3,126	783,315	139,234	240,839	5,925	14,031	11,670	26,028	2,521	6,649	-	1,230,212
Supplies and other services	339,287	19,467	2,251	361,005	75,392	148,568	147	9,018	1,962	5,825	552	46,696	8,526	657,691
Purchased services	116,879	15,750	212	132,841	35,246	45,149	(2,610)	1,006	1,192	1,122	415	11,681	-	226,042
Depreciation and amortization	74,888	6,846	504	82,238	14,588	38,344	36	487	616	1,424	36	607	-	138,376
Total Operating Expenses	1,090,703	262,603	6,093	1,359,399	264,460	472,900	3,498	24,542	15,440	34,399	3,524	65,633	8,526	2,252,321
Operating Income (Loss)	169,680	(90,245)	3,944	83,379	78,588	76,567	(711)	(3,964)	(5,593)	(9,690)	(1,426)	(4,307)	6,128	218,971
Nonoperating Items														
Interest expense	(7,884)	(1,334)	-	(9,218)	(2,356)	(17,742)	-	3	2	(228)	-	(8)	-	(29,547)
Investment income, including realized and unrealized gains on investments	170,643	-	119	170,762	19	322	-	-	-	-	175	(296)	-	170,982
Contributions and grants	-	-	-	-	-	-	-	-	-	-	4,113	-	-	4,113
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	2,063	-	-	2,063
Loss on sale of capital assets	(350)	(32)	(13)	(395)	(63)	(43)	-	-	(6)	(6)	-	-	-	(513)
Transfer to Population Health	(2,000)	-	-	(2,000)	-	-	-	-	-	-	-	2,000	-	-
Federal and state appropriations	-	-	20,146	20,146	-	-	-	-	-	-	-	-	-	20,146
Other	(8,942)	-	(772)	(9,714)	-	(5)	711	-	16,477	341	(2,089)	-	(5,430)	291
Total Nonoperating Income (Loss)	151,467	(1,366)	19,480	169,581	(2,400)	(17,468)	711	3	16,473	107	4,262	1,696	(5,430)	167,535
Increase (Decrease) in Net Position	$ 321,147	$ (91,611)	$ 23,424	252,960	76,188	59,099	-	(3,961)	10,880	(9,583)	2,836	(2,611)	698	386,506
Net Position, beginning of year				1,153,685	472,111	187,126	-	(39,195)	(41,004)	(15,787)	54,615	13,322	1,694	1,786,567
Net Position, end of year				$ 1,406,645	$ 548,299	$ 246,225	$ -	$ (43,156)	$ (30,124)	$ (25,370)	$ 57,451	$ 10,711	$ 2,392	$ 2,173,073

See accompanying note to consolidating schedules.

Lee Memorial Health System

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

Year ended September 30, 2020

	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	Total
Operating Revenues														
Net patient service revenue	$ 1,047,611	$ 149,045	$ 19	$ 1,196,675	$ 284,919	$ 418,362	$ 1,988	$ 21,281	$ 21,156	$ 12,611	$ -	$ -	$ -	$ 1,956,992
Capitation revenue	-	-	-	-	-	-	-	-	-	-	-	33,813	-	33,813
Other revenue	26,865	5,032	8,150	40,047	2,608	2,604	379	2,778	17	1,128	4,237	9,321	9,307	72,426
Total Operating Revenues	1,074,476	154,077	8,169	1,236,722	287,527	420,966	2,367	24,059	21,173	13,739	4,237	43,134	9,307	2,063,231
Operating Expenses														
Salaries, wages, and benefits	528,475	228,021	5,027	761,523	126,144	192,121	5,321	14,951	24,208	13,985	2,618	3,470	-	1,144,341
Supplies and other services	273,813	21,322	2,463	297,598	59,724	115,330	125	11,744	5,559	2,099	1,323	34,240	4,894	532,636
Purchased services	109,894	14,112	201	124,207	35,844	39,136	(2,605)	1,360	3,357	535	423	20,615	-	222,872
Depreciation and amortization	73,959	8,359	583	82,901	13,542	29,915	40	573	2,607	693	50	886	-	131,207
Total Operating Expenses	986,141	271,814	8,274	1,266,229	235,254	376,502	2,881	28,628	35,731	17,312	4,414	59,211	4,894	2,031,056
Operating Income (Loss)	88,335	(117,737)	(105)	(29,507)	52,273	44,464	(514)	(4,569)	(14,558)	(3,573)	(177)	(16,077)	4,413	32,175
Nonoperating Items														
Interest expense	(7,128)	(1,590)	-	(8,718)	(2,252)	(17,363)	-	(7)	(1,005)	(142)	(51)	7	-	(29,531)
Investment income, including realized and unrealized gains on investments	74,741	-	130	74,871	14	371	-	-	-	-	315	88	-	75,659
Contributions and grants	-	-	-	-	-	-	-	-	-	-	10,916	-	-	10,916
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	-	(932)	-	-	(932)
Loss on sale of capital assets	(207)	(196)	(22)	(425)	(7)	69	-	-	-	(1)	-	(4,868)	-	(5,232)
Transfer to Population Health	(3,000)	-	-	(3,000)	-	-	-	-	-	-	-	3,000	-	-
Federal and state appropriations	-	-	61,218	61,218	-	-	-	-	-	-	-	-	-	61,218
Other	(14,418)	1	1,195	(13,222)	-	-	514	-	-	-	173	-	(2,719)	(15,254)
Total Nonoperating Income (Loss)	49,988	(1,785)	62,521	110,724	(2,245)	(16,923)	514	(7)	(1,005)	(143)	10,421	(1,773)	(2,719)	96,844
Increase (Decrease) in Net Position	$ 138,323	$ (119,522)	$ 62,416	81,217	50,028	27,541	-	(4,576)	(15,563)	(3,716)	10,244	(17,850)	1,694	129,019
Net Position, beginning of year				1,072,468	422,083	159,585	-	(34,619)	(25,441)	(12,071)	44,371	31,172	-	1,657,548
Net Position, end of year				$ 1,153,685	$ 472,111	$ 187,126	$ -	$ (39,195)	$ (41,004)	$ (15,787)	$ 54,615	$ 13,322	$ 1,694	$ 1,786,567

See accompanying note to consolidating schedules.

The accompanying consolidating information presents the financial position and results of operations of each of the significant component operating units and affiliates of the System as of September 30, 2021 and 2020 and for the years then ended, in conformity with accounting principles generally accepted in the United States of America, including applicable statements of the GASB, on the accrual basis of accounting. The accompanying consolidating information presents adjustments necessary to eliminate significant intercompany accounts and transactions. The accompanying consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the basic consolidated financial statements.

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 Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Lee Memorial Health System
Ft. 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, 2021, 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 February 3, 2022. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated 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*.

Purpose of This Report

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

BDO USA, LLP

Certified Public Accountants
February 3, 2022