

# **Lee Memorial Health System**

**Consolidated Basic Financial Statements and  
Supplemental Consolidating Information  
September 30, 2013 and 2012**

# Lee Memorial Health System

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September 30, 2013 and 2012

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# **Lee Memorial Health System**

## **Management's Discussion and Analysis (Unaudited)**

### **September 30, 2013 and 2012**

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#### **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 years ended September 30, 2013 and 2012. This discussion has been prepared along with the consolidated basic financial statements, and related footnote disclosures, and they should be read in conjunction therewith. This discussion, the consolidated basic financial statements and footnotes are the responsibility of management.

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 non-presidential election year. This assists in providing leadership continuity among the Board members.

The System is an integrated health care provider which consists of 1,423 acute care hospital beds located at four campuses, which includes a designated children's hospital, a 60-bed rehabilitation hospital, a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physician offices. For further detail on these entities, refer to Note 1 of the consolidated basic financial statements.

The Board's vision is to be recognized as the best patient centered healthcare system in the State of Florida through the balancing of quality, access and cost. To achieve this vision, the Board works within a strategic plan and evaluates existing and new service offerings based upon community need and economic viability.

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

#### **Overview of the Consolidated Basic Financial Statements**

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

**Lee Memorial Health System**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2013 and 2012**

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**September 30, 2013**

**Condensed Consolidated Basic Statements of Operations and Changes in Net Position**

For the Year Ended September 30, 2013

A summary of the System's consolidated basic Statements of Operations and Changes in Net Position is presented below.

<i>(in thousands of dollars)</i>	<b>2013</b>	<b>2012</b>
Operating revenues	\$ 1,256,975	\$ 1,213,019
Operating expenses	1,193,452	1,167,616
Operating income	63,523	45,403
Nonoperating items	24,993	18,508
Contributions and grants	31,396	8,830
Total nonoperating income	56,389	27,338
Increase in net position	\$ 119,912	\$ 72,741

Net position increased by \$119.9 million during fiscal year 2013. This net position increase consisted of \$63.5 million of income from operations, and \$56.4 million of gain from non-operating sources. Non-operating gain consisted of investment income of \$46.2 million, interest expense of \$27.8 million and other income of \$38.0 million.

Admissions were 2.3% lower than the previous year. This consisted of a 2.7% decrease in adult admissions, a 4.4% increase in pediatrics, a 1.8% decrease in neonatal cases and a 4.3% decrease in post-acute admissions. Patient days were 3.2% lower than the prior year. The overall average length of stay decreased 1.0% from prior year at 5.20 during fiscal year 2012 to 5.15 in fiscal year 2013.

The System's adjusted admissions increased 0.4% from fiscal year 2012 to fiscal year 2013. Net patient revenue per adjusted admissions increased by 3.1%. Total operating revenues increased from \$1,213.0 million in fiscal year 2012 to \$1,257.0 million in fiscal year 2013. The \$44.0 million increase consisted of a \$41.5 million increase in net patient service revenue and a \$2.5 million increase in other operating revenue.

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

	<b>2013</b>	<b>2012</b>	<b>% Variance</b>
Salaries, wages and benefits	53.4%	53.1%	0.6%
Supplies and other services	25.2%	27.5%	-8.4%
Purchased services	10.7%	11.6%	-7.8%
Capital costs (depreciation, amortization and interest expense)	7.9%	7.7%	2.6%

Total operating expenses increased from fiscal year 2012 to fiscal year 2013 by \$25.8 million.

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Salaries, wages and benefits increased by approximately \$27.0 million, or 4.2%, with the average hourly rate increase needed to remain market competitive. The increase in salaries and wages is due to an increase in average hourly rate of 2.0% and an increase in staff due to new programs to improve patient access, improve population health and implement new technology. Benefit costs decreased by \$0.3 million, or 0.3%. Benefit costs as a percent of salaries, wages and benefits were 14.5% for fiscal year 2012 and 13.9% for fiscal year 2013. Salaries, wages and benefits as a percent of total net operating revenues increased from 53.1% in fiscal year 2012 to 53.4% in fiscal year 2013.

Supplies and other services decreased by 4.8%, or \$16.1 million, from fiscal year 2012 to fiscal year 2013. Within this expense category, other services decreased \$17.7 million while supplies increased \$1.3 million. This overall decrease is primarily due to a one time claims bill settlement in fiscal year 2012. Supplies and other services decreased as a percentage of net operating revenues from 27.5% in fiscal year 2012 to 25.2% in fiscal year 2013.

The increase in purchased services for fiscal year 2013 amounted to 7.2%, or \$9.0 million. The primary drivers of this increase include fees related to the continuing cost associated with the implementation of a new electronic medical record and billing system as well as growth in contract payments related to hospital based physician services. Purchased services decreased as a percentage of net operating revenues from 11.6% in fiscal year 2012 to 10.7% in fiscal year 2013.

Net patient service revenue is reduced by the provision for bad debts in the consolidated basic statements of operations and changes in net position. The provision for bad debts increased by approximately \$11.0 million from fiscal year 2012 to fiscal year 2013. The provision as a percentage of gross patient service revenue in fiscal year 2013 decreased to 3.4% from 3.5% in fiscal year 2012.

Capital costs, which include depreciation, amortization and interest expense, increased from \$93.0 million in fiscal year 2012 to \$99.0 million in fiscal year 2013. Interest expense in fiscal year 2013 remained flat at \$27.8 million. Capital costs, expressed as a percentage of total operating revenues increased from 7.7% for fiscal year 2012 to 7.9% for fiscal year 2013.

Operating income was \$63.5 million in fiscal year 2013 compared to \$45.4 million in fiscal year 2012, an increase of 39.9% over the prior year. The resulting operating margin was 2.8% versus 1.5% the prior year.

# Lee Memorial Health System

## Management's Discussion and Analysis (Unaudited)

### September 30, 2013 and 2012

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

	2012 Moody's Median	FYE 2012	FYE 2013
<b>Profitability Ratios</b>			
Operating margin (%)	2.9%	1.5%	2.8%
Excess margin (%)	5.9%	5.7%	9.1%
EBITDA margin (%)	10.3%	9.1%	10.7%
<b>Liquidity Ratios</b>			
Days cash on hand (net of VRDB)	190.7	167.8	213.2
Cushion ratio	18.3	11.7	14.6
Cash-to-debt (%)	135.2%	79.6%	94.8%
<b>Capitalization Ratios</b>			
Debt to capitalization (%) - (net of VRDB)	37.4%	48.5%	46.7%
Annual debt service coverage	5.0	3.3	3.9
Debt to cash flow (net of VRDB)	3.3	3.8	3.2

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

\* Excess margin is calculated as the increase in net assets divided by total operating revenues plus nonoperating revenues.

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

\* VRDB = Variable Rated Demand Bond.

Annually, the Board establishes targets for these key ratios and then monitors these ratios each month to ensure that the System remains an A-rated organization. The cushion ratio, cash-to-debt, debt to capitalization, and annual debt service coverage ratios fall outside the range of the Moody's 2012 Medians.

Net days in accounts receivable decreased to 52.4 days from 58.7 days in the prior year. Net accounts receivable decreased primarily as a result of efficiencies gained from the implementation of the EPIC software system which consists of clinical and revenue cycle applications.

#### Cash Flows

Cash and cash equivalents increased \$27.3 million in fiscal year 2013. Cash flows from operating activities were used to fund the cash outflows for capital during the year.

Net cash provided by operating activities was \$151.3 million for fiscal year 2013 and \$120.9 million for the prior year. The main factors contributing to the \$30.4 million increase in operating cash flow during fiscal year 2013 as compared to fiscal year 2012 are as follows:

- \$90.7 million in additional cash received from patient care services, offset by
- \$62.6 million in additional cash payments made to employees and suppliers.

# Lee Memorial Health System

## Management's Discussion and Analysis (Unaudited)

### September 30, 2013 and 2012

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Net cash used by non-capital financing activities was \$3.41 million for fiscal year 2013 versus \$1.3 million used in non-capital financing activities in the prior year. The majority of this activity is the result of an increase in restricted contributions.

Net cash used in capital and related financing activities was \$50.3 million in fiscal year 2013 and \$128.7 million in fiscal year 2012. This decrease in the use of cash is primarily the result of increased borrowing of \$50 million for the purchase of capital assets.

Net cash used in investing activities was \$70.3 million for fiscal year 2013 versus \$2.9 million provided by investing activities in the prior year. For fiscal year 2013, \$23.3 million in investment income was received through interest earnings and realized gains. Short-term and long-term investments in the portfolio increased \$92.5 million during fiscal year 2013.

#### General Trends

As reflected in the revenue table below, the System is dependent on the State and Federal governments for the majority of its revenues with 67.4% of the System's revenue being derived from the Medicare and Medicaid programs. Over the past several years, the Medicare rate increases have not kept pace with overall medical expense increases. Management expects these trends to continue. This will put continued pressure on already thin operating margins necessitating continued efforts to enhance operating efficiencies. The System has created a department with highly trained Lean Management personnel to implement process standardization and waste elimination through the use of Lean methodologies.

	2013	2012
Medicare	51.2%	51.5%
Medicaid	16.2%	14.9%
Commercial	22.2%	23.0%
Other	10.4%	10.6%
	<u>100.0%</u>	<u>100.0%</u>

#### Capital Assets

At September 30, 2013, the System had \$695.2 million invested in net capital assets. (A breakdown of these assets can be found in Note 6 to the consolidated basic financial statements.) This represents a decrease of \$1.4 million from September 30, 2012.

The System expects to make total capital expenditures of \$66.7 million in fiscal year 2014 primarily for facility upgrades, information systems and patient care equipment. These capital purchases will be funded directly from operations. An estimated \$41.2 million is expected to be spent on the design/construction of Golisano Children's Hospital of Southwest Florida to be funded by philanthropic sources. B. Thomas Golisano has issued a \$20 million matching gift for the construction of the Children's Hospital. The hospital has been renamed Golisano Children's Hospital of Southwest Florida in his honor.

# **Lee Memorial Health System**

## **Management's Discussion and Analysis (Unaudited)**

### **September 30, 2013 and 2012**

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#### **Debt Outstanding**

As of September 30, 2013, the System had \$708.5 million in debt (bonds, notes, etc.) outstanding compared to \$675.5 million the previous year. The long-term debt is comprised of a number of bond issues, described in more detail in Note 8 to the consolidated basic financial statements. Ninety-five percent (95%) of the System's bonds outstanding are fixed while 5% are variable. All of the fixed rate bonds are insured with the exception of the 2007 Series A Bonds and 2010 Series A Bonds. The 2005 Series A Bonds are insured by National Public Financial Guarantee Corporation, formerly MBIA, and carry a Baa2 rating as of September 30, 2012 and Baa1 as of September 30, 2013. The remaining bonds are variable rate bonds and carry an A3/A rating from Moody's and S&P, respectively.

On January 19, 2012, the System Board of Directors approved the refunding and refinancing of the 2002 Series A Bonds, utilizing a direct bank fixed rate loan in the amount of \$25.9 million. The 2012 Bank Loan bears a fixed interest rate of 1.92%, and matures on April 1, 2020. Issuance costs were paid with internal funds. The transaction was completed on March 27, 2012. Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$136,000 for the year ended September 30, 2012, the refinancing will provide approximately \$2.9 million in net present value savings. The accounting loss is amortized over the life of the new bonds.

On November 30, 2012, the System's Board of Directors approved the refunding and refinancing of the Compass Loan, utilizing a direct bank loan in the amount of \$50.275 million. The 2012 Banc of America Public Capital Corp Loan ("BAPCC") bears a variable interest rate of 67% of LIBOR + 95 bps (0.95%) and matures on April 1, 2029. Issuance costs were paid with internal funds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$36,000 that will be amortized over the life of the new debt.

On June 28, 2013, the System's Board of Directors approved the financing of the EPIC software system consisting of clinical and revenue cycle applications utilizing a direct bank loan in the amount of \$50 million. The 2013 Banc of America Public Capital Corp Loan bears a fixed interest rate of 1.58% and matures on June 30, 2020.

#### **Community Benefits**

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

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

The analysis of the community benefit reveals that the System's financial benefit of its tax exempt status was approximately \$54.9 million for fiscal year 2013 and \$22.5 million for fiscal year 2012. This includes the savings that are derived from not having to pay certain state and federal taxes, real estate taxes, sales and intangible taxes as well as lower malpractice costs due to sovereign immunity as a governmental entity, and lower cost of capital due to the use of tax-exempt financing.



# Lee Memorial Health System

## Management's Discussion and Analysis (Unaudited)

### September 30, 2013 and 2012

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The System estimates the benefits of the services provided to the community exceeded \$311.8 million in fiscal year 2013 and \$271.4 million in fiscal year 2012. This community benefit consists of charity care provided to patients whom might not have access to health care; low income services that are provided at less than cost (e.g., Medicaid); necessary services that are provided at a loss such as Trauma services and other community wellness and health education programs.

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

<i>(in thousands of dollars)</i>	<b>2013</b>	<b>2012</b>
Cost of charity care for low income patients	\$ 47,938	\$ 44,567
Cost of community outreach and educational programs and one-of-a-kind medical services	23,805	26,417
Cost of unpaid Medicaid services	61,967	51,507
Cost of unpaid Medicare and other government programs	178,045	148,904
	<u>\$ 311,755</u>	<u>\$ 271,395</u>

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

**Lee Memorial Health System**  
**Management's Discussion and Analysis (Unaudited)**  
**September 30, 2013 and 2012**

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**September 30, 2012**

**Condensed Consolidated Basic Statements of Operations and Changes in Net Position**

For the Year Ended September 30, 2012

A summary of the System's consolidated basic Statements of Operations and Changes in Net Position is presented below.

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Operating revenues	\$ 1,213,019	\$ 1,177,561
Operating expenses	1,167,616	1,119,276
Operating income	45,403	58,285
Nonoperating items	18,508	(46,413)
Contributions and grants	8,830	7,064
Total nonoperating income (loss)	27,338	(39,349)
Increase in net position	\$ 72,741	\$ 18,936

Net position increased by \$72.7 million during fiscal year 2012. This net position increase consisted of \$45.4 million of income from operations, and \$27.3 million of gain from non-operating sources. Non-operating gain consisted of investment income of \$41.8 million, interest expense of \$27.8 million and other income of \$13.3 million.

Admissions were 1.2% higher than the previous year. This consisted of a 0.7% increase in adult admissions, a 3.2% decrease in pediatrics, a 13.9% increase in neonatal cases and a 3.4% increase in post-acute admissions. Patient days were 0.03% higher than the prior year with an overall average length of stay decrease of 1%.

The System's adjusted admissions increased 3.3% from fiscal year 2011 to fiscal year 2012. Net patient revenue per adjusted admissions decreased by 0.9%. Total operating revenues increased from \$1,177.6 million in fiscal year 2011 to \$1,213.0 million in fiscal year 2012. The \$35.5 million increase consisted of a \$27.5 million increase in net patient revenue and a \$8.0 million increase in other operating revenue.

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

	<b>2012</b>	<b>2011</b>	<b>% Variance</b>
Salaries, wages and benefits	53.1%	52.0%	2.1%
Supplies and other services	27.5%	27.4%	0.4%
Purchased services	11.6%	10.0%	16.0%
Capital costs (depreciation, amortization and interest expense)	7.7%	8.1%	-4.9%

Total operating expenses increased from fiscal year 2011 to fiscal year 2012 by \$48.3 million.

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Salaries, wages and benefits increased by approximately \$31.0 million, or 5.1%, with the average hourly rate increase needed to remain market competitive. The increase in salaries and wages is due to an increase in average hourly rate of 0.7% and an increase in hours worked to service the growth in patient volumes. Benefit costs increased by \$12.0 million, or 14.8%. Benefit costs as a percent of salaries, wages and benefits were 13.3% for fiscal year 2011 and 14.5% for fiscal year 2012. Salaries, wages and benefits as a percent of total net operating revenues increased from 52.0% in fiscal year 2011 to 53.1% in fiscal year 2012 primarily due to declining reimbursement rate and increasing benefit costs.

Supplies and other services increased by 3.5%, or \$11.2 million, from fiscal year 2011 to fiscal year 2012. Within this expense category, other services increased \$18.1 million while supplies decreased \$7.5 million. This overall increase is primarily due to a claims bill settlement. Supplies and other services increased as a percentage of net operating revenues from 27.4% in fiscal year 2011 to 27.5% in fiscal year 2012.

The increase in purchased services for fiscal year 2012 amounted to 6.3%, or \$7.4 million. The primary drivers of this increase include fees related to the continuing cost associated with the implementation of a new electronic medical record and billing system as well as growth in fees related to physician services.

Net patient service revenue is reduced by the provision for bad debts in the consolidated basic statements of operations and changes in net position. The provision for bad debts increased by \$12.4 million from fiscal year 2011 to fiscal year 2012. This increase is proportionate to the growth in gross patient revenues as a percentage of expenses. The provision as a percentage of gross patient service revenue in fiscal year 2012 remained flat at 3.5%.

Capital costs, which include depreciation, amortization and interest expense, decreased from \$95.8 million in fiscal year 2011 to \$93.0 million in fiscal year 2012. This \$2.8 million net decrease is primarily due to depreciation expense for computer equipment being fully depreciated during the year. Interest expense decreased from \$29.3 million in fiscal year 2011 to \$27.8 million in fiscal year 2012. Capital costs, expressed as a percentage of total operating revenues decreased from 8.1% for fiscal year 2011 to 7.7% for fiscal year 2012.

Operating income was \$45.4 million in fiscal year 2012 compared to \$58.3 million in fiscal year 2011, a decrease of 22.1% over the prior year. The resulting operating margin was 1.5% versus 2.5% the prior year.

# Lee Memorial Health System

## Management's Discussion and Analysis (Unaudited)

### September 30, 2013 and 2012

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

	2011 Moody's Median	FYE 2011	FYE 2012
<b>Profitability Ratios</b>			
Operating margin (%)	2.7%	2.5%	1.5%
Excess margin (%)	5.7%	1.6%	5.7%
EBITDA margin (%)	9.8%	10.6%	9.1%
<b>Liquidity Ratios</b>			
Days cash on hand (net of VRDB)	187.2	161.6	167.8
Cushion ratio	17.2	12.4	11.7
Cash-to-debt (%)	128.4%	72.1%	79.6%
<b>Capitalization Ratios</b>			
Debt to capitalization (%) - (net of VRDB)	37.9%	51.5%	48.5%
Annual debt service coverage	5.0	2.5	3.3
Debt to cash flow (net of VRDB)	3.3	7.7	3.8

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

\* Excess margin is calculated as the increase in net assets divided by total operating revenues plus nonoperating revenues.

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

\* VRDB = Variable Rated Demand Bond.

Annually, the Board establishes targets for these key ratios and then monitors these ratios each month to ensure that the System remains an A-rated organization. The days cash on hand, cushion ratio, cash-to-debt, debt to capitalization, and annual debt service coverage ratios fall outside the range of the Moody's 2011 Medians.

Net days in accounts receivable increased to 58.7 days from 53.8 days in the prior year primarily due to increased net accounts receivable resulting from implementation of the EPIC software system which consists of clinical and revenue cycle applications.

#### Cash Flows

Cash and cash equivalents decreased \$6.2 million in fiscal year 2012. Cash flows from operating activities and investing activities were used to fund the cash outflows for capital during the year.

Net cash provided by operating activities was \$120.9 million for fiscal year 2012 and \$106.1 million for the prior year. The main factors contributing to the \$14.8 million increase in operating cash flow during fiscal year 2012 as compared to fiscal year 2011 are as follows:

- \$19.2 million in additional cash received from patient care services, offset by
- \$12.2 million in additional cash payments made to employees and suppliers.

# Lee Memorial Health System

## Management's Discussion and Analysis (Unaudited)

### September 30, 2013 and 2012

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Net cash used in non-capital financing activities was \$1.3 million for fiscal year 2012 versus \$0.9 million used in non-capital financing activities in the prior year. The majority of this activity is the result of an increase in assets whose use is restricted.

Net cash used in capital and related financing activities was \$128.7 million in fiscal year 2012 and \$104.8 million in fiscal year 2011. This increase in the use of cash is primarily the result of \$18.5 million more being spent for the purchase of capital assets and continued implementation of the EPIC system during fiscal year 2012 versus 2011.

Net cash provided by investing activities was \$2.9 million for fiscal year 2012 versus \$0.6 million provided by investing activities in the prior year. For fiscal year 2012, \$8.1 million in investment income was received through interest earnings and realized gains. Short-term and long-term investments in the portfolio increased \$4.0 million during fiscal year 2012.

#### General Trends

As reflected in the revenue table below, the System is dependent on the State and Federal governments for the majority of its revenues with 66.4% of the System's revenue being derived from the Medicare and Medicaid programs. Over the past several years, the Medicare rate increases have not kept pace with overall medical expense increases. Management expects these trends to continue. This will put continued pressure on already thin operating margins necessitating continued efforts to enhance operating efficiencies. The System has created a department with highly trained Lean Management personnel and is an industry leader in process standardization and waste elimination through the use of Lean methodologies.

	2012	2011
Medicare	51.5%	51.0%
Medicaid	14.9%	15.1%
Commercial	23.0%	23.1%
Other	10.6%	10.8%
	<u>100.0%</u>	<u>100.0%</u>

#### Capital Assets

At September 30, 2012, the System had \$696.6 million invested in net capital assets. (A breakdown of these assets can be found in Note 6 to the consolidated basic financial statements.) This represents an increase of \$20.9 million from September 30, 2011.

The System expects to make total capital expenditures of \$60.1 million in fiscal year 2013 primarily for facility upgrades, information systems and patient care equipment. These capital purchases will be funded directly from operations. An estimated \$10 million is expected to be spent on the design/construction documents of Golisano Children's Hospital of Southwest Florida to be funded by philanthropic sources. B. Thomas Golisano has issued a \$20 million matching gift for the construction of the Children's Hospital. The hospital has been renamed Golisano Children's Hospital of Southwest Florida in his honor.

# **Lee Memorial Health System**

## **Management's Discussion and Analysis (Unaudited)**

### **September 30, 2013 and 2012**

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#### **Debt Outstanding**

As of September 30, 2012, the System had \$675.5 million in debt (bonds, notes, etc.) outstanding compared to \$692.1 million the previous year. The long-term debt is comprised of a number of bond issues, described in more detail in Note 8 to the consolidated basic financial statements. Eighty-eight percent (88%) of the System's bonds outstanding are fixed while 12% are variable. All of the fixed rate bonds are insured with the exception of the 2007 Series A Bonds and 2010 Series A Bonds. The 2005 Series A Bonds are insured by National Public Financial Guarantee Corporation, formerly MBIA, and carry a Baa2 rating as of September 30, 2012 and 2011. The remaining bonds are variable rate bonds and carry an A3/A rating from Moody's and S&P, respectively.

On January 19, 2012, the System Board of Directors approved the refunding and refinancing of the 2002 Series A Bonds, utilizing a direct bank fixed rate loan in the amount of \$25.9 million. The 2012 Bank Loan bears a fixed interest rate of 1.92%, and matures on April 1, 2020. The transaction was completed on March 27, 2012. Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$136,000 for the year ended September 30, 2012, the refinancing will provide approximately \$2.9 million in net present value savings. The accounting loss is amortized over the life of the new bonds.

#### **Community Benefits**

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

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

The analysis of the community benefit reveals that the System's financial benefit of its tax exempt status was approximately \$22.5 million for fiscal year 2012 and \$22.0 million for fiscal year 2011. This includes the savings that are derived from not having to pay certain state and federal taxes, real estate taxes, sales and intangible taxes as well as lower malpractice costs due to sovereign immunity as a governmental entity, and lower cost of capital due to the use of tax-exempt financing.

The System estimates the benefits of the services provided to the community exceeded \$271.4 million in fiscal year 2012 and \$223.3 million in fiscal year 2011. This community benefit consists of charity care provided to patients whom might not have access to health care; low income services that are provided at less than cost (e.g., Medicaid); necessary services that are provided at a loss such as Trauma services and other community wellness and health education programs.

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

<i>(in thousands of dollars)</i>	<b>2012</b>	<b>2011</b>
Cost of charity care for low income patients	\$ 44,567	\$ 39,109
Cost of community outreach and educational programs and one-of-a-kind medical services	26,417	11,986
Cost of unpaid Medicaid services	51,507	44,250
Cost of unpaid Medicare and other government programs	148,904	127,911
	<u>\$ 271,395</u>	<u>\$ 223,256</u>

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



## **Report of Independent Certified Public Accountants**

To the Board of Directors of  
Lee Memorial Health System

We have audited the accompanying consolidated basic financial statements of Lee Memorial Health System (the "System") as of and for the years ended September 30, 2013 and 2012, and the related notes to the consolidated basic financial statements, which comprise the consolidated basic statements of net position, and the related consolidated basic statements of operations and changes in net position and the consolidated basic statements of cash flows.

### ***Management's Responsibility for the Consolidated Basic Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the consolidated basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated basic financial statements are free from material misstatement.

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

### ***Opinion***

In our opinion, the consolidated basic financial statements referred to above present fairly, in all material respects, the respective financial position of the System at September 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.





### ***Emphasis of Matter***

As discussed in Note 1 to the consolidated basic financial statements, the System adopted Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective October 1, 2012. Our opinion is not modified with respect to these matters.

### ***Other Matter***

The accompanying Management's Discussion and Analysis on pages 1 through 13 are required by accounting principles generally accepted in the United States of America to supplement the consolidated basic financial statements. Such information, although not a part of the consolidated basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated basic financial statements, and other knowledge we obtained during our audits of the consolidated basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers 22P".

January 30, 2014

**Lee Memorial Health System**  
**Consolidated Basic Statements of Net Position**  
**September 30, 2013 and 2012**

(in thousands of dollars)

	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 38,085	\$ 10,785
Short-term investments	612,149	496,623
Assets whose use is restricted	9,379	9,406
Patient accounts receivable, net of allowance for estimated uncollectibles of \$38,399 in 2013 and \$40,255 in 2012	175,499	190,138
Inventories	30,709	29,839
Other current assets	22,952	24,517
Total current assets	888,773	761,308
Noncurrent assets		
Long-term investments	-	100
Assets whose use is restricted	40,688	30,147
Capital assets, net	695,210	696,625
Other assets, net	150,049	133,986
Total assets	\$ 1,774,720	\$ 1,622,166
<b>Liabilities and Net Position</b>		
Current liabilities		
Accounts payable	\$ 49,400	\$ 66,582
Current installments of long-term debt	28,730	20,146
Accrued expenses		
Employee compensation	39,451	22,420
Interest	10,816	10,782
Other	31,357	35,285
Estimated third-party settlements	12,034	5,414
Total current liabilities	171,788	160,629
Noncurrent liabilities		
Long-term debt, excluding current installments	679,720	655,322
Other liabilities	66,795	69,710
Total liabilities	918,303	885,661
Commitments and contingencies		
Net position		
Restricted for		
Nonexpendable	5,632	5,625
Expendable	64,867	33,282
Net investment in capital assets	(13,239)	21,157
Unrestricted	799,157	676,441
Total net position	856,417	736,505
Total liabilities and net position	\$ 1,774,720	\$ 1,622,166

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

**Lee Memorial Health System**  
**Consolidated Basic Statements of Operations and Changes in Net Position**  
**Years Ended September 30, 2013 and 2012**

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*(in thousands of dollars)*

	2013	2012
<b>Operating revenues</b>		
Net patient service revenue, net of provision for doubtful accounts of \$170,380 in 2013 and \$159,369 in 2012	\$ 1,227,114	\$ 1,185,608
Other revenue	29,861	27,411
Total operating revenues	<u>1,256,975</u>	<u>1,213,019</u>
<b>Operating expenses</b>		
Salaries, wages and benefits	670,853	643,823
Supplies and other services	317,200	333,341
Purchased services	134,211	125,250
Depreciation and amortization	71,188	65,202
Total operating expenses	<u>1,193,452</u>	<u>1,167,616</u>
Operating income	<u>63,523</u>	<u>45,403</u>
<b>Nonoperating items</b>		
Interest expense	(27,806)	(27,794)
Investment income, including realized and unrealized gains on investments	46,241	41,759
Unrealized gain on swap valuation	1,772	1,377
Contributions and grants	31,396	8,830
Investment activity on restricted nonexpendable investments	197	312
Loss on sale of capital assets	(662)	(865)
Other	5,251	3,719
Total nonoperating gain	<u>56,389</u>	<u>27,338</u>
Increase in net position	<u>119,912</u>	<u>72,741</u>
<b>Net position</b>		
Beginning of year	<u>736,505</u>	<u>663,764</u>
End of year	<u>\$ 856,417</u>	<u>\$ 736,505</u>

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

**Lee Memorial Health System**  
**Consolidated Basic Statements of Cash Flows**  
**Years Ended September 30, 2013 and 2012**

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*(in thousands of dollars)*

	2013	2012
<b>Cash flows from operating activities</b>		
Received from patient care services	\$ 1,247,354	\$ 1,156,629
Payments to employees	(652,785)	(648,984)
Payments to suppliers	(472,502)	(413,654)
Other receipts	29,228	26,905
Net cash provided by operating activities	<u>151,295</u>	<u>120,896</u>
<b>Cash flows from noncapital financing activities</b>		
Restricted gifts received (non-capital related)	3,488	2,915
Miscellaneous nonoperating items	(6,896)	(4,224)
Net cash used in noncapital financing activities	<u>(3,408)</u>	<u>(1,309)</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from long-term borrowings	100,275	25,895
Purchases of capital assets	(65,942)	(82,878)
Proceeds from sale of capital assets	275	26
Interest payments	(27,585)	(28,306)
Repayment of long-term debt	(71,499)	(45,471)
Restricted gifts received (capital related)	14,189	2,064
Net cash used in capital and related financing activities	<u>(50,287)</u>	<u>(128,670)</u>
<b>Cash flows from investing activities</b>		
Investment income received	23,322	8,050
Increase in investments	(92,478)	(3,974)
Joint venture funding and activity	(1,144)	(1,217)
Net cash (used in) provided by investing activities	<u>(70,300)</u>	<u>2,859</u>
Increase (decrease) in cash and cash equivalents	27,300	(6,224)
<b>Cash and cash equivalents</b>		
Beginning of year	10,785	17,009
End of year	<u>\$ 38,085</u>	<u>\$ 10,785</u>
<b>Disclosure of supplemental cash flow information</b>		
Capital assets financed through capital lease obligations	\$ 3,135	\$ 231

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

**Lee Memorial Health System**  
**Consolidated Basic Statements of Cash Flows**  
**Years Ended September 30, 2013 and 2012**

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*(in thousands of dollars)*

	2013	2012
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 63,523	\$ 45,403
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	71,188	65,202
Provision for bad debts	170,380	159,369
Changes in		
Patient accounts receivable	(156,760)	(180,284)
Inventories	(872)	(871)
Other assets	2,438	(3,532)
Accounts payable	(17,182)	31,043
Accrued expenses	13,101	(3,629)
Estimated third-party settlements	6,620	(8,065)
Other liabilities	(1,141)	16,260
Net cash provided by operating activities	<u>\$ 151,295</u>	<u>\$ 120,896</u>

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

# **Lee Memorial Health System**

## **Notes to Consolidated Basic Financial Statements**

### **September 30, 2013 and 2012**

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

##### **Description of Reporting Entity**

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

The System includes four acute care hospitals, Lee Memorial Hospital, HealthPark Medical Center, Gulf Coast Medical Center and Cape Coral Hospital (collectively referred to as the "Hospital"). The System includes other healthcare facilities and services, which include a home health agency, a nursing home, outpatient treatment and diagnostic centers, physicians' offices, and a rehabilitation hospital. The System operates in Lee County, Florida.

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

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

- Cape Coral Hospital is managed through a not-for-profit organization, Cape Memorial Hospital, Inc. ("Cape Coral Hospital"). This corporation was created by the System's Board of Directors to receive and hold the assets purchased from Cape Coral Medical Center, Inc. ("CCMC") on July 1, 1996, upon acquisition of Cape Coral Hospital. Its Board of Directors consists of the ten members of the System's Board of Directors.
- HealthPark Care Center, Inc. ("HPCC") is a not-for-profit corporation, which owns and operates the System's skilled nursing facility. Its Board of Directors consists of the ten members of the System's Board of Directors.
- Lee Memorial Home Health, Inc. is a not-for-profit corporation, which owns and operates the System's home health agency. Its Board of Directors consists of the ten members of the System's Board of Directors.
- Lee Memorial Health System Foundation, Inc. (the "Foundation") is a not-for-profit corporation created by the System's Board of Directors and community leaders to serve as a fund-raising organization in support of the System. Its Board of Directors consists of persons prominent in the community and interested in serving the community and the System's needs. Two board positions are also reserved on an ex officio basis for the Chairman of the Board of Directors of the System or members of such board designated by the Chairman and the Chief Executive Officer of the System or his/her designee.
- Lee County Trauma Services District (the "District") is a not-for-profit organization located in Fort Myers, Florida. The District is a special purpose unit of local government created by a special act of the 2003 Florida Legislature, Chapter 63-1552, Laws of Florida, Special Acts, 1963 as recodified by Chapter 2003-357, Laws of Florida, Special Acts 2003. The District is classified as an independent special district under the laws of Florida. The District serves as an integral member of the continuum of care offered by the System. Operations of the District began on October 1, 2003.

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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#### **Summary of Significant Accounting Policies**

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

#### **Basis of Accounting**

The accompanying consolidated basic financial statements have been prepared on the accrual basis of accounting and include the accounts of the System and its subsidiaries.

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

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

#### **Inventories**

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

#### **Assets Whose Use Is Restricted**

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

#### **Capital Assets**

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

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

Buildings and improvements	10–40 years
Equipment	5–15 years

# **Lee Memorial Health System**

## **Notes to Consolidated Basic Financial Statements**

### **September 30, 2013 and 2012**

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#### **Goodwill**

Goodwill consists of the excess of the purchase price over the fair value of assets and liabilities acquired in acquisitions accounted for under the purchase method of accounting. On an annual basis, or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, the System reviews the recoverability of goodwill based primarily upon an analysis of discounted cash flows of the related investment asset as compared to the carrying value. Management evaluated goodwill and based on the analysis performed, no impairment loss was recorded for the years ended September 30, 2013 and 2012.

#### **Impairment of Long-Lived Assets**

Long-lived assets are evaluated for recoverability whenever adverse events or changes in business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. For the years ended September 30, 2013 and 2012, the System does not believe there were any adverse events or changes in business that would indicate that an impairment reserve is required.

#### **Bond Issuance Costs and Bond Premiums and Discounts**

Bond issuance costs and bond premiums and discounts are amortized to operations (amortization expense) over the term of the related financing agreement using a method which approximates the effective interest method.

#### **Net Patient Service Revenue**

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

#### **Charity Care**

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of these amounts, they are not reported as net patient service revenue. The level of direct charity care provided during the years ended September 30, 2013 and 2012 was approximately \$182.1 million and \$164.3 million, respectively.

#### **Investments and Investment Income**

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



# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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At September 30, 2013 and 2012, the System's investments in companies deemed to be external investment pools and the approximate ownership interest in each company were as follows:

	2013	2012
SEI Offshore Opportunity Fund II, Ltd.	8.2%	6.1%
SEI Offshore Opportunity Fund, Ltd. (held by the Foundation)	0.9%	0.5%
SEI Special Situations Fund, Ltd.	5.3%	7.5%
SEI Core Property Fund, L.P.	2.1%	4.6%

#### Joint Ventures

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

#### Risk Management

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

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

#### Self-Insurance Programs

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

#### 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.

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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#### Net Position

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

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

#### Operating Revenues and Expenses

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

#### Concentrations of Credit Risk

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

The System places its cash and cash equivalents with what management believes to be high credit quality financial institutions. Included in cash and cash equivalents are bank deposits in the amount of \$23.5 million and \$6.4 million as of September 30, 2013 and 2012, respectively. These deposits are in excess of the federal insured amount of \$250,000. Management does not anticipate nonperformance risk by the financial institutions. The System's short-term investments and assets whose use is restricted are primarily invested in commercial paper and money market funds, U.S. Government agency securities, corporate obligations, mutual funds invested in high credit quality long-term government securities, and external investment pools.

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of September 30 is as follows:

	2013	2012
Medicare	30%	33%
Medicaid	22%	21%
Managed care	17%	18%
Commercial insurance	5%	8%
Self-pay and other	26%	20%
	<u>100%</u>	<u>100%</u>

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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#### **Fair Value of Financial Instruments**

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

The carrying amount of the Hospital Revenue Bonds issued at rates which vary with the market approximates the fair value of these instruments, as their interest rates approximate the rates available to the System for debt of similar types and maturities. The fair value of the Hospital Revenue Bonds issued at fixed rates was approximately \$367.1 million and \$388.2 million at September 30, 2013 and 2012, respectively.

#### **New Accounting Pronouncements**

In December 2010, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34* ("GASB 61"). GASB 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, GASB 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

GASB 61 amends the criteria for reporting component units as if they were part of the primary government, called blending, in certain circumstances. GASB 61 also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The adoption of GASB 61 on October 1, 2012 did not have a significant impact on the System's consolidated basic financial statements.

In January 2011, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("GASB 62"). GASB 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989 that do not conflict with GASB pronouncements:

- FASB Statements and Interpretations;
- Accounting Principles Board Opinions; and
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' ("AICPA") Committee on Accounting Procedure.

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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GASB 62 also supersedes GASB 20, thereby eliminating the election provided in GASB 20 for enterprise funds and governments engaged in business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements. The adoption of GASB 62 on October 1, 2012 did not have a significant impact on the System's consolidated basic financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"). GASB 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The adoption of GASB 63 on October 1, 2012 did not have a significant impact on the System's consolidated basic financial statements.

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations, and limits the use of the term 'deferred' in financial statements. The provisions of GASB 65 are effective for financial statements for periods beginning after December 15, 2012. The System is currently evaluating the impact GASB 65 will have on its consolidated basic financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *Technical Corrections - 2012, an Amendment of GASB Statements No. 10 and No. 62* ("GASB 66"). The objective of GASB 66 is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"), and GASB 62. The provisions of GASB 66 are effective for financial statements for periods beginning after December 15, 2012. The System is currently evaluating the impact GASB 66 will have on its consolidated basic financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* ("GASB 68"). GASB 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. In addition, GASB 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. GASB 68 is effective for fiscal years

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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beginning after June 15, 2014. The System is currently evaluating the impact GASB 68 will have on its consolidated basic financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB 69"), which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in GASB 69, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, *Business Combinations*. GASB 69 provides specific accounting and financial reporting guidance for combinations in the governmental environment. GASB 69 is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. The System is currently evaluating the impact GASB 69 will have on its consolidated basic financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"), which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of GASB 70 are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively. GASB 70 is effective for fiscal years beginning after June 15, 2013. The System is currently evaluating the impact GASB 70 will have on its consolidated basic financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* ("GASB 71"). There may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. GASB 71 is effective for fiscal years beginning after June 15, 2014. The System is currently evaluating the impact GASB 71 will have on its consolidated basic financial statements.

## 2. Third-Party Payors

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future governmental review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

# **Lee Memorial Health System**

## **Notes to Consolidated Basic Financial Statements**

### **September 30, 2013 and 2012**

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

#### **Medicare**

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

The System's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2009. Retroactive adjustments for cost report settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

#### **Medicaid**

Inpatient and outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries have historically been reimbursed under a cost based reimbursement methodology. The System's Medicaid cost reports have been audited and final settlements determined by the Medicaid intermediary for all years through September 30, 2008. Effective July 1, 2013, the State of Florida converted to an All Patient Refined Diagnosis Related Groups ("APR DRG") methodology for determining Medicaid inpatient hospital payments. The payments made under APR DRG is paid on a per case basis based on the APR DRG assignment that reflects severity of illness and resources related to services rendered. This new payment methodology for inpatient services will not be subject to retrospective rate adjustments based on the cost report as was the case under the former cost based per diem methodology. Medicaid hospital outpatient payments continue to be cost based and are paid on a per revenue line item basis and are subject to retrospective rate adjustments based on adjustments to computed outpatient cost determined from the audited Medicaid cost report.

The Medicaid interim rates for inpatient claims through June 30, 2013 and outpatient claims through September 30, 2013 were based on the unaudited cost reports for 2012 and 2011. The rates used in 2012 were based on the unaudited cost reports for 2011 and 2010.

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

#### **Other**

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

**Lee Memorial Health System**  
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**3. Net Patient Service Revenue**

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

<i>(in thousands of dollars)</i>	<b>2013</b>	<b>2012</b>
Gross patient service revenue	\$ 5,060,304	\$ 4,518,599
Third-party payor and other contractual adjustments	(3,662,810)	(3,173,622)
Provision for doubtful accounts	(170,380)	(159,369)
Net patient service revenue	<u>\$ 1,227,114</u>	<u>\$ 1,185,608</u>

**4. Assets Whose Use Is Restricted**

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

<i>(in thousands of dollars)</i>	<b>2013</b>	<b>2012</b>
Held by trustee under bond indenture agreements	\$ 9,007	\$ 8,998
Held by Board for future use	371	408
Held in trust for other uses	1,167	1,235
Designated to donors for specific purposes	39,522	28,912
Total assets whose use is restricted	<u>50,067</u>	<u>39,553</u>
Less: Amounts required to meet current obligations	<u>(9,379)</u>	<u>(9,406)</u>
Assets whose use is restricted, net of amounts required to meet current obligations	<u>\$ 40,688</u>	<u>\$ 30,147</u>

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

**5. Investments**

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

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

The estimated fair value of investments is based on quoted market prices, except for alternative investments for which quoted market prices are not available. Alternative investments held by the System include hedge funds. The System classifies its alternative investments in the accompanying consolidated basic statements of net position as short term investments except for alternative investments held by the Foundation which are classified as assets whose use is restricted. The estimated fair value of the hedge funds is based on valuations provided by the respective funds. The System reviews and evaluates the values provided by the funds and agrees with the valuation methods and assumptions used in determining the fair value of the hedge fund

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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investments. As of September 30, 2013 and 2012, these investments in hedge funds made up approximately 21.1% and 25.3%, respectively, of total investments in the accompanying consolidated basic statements of net position. Because hedge funds are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying consolidated basic statements of revenues, expenses and changes in net position in the period such fluctuations occur.

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

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

At September 30, 2013 and 2012, the System's investments were not exposed to custodial credit risk since the full amount of investments were insured or registered, or securities held by the System or its agent, are in the System's name.

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



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The credit risk profile of the System's long and short-term investments and assets whose use is restricted as of September 30, 2013 is as follows:

<i>(in thousands of dollars)</i>		Ratings for 2013					
	Fair Value	AAA	AA	A	BAA	B	N/A
Commercial paper and money market funds	\$ 22,698	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,698
U.S. Government agencies	9,007	-	-	-	-	-	9,007
Corporate obligations	11,552	1,011	509	7,822	2,210	-	-
Mutual funds	489,789	-	110,917	-	211	-	378,661
External investment pools	129,170	-	-	-	-	-	129,170
	<u>\$ 662,216</u>	<u>\$ 1,011</u>	<u>\$ 111,426</u>	<u>\$ 7,822</u>	<u>\$ 2,421</u>	<u>\$ -</u>	<u>\$ 539,536</u>

The credit risk profile of the System's long and short-term investments and assets whose use is restricted as of September 30, 2012 is as follows:

<i>(in thousands of dollars)</i>		Ratings for 2012					
	Fair Value	AAA	AA	A	BAA	B	N/A
Commercial paper and money market funds	\$ 10,249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,249
U.S. Government agencies	17,904	6,326	1,775	-	-	-	9,803
Corporate obligations	17,331	9,855	2,401	4,288	563	-	224
Mutual funds	365,080	-	114,174	-	174	228	250,504
External investment pools	125,712	-	-	-	-	-	125,712
	<u>\$ 536,276</u>	<u>\$ 16,181</u>	<u>\$ 118,350</u>	<u>\$ 4,288</u>	<u>\$ 737</u>	<u>\$ 228</u>	<u>\$ 396,492</u>

- d. **Interest Rate Risk** – This is the risk that an investment's value will be adversely affected due to a change in the level of interest rates. The System's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the System's investment horizon within the System's risk tolerance and cash requirements. The System is also exposed to interest rate risk on its receive variable, pay fixed interest rate swap. As the Bond Market Association Municipal Swap Index ("BMA") decreases, the System's net payment on the swap would increase. Alternatively, if the BMA were to increase, the System's net payment on the swap would decrease.

The distribution of the System's long and short-term investments and assets whose use is restricted by maturity as of September 30, 2013 is as follows:

<i>(in thousands of dollars)</i>		Investment Maturities for 2013				
	Fair Value	Less than 1 Year	13 to 24 Months	25 to 60 Months	Greater than 60 Months	N/A
Commercial paper and money market funds	\$ 22,698	\$ 21,740	\$ -	\$ -	\$ -	\$ 958
U.S. Government agencies	9,007	-	-	-	-	9,007
Corporate obligations	11,552	11,552	-	-	-	-
Mutual funds	489,789	-	-	-	-	489,789
External investment pools	129,170	-	-	-	-	129,170
	<u>\$ 662,216</u>	<u>\$ 33,292</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 628,924</u>

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The distribution of the System's long and short-term investments and assets whose use is restricted by maturity as of September 30, 2012 is as follows:

<i>(in thousands of dollars)</i>		<b>Investment Maturities for 2012</b>				
	<b>Fair Value</b>	<b>Less than 1 Year</b>	<b>13 to 24 Months</b>	<b>25 to 60 Months</b>	<b>Greater than 60 Months</b>	<b>N/A</b>
Commercial paper and money market funds	\$ 10,249	\$ 4,154	\$ 2,508	\$ -	\$ -	\$ 3,587
U.S. Government agencies	17,904	363	2,132	2,372	4,040	8,997
Corporate obligations	17,331	3,674	7,028	5,817	812	-
Mutual funds	365,080	-	-	-	-	365,080
External investment pools	125,712	-	-	-	-	125,712
	<u>\$ 536,276</u>	<u>\$ 8,191</u>	<u>\$ 11,668</u>	<u>\$ 8,189</u>	<u>\$ 4,852</u>	<u>\$ 503,376</u>

During the years ended September 30, 2013 and 2012, the System recorded net realized gains of approximately \$15.0 million and \$2.1 million, respectively, from the sale of investments. The calculations of realized gains and losses are independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The net increase or decrease in the fair value of investments was approximately \$23.0 million and \$34.4 million for the years ended September 30, 2013 and 2012, respectively. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year. The total unrealized gain (loss) on investments held at September 30, 2013 and 2012 was approximately \$17.4 million and \$(5.7) million, respectively.

At September 30, 2013 and 2012, the System has the following derivative instrument outstanding and recorded in other noncurrent liabilities:

<i>(in thousands of dollars)</i>							<b>2013 Fair Value</b>	<b>2012 Fair Value</b>
<b>Name</b>	<b>Type</b>	<b>Objective</b>	<b>Notional Amount</b>	<b>Effective Date</b>	<b>Maturity Date</b>	<b>Terms</b>		
2003 swap	Pay fixed, receive variable interest rate swap	Hedge of changes in cash flow for variable rate bonds	\$52,000	10/18/2003	4/1/2014	Receive BMA, pay 3.618%	\$ (920)	\$ (2,693)

The 2003 swap cash flows change due to changes in BMA. For accounting and financial reporting purposes, this derivative instrument is considered an investment derivative instrument.

The fair value of the interest rate swap is an estimate using the 3.5 year London Interbank Offered Rate or LIBOR swap rate. This calculation determines the termination value should the swap be terminated at the date of the consolidated statement of net position.

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**6. Capital Assets**

Capital asset additions, retirements and balances for the years ended September 30, 2013 and 2012 were as follows:

<i>(in thousands of dollars)</i>	<b>Balance at September 30, 2012</b>	<b>Additions and Transfers</b>	<b>Retirements and Transfers</b>	<b>Balance at September 30, 2013</b>
Land	\$ 109,116	\$ 733	\$ -	\$ 109,849
Buildings and improvements	509,034	11,840	(6)	520,868
Equipment	736,837	48,783	(8,433)	777,187
Totals at historical cost	<u>1,354,987</u>	<u>61,356</u>	<u>(8,439)</u>	<u>1,407,904</u>
Less: Accumulated depreciation for				
Buildings and improvements	(312,495)	(24,089)	2	(336,582)
Equipment	<u>(365,033)</u>	<u>(46,522)</u>	<u>7,500</u>	<u>(404,055)</u>
	<u>(677,528)</u>	<u>(70,611)</u>	<u>7,502</u>	<u>(740,637)</u>
Construction-in-progress	<u>19,166</u>	<u>62,738</u>	<u>(53,961)</u>	<u>27,943</u>
Capital assets, net	<u>\$ 696,625</u>	<u>\$ 53,483</u>	<u>\$ (54,898)</u>	<u>\$ 695,210</u>

  

<i>(in thousands of dollars)</i>	<b>Balance at September 30, 2011</b>	<b>Additions and Transfers</b>	<b>Retirements and Transfers</b>	<b>Balance at September 30, 2012</b>
Land	\$ 106,823	\$ 2,293	\$ -	\$ 109,116
Buildings and improvements	491,954	17,208	(128)	509,034
Equipment	657,813	82,693	(3,669)	736,837
Totals at historical cost	<u>1,256,590</u>	<u>102,194</u>	<u>(3,797)</u>	<u>1,354,987</u>
Less: Accumulated depreciation for				
Buildings and improvements	(288,926)	(23,769)	200	(312,495)
Equipment	<u>(325,162)</u>	<u>(41,074)</u>	<u>1,203</u>	<u>(365,033)</u>
	<u>(614,088)</u>	<u>(64,843)</u>	<u>1,403</u>	<u>(677,528)</u>
Construction-in-progress	<u>33,207</u>	<u>75,927</u>	<u>(89,968)</u>	<u>19,166</u>
Capital assets, net	<u>\$ 675,709</u>	<u>\$ 113,278</u>	<u>\$ (92,362)</u>	<u>\$ 696,625</u>

Construction-in-progress ("CIP") at September 30, 2013 consists primarily of expenditures for the clinical and revenue cycle software ("EPIC") project, computer equipment, surgical equipment and building renovations and improvements. There were numerous projects underway at September 30, 2013, which were being funded both through operations and by assets designated by the System's Board of Directors for the replacement of plant and equipment. As of September 30, 2013, estimated costs to complete the projects were \$67.6 million, excluding the construction of Golisano Children's Hospital which is expected to be approximately \$41.2 million funded by donations. For the years ended September 30, 2013 and 2012, the System capitalized interest of approximately \$331,000 and \$995,000, respectively.

Depreciation expense was approximately \$70.6 million and \$64.9 million for the years ended September 30, 2013 and 2012, respectively.

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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Refer to Note 8, Long-Term Debt, for discussion of CB Medical South, LLC and CB Medical North, LLC.

In December 2007, the System entered into a building lease with BK Equities, LLC, whereby BK Equities is leasing real property to the System. The status of the property at the effective date of the lease was a cold "shell" building which required tenant improvements. Under the lease agreement, the System was responsible for overruns in excess of the tenant improvement allowances for upgrades and building structural elements that are not considered "normal tenant improvements." As a result, in accordance with lease guidance addressing the effect of lessee involvement in asset construction, the System is considered the owner of the medical office building ("Plantation Sleep Center"). Accordingly, the value of the Plantation Sleep Center building, long-term debt and current debt used to finance the construction cost paid by the developer are included in the consolidated basic financial statements. At September 30, 2013, the value was included in the capital assets net of accumulated depreciation amounted to approximately \$2.6 million, the related long-term debt amounted to approximately \$2.7 million and the current portion of debt amounted to approximately \$73,000. At September 30, 2012, the value included in the capital assets net of accumulated depreciation amounted to approximately \$2.7 million, the related long-term debt amounted to approximately \$2.8 million and the current portion of debt amounted to approximately \$59,000.

#### 7. Other Assets

Other assets as of September 30 consist of the following:

<i>(in thousands of dollars)</i>	2013	2012
Debt issuance costs	\$ 6,437	\$ 6,437
Accumulated amortization	(2,617)	(2,238)
Debt issuance costs, net	<u>3,820</u>	<u>4,199</u>
Long-term receivables	24,075	21,644
Allowance for doubtful accounts	(15,640)	(14,204)
Long-term accounts receivable, net	<u>8,435</u>	<u>7,440</u>
Goodwill	108,523	108,523
Deposits and other	17,641	4,564
Investments in joint ventures	<u>11,630</u>	<u>9,260</u>
Other assets, net	<u>\$ 150,049</u>	<u>\$ 133,986</u>

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

**Lee Memorial Health System**  
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**8. Long-Term Debt**

Long-term debt as of September 30 consists of the following:

<i>(in thousands of dollars)</i>	<b>2013</b>	<b>2012</b>
2013 BAPCC Loan, payable in variable quarterly installments beginning July 2013 through June 2020.	\$ 48,308	\$ -
2012 BAPCC Loan, payable in fixed quarterly installments beginning April 2013 through April 2029. Net of unamortized loss of approximately \$36.	49,362	-
2012 JP Morgan Chase Loan, payable in fixed semi-annual installments beginning October 2012 through April 2020. Net of unamortized loss of approximately \$109 and \$126 in 2013 and 2012, respectively.	20,501	25,769
2011 Bank of America Loan, payable in variable quarterly installments beginning September 2011 through April 2033. Net of unamortized loss of approximately \$716 and \$751 in 2013 and 2012, respectively.	106,390	107,575
2010 Bank Qualified Loan, payable in fixed semi-annual installments beginning December 2010 through April 2020. Net of unamortized loss of approximately \$1,580 and \$1,808 in 2013 and 2012, respectively.	18,674	22,066
Hospital Revenue Bonds, 2010 Series A, payable in variable semi-annual installments beginning April 2025 through April 2027.	42,000	42,000
Variable Rate Hospital Revenue Bonds, 2009 Series C, payable in variable annual installments beginning April 2010 through April 2033. Net of unamortized loss of approximately \$1,973 and \$1,982 in 2013 and 2012, respectively.	17,227	17,438
Compass Loan, payable in variable monthly installments beginning February 2009 through June 2017.	-	50,666
Hospital Revenue Bonds, 2007 Series A, payable in variable semi-annual installments beginning April 2009 through April 2037. Net of unamortized premium of approximately \$7,483 and \$7,801 in 2013 and 2012, respectively.	275,574	276,602
Hospital Revenue Refunding Bonds, 2005 Series A, payable in variable semi-annual installments beginning October 2005 through April 2024. Net of unamortized premium of \$1,041 and \$1,141, and deferred expense of \$2,586 and \$2,821 in 2013 and 2012, respectively.	50,686	51,605
Notes payable and capital leases	79,728	81,747
	<u>708,450</u>	<u>675,468</u>
Less: Current installments	<u>(28,730)</u>	<u>(20,146)</u>
	<u><u>\$ 679,720</u></u>	<u><u>\$ 655,322</u></u>

**Lee Memorial Health System**  
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Long-term debt activity for the years ended September 30, 2013 and 2012 were as follows:

<i>(in thousands of dollars)</i>	Balance September 30, 2012	Additions	Reductions	Balance September 30, 2013	Amounts Due Within One Year
2013 BAPCC Loan	\$ -	\$ 50,000	\$ (1,692)	\$ 48,308	\$ 6,836
2012 BAPCC Loan	-	50,275	(913)	49,362	2,680
2012 JP Morgan Chase Loan	25,769	-	(5,268)	20,501	5,650
2011 BofA Loan	107,575	-	(1,185)	106,390	4,215
2010 BQ Loan	22,066	-	(3,392)	18,674	430
2010 Series A Bonds	42,000	-	-	42,000	-
2009 Series C Bonds	17,438	-	(211)	17,227	755
Compass Loan	50,666	-	(50,666)	-	-
2007 Series A Bonds	276,602	-	(1,028)	275,574	955
2005 Series A Bonds	51,605	-	(919)	50,686	770
Other	81,747	3,882	(5,901)	79,728	6,439
Total long-term debt	<u>\$ 675,468</u>	<u>\$ 104,157</u>	<u>\$ (71,175)</u>	<u>\$ 708,450</u>	<u>\$ 28,730</u>

<i>(in thousands of dollars)</i>	Balance September 30, 2011	Additions	Reductions	Balance September 30, 2012	Amounts Due Within One Year
2012 JP Morgan Chase Loan	\$ -	\$ 25,769	\$ -	\$ 25,769	\$ 5,285
2011 BofA Loan	108,720	-	(1,145)	107,575	1,220
2010 BQ Loan	25,158	-	(3,092)	22,066	3,620
2010 Series A Bonds	42,000	-	-	42,000	-
2009 Series C Bonds	17,639	-	(201)	17,438	220
Compass Loan	53,252	-	(2,586)	50,666	2,652
2007 Series A Bonds	277,570	-	(968)	276,602	710
2005 Series A Bonds	52,499	-	(894)	51,605	1,055
2002 Series A Bonds	30,730	-	(30,730)	-	-
Other	84,519	2,804	(5,576)	81,747	5,384
Total long-term debt	<u>\$ 692,087</u>	<u>\$ 28,573</u>	<u>\$ (45,192)</u>	<u>\$ 675,468</u>	<u>\$ 20,146</u>

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

<i>(in thousands of dollars)</i>		Total	Principal	Interest
Years Ending September 30,				
2014	\$	51,910	\$ 25,789	\$ 26,121
2015		51,311	25,671	25,640
2016		49,877	24,747	25,130
2017		50,327	25,683	24,644
2018		50,735	26,536	24,199
2019-2023		237,100	123,482	113,618
2024-2028		230,940	140,042	90,898
2029-2033		215,660	158,789	56,871
2034-2038		160,303	142,020	18,283
	<u>\$</u>	<u>1,098,163</u>	<u>\$ 692,759</u>	<u>\$ 405,404</u>

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On June 28, 2013, the System's Board of Directors approved the financing of the EPIC software system consisting of clinical and revenue cycle applications utilizing a direct bank loan in the amount of \$50 million. The 2013 Banc of America Public Capital Corp ("BAPCC") Loan bears a fixed interest rate of 1.58% and matures on June 30, 2020. Issuance costs were paid with internal funds.

On November 30, 2012, the System's Board of Directors approved the refunding and refinancing of the Compass Loan, utilizing a direct bank loan in the amount of \$50.275 million. The 2012 Banc of America Public Capital Corp Loan bears a variable interest rate of 67% of LIBOR plus 95 basis points (0.95%) and matures on April 1, 2029. Issuance costs were paid with internal funds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$36,000 that will be amortized over the life of the new debt. Although the current refunding resulted in the recognition of an accounting loss of approximately \$46,000, the System obtained an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$5.7 million.

On January 19, 2012, the System's Board of Directors approved the refunding and refinancing of the 2002 Series A Bonds, utilizing a direct bank loan ("2012 Bank Loan") in the amount of \$25.9 million. The 2012 Bank Loan bears a fixed interest rate of 1.92% and matures on April 1, 2020. Issuance costs were paid with internal funds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$136,000 that will be amortized over the life of the new debt. At September 30, 2013 and 2012, the loss on the advanced refunding and refinancing is \$108,843 and \$125,805, respectively. Although the current refunding resulted in the recognition of an accounting loss of approximately \$136,000, the System obtained an economic gain of approximately \$2.9 million.

On September 1, 2011, the System's Board of Directors approved the refunding and refinancing of the 2009 Series A and 2009 Series B Bonds, utilizing a direct bank loan ("2011 Bank Loan") in the amount of approximately \$111.5 million. The 2011 Bank Loan bears a variable interest rate of 65.1% of LIBOR plus 68 basis points and matures on September 1, 2016. Issuance costs were paid with internal funds. This loan also terminated the line of credit ("LOC") that was in place for the 2009 Series A and 2009 Series B Bonds. The advanced refunding resulted in the recognition of an accounting loss of approximately \$0.8 million that will be amortized over the life of the new debt. At September 30, 2013 and 2012, the unamortized loss on the advanced refunding and refinancing is \$716,364 and \$751,167, respectively. Although the current refunding resulted in the recognition of an accounting loss of \$0.8 million, the System obtained an economic gain of approximately \$8.7 million.

On November 18, 2010, the System's Board of Directors approved the refunding and refinancing of the 1997 Series C Bonds, utilizing a direct bank qualified fixed rate loan ("2010 Bank Loan") in the amount of \$30.0 million. The 2010 Bank Loan bears a fixed interest rate of 2.794%, and matures on April 1, 2020. The transaction was completed on December 22, 2010. Issuance costs were paid with internal funds. Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$2.2 million, the System in effect reduced its aggregate debt service payments by approximately \$3.2 million over the next 9 years and obtained an economic gain of approximately \$2.9 million. The accounting loss is amortized over the life of the new debt. At September 30, 2013 and 2012, the unamortized loss on the advanced refunding and refinancing is \$1.6 million and \$1.8 million, respectively.

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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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 35% interest paid rebate from the IRS which becomes an effective rate of 4.73%.

In May 2010, the System redeemed the 2009 Series D Bonds with internal funds. The redeemed bonds are considered to be defeased and the liability for these bonds was removed from the System's consolidated basic financial statements. In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, the difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2.8 million associated with the unamortized 1995 Series A, 1997 Series B and 2003 Series A bond issuance costs is being deferred and amortized ratably as a component of interest expense over the lesser of the remaining scheduled life of the refunded bonds or the respective bond issuance. Although the current refunding resulted in the recognition of an accounting loss of approximately \$2.8 million, the System in effect reduced its aggregate debt service payments by approximately \$63.7 million over the next 24 years and obtained an economic gain of approximately \$57.2 million.

In February 2009, the System issued Hospital Revenue Bonds, 2009 Series A, Series B, Series C, Series D and a loan from Compass Mortgage Corporation in the amounts of approximately \$58.4 million, \$53.1 million, \$20.0 million, \$41.1 million, and \$60.0 million, respectively. The proceeds of the 2009 Series A and B Bonds were used to refund approximately \$20.2 million of the 1995 Series A Bonds and the Bank of America, N.A. approximately \$52.8 million bank loan used to purchase the 2003 Series A Bonds during 2008 as well as finance or reimburse a portion of the costs of acquisition, equipping and construction of the System's healthcare facilities. The proceeds of the 2009 Series C Bonds were used to refund approximately \$19.9 million of the 1995 Series A Bonds. The proceeds of the 2009 Series D Bonds were used to refund approximately \$40.7 million of the 1997 Series B Bonds. The refunded bonds are considered to be defeased and the liability for these bonds was removed from the System's consolidated basic financial statements. The 2009 Series Bonds were issued as variable rate bonds with interest payable monthly. The Series 2009A and 2009B Bonds have been fully refunded by the 2011 Bank Loan. The proceeds of the loan from Compass Mortgage Corporation were used to refund approximately \$20.8 million of the 1997 Series B Bonds and to finance capital projects. Interest is variable at 65% of LIBOR plus a margin of 1.3%, dependent upon the System's rating being higher than BBB+/Baa1, by S&P and Moody's, respectively, as well as 20% of the principal balance held in deposits at Compass Bank. Margin is variable based on the System's rating and the System's Compass Bank deposits. Principal and interest payments are payable monthly. As of February 1, 2009, a letter of credit was issued to cover all variable rate bonds. The System is required to pay an annual facility fee equal to 0.8% of the available amount under the letter of credit. The letter of credit expires on February 15, 2016. As of September 30, 2013 and 2012, there were no bonds that were tendered by the remarketing agent.



# **Lee Memorial Health System**

## **Notes to Consolidated Basic Financial Statements**

### **September 30, 2013 and 2012**

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The Plantation Sleep Center lease allows for acceleration of rent upon a lessee default without terminating the lessee's right of possession. This is viewed as a contingent form of collateral which is a form of continuing involvement that would preclude sale-leaseback accounting under this guidance. According to lease guidance addressing sale-leaseback transactions involving real estate, the System has accounted for the debt obligations in its consolidated basic financial statements. At September 30, 2013, for the Plantation Sleep Center the effective interest rate was 9.0%, the long-term debt amounted to approximately \$2.7 million and the related current portion of debt amounted to approximately \$73,000. At September 30, 2012, for the Plantation Sleep Center the effective interest rate was 9.0%, the long-term debt amounted to approximately \$2.8 million and the related current portion of debt amounted to approximately \$59,000.

In April 2007, the System issued Hospital Revenue Bonds, 2007 Series A, in the amount of \$270.9 million. The 2007 Series A Bonds were issued as fixed-rate bonds with interest payable semiannually on April 1 and October 1 of each year. The proceeds of the 2007 Series A Bonds were used to replace the temporary bank loan established with Bank of America, N.A. to fund the purchase of Southwest Regional Medical Center and Gulf Coast Medical Center. The 2007 Series A Bonds are comprised of approximately \$262.3 million of serial bonds bearing interest at a rate ranging from 4.5% to 5.25% as the bonds mature, and approximately \$8.5 million in term bonds bearing interest at 4.0% to 5.0%.

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

On August 26, 2010, the System's Board of Directors approved the acquisition of the ownership interest in CB Medical North, LLC, which owns the land and building housing the Lee Memorial Regional Cancer Center at the Sanctuary and CB Medical South, LLC, which owns the land and building housing the Outpatient Center at the Sanctuary. The System acquired full ownership effective October 1, 2010. As part of the transaction, the System assumed the mortgages on the properties which totaled approximately \$62.0 million plus approximately \$2.3 million in cash. The System was required to update the previous capital asset and long-term 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, 2013 reflect the full ownership interest resulting from the October 1, 2010 acquisition transaction. At September 30, 2013 and 2012, the value included in capital assets, net of accumulated depreciation, amounted to approximately \$24.7 million and \$25.2 million, respectively, for the Sanctuary Regional Cancer Center, and the related long-term debt amounted to approximately \$26.2 million and \$26.4 million, respectively. At September 30, 2013 and 2012, the value included in capital assets, net of accumulated depreciation, amounted to approximately \$29.6 million and \$30.2 million, respectively, for the Sanctuary Outpatient Center, and the related long-term debt amounted to approximately \$34.7 million and \$35 million, respectively.

# **Lee Memorial Health System**

## **Notes to Consolidated Basic Financial Statements**

### **September 30, 2013 and 2012**

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

Although the advanced refunding resulted in the recognition of an accounting loss of approximately \$4.5 million for the year ended September 30, 2005, the System in effect reduced its aggregate debt service payments by approximately \$5.7 million over the next 19 years and obtained an economic gain of approximately \$4.0 million. The accounting loss is amortized over the life of the new bonds. At September 30, 2013 and 2012, the unamortized loss on the advanced refunding and refinancing is \$2.6 million and \$2.8 million, respectively.

The bond agreements require the System to maintain specified financial ratios, the most restrictive of which are a minimum debt service coverage ratio, long-term debt to capital ratio, and minimum cash and investment balances, and provide a pledge of revenues of the System on a parity basis. The System was in compliance with the covenants for the years ended September 30, 2013 and 2012. The net assets of non-obligated group members, which are the Lee County Trauma Services District, Lee Memorial Home Health, Inc., HealthPark Care Center, Inc., and Lee Memorial Health System Foundation, Inc., included in the consolidated basic financial statements at September 30, 2013 and 2012 were approximately \$76.3 million and \$47.8 million, respectively.

#### **9. Capital Lease Obligations**

At September 30, 2013 and 2012, assets under capital leases included in capital assets were approximately \$19.3 million and \$16.1 million, respectively. The accumulated amortization for these assets was approximately \$5.6 million and \$4.1 million as of September 30, 2013 and 2012, respectively. Amortization expense of approximately \$1.2 million and \$1.1 million is included in depreciation and amortization expense in the accompanying consolidated basic statements of operations and changes in net position for each of the years ended September 30, 2013 and 2012. At September 30, 2013 and 2012, an approximate obligation of \$11.2 million and \$9.5 million, respectively, was outstanding under the capital leases. During the years ended 2013 and 2012, interest expense of approximately \$699,000 and \$741,000, respectively, was incurred.

**Lee Memorial Health System**  
**Notes to Consolidated Basic Financial Statements**  
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Future minimum lease payments are as follows:

*(in thousands of dollars)*

<b>Years Ending</b>	
2014	\$ 2,290
2015	2,200
2016	2,107
2017	2,149
2018	1,994
Later years	<u>7,929</u>
Total minimum lease payments	18,669
Less: Amount representing interest	<u>(7,515)</u>
Present value of net minimum lease payments	<u>\$ 11,154</u>

**10. Retirement Plans**

**Tax Sheltered Annuity Plan**

The System provides a single-employer tax deferred annuity program for all eligible employees who elect to participate in the program. The annuity program is administered by the System. The Lee Memorial Hospital Tax Sheltered Annuity Plan (the "Plan") purchases annuity contracts for participating employees through salary reduction, thereby deferring taxability of these amounts. For employees with three years or more of eligible service, the System participates in the Plan by matching approximately 5% of the participating employees' salaries. The Board of Directors of the System has the sole discretion to amend the Plan and change the contribution amount. Contribution expense incurred by the System in connection with the Plan was \$13.4 million and \$12.4 million for the years ended September 30, 2013 and 2012, respectively.

**Retiree Health Insurance Plan**

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

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

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

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

The System's annual OPEB expense of approximately \$4.1 million and \$4.2 million for the years ended September 30, 2013 and 2012, respectively, was equal to the ARC plus interest in the net OPEB obligation less adjustment to the ARC. The following table shows the components of the System's annual OPEB cost for the years ended September 30, 2013 and 2012, the amount actually contributed to the plan and the changes in the net OPEB obligation:

<i>(in thousands of dollars)</i>	2013	2012
Annual required contribution	\$ 4,446	\$ 4,481
Interest on net OPEB obligation	773	624
Adjustment to annual required contribution	(1,118)	(910)
Annual OPEB cost	4,101	4,195
Amount funded	(620)	(468)
Increase in net OPEB obligation	3,481	3,727
Net OPEB obligation at beginning of year	19,326	15,599
Net OPEB obligation at end of year	\$ 22,807	\$ 19,326

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

<i>(in thousands of dollars)</i>		Percentage of Annual OPEB Cost Contributed	
Year Ended	Annual OPEB Cost		Net OPEB Obligation
September 30, 2011	\$ 4,277	3.3%	\$ 15,599
September 30, 2012	4,195	11.1%	19,326
September 30, 2013	4,101	15.1%	22,807

**Lee Memorial Health System**  
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The schedule of funding progress for the RHI Plan is as follows:

*(in thousands of dollars)*

<b>Actuarial Valuation Date</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Actuarial Value of Assets</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
1/1/2009	\$ 40,117	\$ -	\$ 40,117	0%	\$ 447,521	9.0%
1/1/2011	44,048	-	44,048	0%	531,505	8.3%
1/1/2013	45,432	-	45,432	0%	577,681	7.9%

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

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

In the September 30, 2013 and 2012 expenses, the projected unit credit ("PUC") actuarial cost method was used as the valuation methodology. The objective under PUC is to fund each participant's benefits under the plan as they would accrue. The actuarial assumptions include a 4.0% discount rate and an annual healthcare trend rate of 8% initially, reduced each year until an alternate rate of 4.5% is reached after 14 years. The mortality assumption is the RP 2000 table projected to 2018 using Scale AA. The unfunded actuarial accrued liability is being amortized as a level dollar open amortization over 30 years.

**Defined Benefit Retirement Plan**

Effective July 1, 1996, the System became the sponsor of the frozen retirement plan of former Cape Coral Medical Center, Inc. employees (the "CCMC Plan"). The CCMC Plan was frozen on September 30, 1995 by the management in place at that time. The CCMC Plan is a noncontributory, single-employer defined benefit plan, administered by a committee appointed by the System. Under the provisions of the CCMC Plan, the System has the authority to make amendments. There have been no new members of the CCMC Plan since the date the CCMC Plan was frozen. The CCMC Plan provides Life-Only annuity benefits to plan members and beneficiaries. An actuarial report is prepared each year effective June 30 and is available from the System. The funding policy of the System is to contribute an amount at least equal to the annual required contribution prescribed by GASB Statements No. 25 and 27 and determined by the actuary. For the years ended September 30, 2013 and 2012, the ARC was \$831,000 and \$599,000, respectively.

**Lee Memorial Health System**  
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As of and for its years ended June 30, the CCMC Plan reported the following net assets:

*(in thousands of dollars)*

<b>Net assets</b>	<b>2013</b>	<b>2012</b>
Common stocks	\$ 11,353	\$ 9,837
Fixed income		
U.S. Government securities	6,687	6,433
Corporate bonds	813	782
Short-term investments	1,137	832
Real estate	1,139	997
Alternative investments	-	762
Other investments	4	-
	<u>21,133</u>	<u>19,643</u>
Held in trust for pension benefits and pool participants	\$ 21,133	\$ 19,643

As of and for its year ended June 30, the CCMC Plan reported the following changes in net assets:

*(in thousands of dollars)*

	<b>2013</b>	<b>2012</b>
<b>Additions</b>		
Employer contributions	\$ 839	\$ 599
Net appreciation in the fair value of instruments	1,484	148
Interest and dividend income	53	64
Other investment gain	521	229
Total additions	<u>2,897</u>	<u>1,040</u>
<b>Deductions</b>		
Benefit payments	(1,283)	(1,206)
Administrative expenses	(124)	(105)
Total deductions	<u>(1,407)</u>	<u>(1,311)</u>
Net increase (decrease)	1,490	(271)
<b>Net assets</b>		
Beginning of year	<u>19,643</u>	<u>19,914</u>
End of year	<u>\$ 21,133</u>	<u>\$ 19,643</u>

**Lee Memorial Health System**  
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The System's annual pension expense of approximately \$831,000 and \$599,000 at September 30, 2013 and 2012, respectively, was equal to the ARC. The following table shows the components of the System's annual pension cost for the years ended September 30, 2013 and 2012, the amount actually contributed to the plan and the changes in the net pension obligation (asset):

<i>(in thousands of dollars)</i>	2013	2012
Annual required contribution	\$ 831	\$ 599
Interest on net pension obligation	-	-
Adjustment to annual required contribution	-	-
Annual pension cost	831	599
Amount funded	(839)	(599)
Change in net pension obligation	(8)	-
Net pension obligation at beginning of year	-	-
Net pension obligation at end of year	\$ (8)	\$ -

The required contribution for the current year was determined as part of the July 1, 2013 actuarial valuation using the projected unit credit actuarial cost method. A contribution of \$839,000 and \$599,000 was made for the years ended September 30, 2013 and 2012, respectively. The actuarial assumptions included:

- Investment return was 7.75% and 8.0% for the years ended September 30, 2013 and 2012, respectively, for funding the discount rate and expected long-term rate of return on plan assets.
- No projected salary increases as the benefits are frozen.
- RP-2000 IRS PPA Generational Mortality Table.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The components of the unfunded actuarial accrued liability are being amortized over multiple periods as level dollar closed amortizations. The equivalent single amortization period for the September 30, 2013 expense was 3.8 years and for September 30, 2012 expense was 4.0 years.

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

<i>(in thousands of dollars)</i>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
<b>Years Ending September 30,</b>			
2008	\$ -	0%	\$ -
2009	53	100%	-
2010	594	100%	-
2011	304	100%	-
2012	599	100%	-
2013	831	101%	(8)

**Lee Memorial Health System**  
**Notes to Consolidated Basic Financial Statements**  
**September 30, 2013 and 2012**

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The CCMC Plan's funding progress is summarized as follows:

*(in thousands of dollars)*

Actuarial Valuation Date*	Actuarial Value of Assets (a)	Actuarial Present Value of Future Benefits (b)	Actuarial Accrued Liability (AAL) (c)	Unfunded Actuarial Accrued Liability (c-a)	Funded Ratio (a) / (c)	Covered Payroll***	Unfunded AAL as a % of Payroll
July 1, 2008	\$ 19,504	\$ 20,102	\$ 20,102	\$ 598	97.03%	\$ -	0.00%
July 1, 2009 **	19,975	20,817	20,817	842	95.96%	-	0.00%
July 1, 2010	19,925	21,186	21,186	1,261	94.05%	-	0.00%
July 1, 2011	19,980	22,331	22,331	2,351	89.47%	-	0.00%
July 1, 2012	20,033	22,909	22,909	2,876	87.45%	-	0.00%
July 1, 2013	20,632	24,159	24,159	3,527	85.40%	-	0.00%

\* Valuation on measurement dates of June 30/July 1 are used for reporting dates of September 30/October 1.

\*\* Beginning July 1, 2009, the asset valuation method was changed from market value of assets to a 5-year smoothed value.

\*\*\* CCMC Plan was frozen effective September 30, 1995, therefore, the unfunded AAL as a percentage of covered payroll is not applicable.

## **11. Commitments and Contingencies**

### **Operating Leases**

The System leases various equipment, office space and land under operating leases, which expire at various times. Total rental expense for all operating leases was approximately \$11.5 million and \$12.7 million for the years ended September 30, 2013 and 2012, respectively.

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

*(in thousands of dollars)*

**Year Ending September 30,**

2014	\$ 8,231
2015	6,269
2016	3,390
2017	2,528
2018	945
Thereafter	217
	<hr/>
	\$ 21,580



# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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#### Professional Liability Insurance

The System is subject to various medical malpractice claims arising in the normal course of its business activities. The Hospital is self-insured for professional liability claims and is relying on a limitation of its liability established by the Waiver of Sovereign Immunity Act of the State of Florida (the "Act"). The Act limits the amount of damages the Hospital would be required to pay up to \$100,000 per claimant or \$200,000 per incident. Effective October 1, 2011, the sovereign immunity limits in Florida have been increased to \$200,000 per claimant or \$300,000 per incident. In 1986, the Florida Supreme Court affirmed the constitutionality of the Act and its applicability to public hospitals. Various suits and claims arising in the ordinary course of business are pending against the Hospital. Management is of the opinion that future potential uninsured losses from incidents occurring prior to September 30, 2013, if any, will not be materially different from the amounts recorded in the accompanying consolidated basic financial statements.

The System has been named as a defendant in a number of malpractice lawsuits. In the event that a claim exceeds its sovereign immunity level, the System may incur charges in excess of its established reserves that could have an adverse impact on the System's change in net position and net cash flows in the period in which it is recorded or paid. In order for the System to incur liability in excess of its sovereign immunity level, a claims bill must be presented and sponsored by a Senator or Representative of the State of Florida, passed through Committee, and signed by the Governor of Florida according to Florida Statute 768.28. Management does not record a liability for estimated malpractice claims in excess of the liability established pursuant to the Act until a claim is approved for settlement through the claims bill process.

On March 8, 2012, a \$15 million claim was approved for settlement through the claims bill process. At September 30, 2012, the System fully recorded the liability in accounts payable and other noncurrent liabilities in the accompanying consolidated basic statement of net position and in supplies and other services in the accompanying consolidated basic statement of operations and changes in net position for the year ended September 30, 2012. At September 30, 2013, the System has recorded \$4.0 million in other noncurrent liabilities in the consolidated statements of net position.

Management of the System has established a liability that provides for estimated malpractice claims identified under the Hospital's incident reporting system based on several factors including the nature of each claim, past experience, advice from legal counsel and actuarial studies which reflect liabilities discounted at 4% for the years ended September 30, 2013 and 2012. The estimated claims incurred, payments on claims and the balance of the reserve for professional liability claims for the years ended September 30, 2013 and 2012, excluding the amounts payable pursuant to the claims bill process described above, were as follows:

<i>(in thousands of dollars)</i>	2013	2012
Amount of claims liabilities at the beginning of the year	\$ 14,593	\$ 14,898
Incurred claims	3,635	2,170
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	(4,075)	(2,475)
Amount of claims liabilities at the end of the year	<u>\$ 14,153</u>	<u>\$ 14,593</u>

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

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

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

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

As a provider of health care services, the System is subject to malpractice claims and litigation through the normal course of operations. Losses which are subject to the deductible provisions have been estimated and accrued in the accompanying consolidated basic financial statements. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Management believes the established reserves are adequately stated as of September 30, 2013 and 2012.

#### Health Insurance

The System is self-insured for group health insurance. Total expenses under this program amounted to approximately \$51.8 million and \$50.9 million for the years ended September 30, 2013 and 2012, respectively. Total reserves for group health insurance claims payable, including an estimate for incurred but not reported claims, was approximately \$8.0 million and \$7.6 million at September 30, 2013 and 2012, respectively. Management believes the established reserves are adequately stated as of September 30, 2013 and 2012. The estimated claims incurred, payments on claims and the balance of reserves for group health insurance claims for the years ended September 30, 2013 and 2012 were as follows:

<i>(in thousands of dollars)</i>	<b>2013</b>	<b>2012</b>
Amount of claims liabilities at the beginning of the year	\$ 7,643	\$ 4,526
Incurred claims	80,226	76,150
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	(79,837)	(73,033)
Amount of claims liabilities at the end of the year	<u>\$ 8,032</u>	<u>\$ 7,643</u>

# Lee Memorial Health System

## Notes to Consolidated Basic Financial Statements

### September 30, 2013 and 2012

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#### Workers' Compensation Insurance

The System is self-insured for workers' compensation insurance. Management of the System has established a liability for these types of claims based on actuarial evaluations in 2013 and 2012. The reserve for workers' compensation claims included in the consolidated basic financial statements was discounted at a rate of 4% for the years ended September 30, 2013 and 2012. The estimated claims incurred, payments on claims and the balance of the reserve for workers' compensation claims for the years ended September 30, 2013 and 2012 were as follows:

<i>(in thousands of dollars)</i>	2013	2012
Amount of claims liabilities at the beginning of the year	\$ 12,768	\$ 12,805
Incurred claims	2,686	2,791
Payments on claims attributable to events of both the current fiscal year and prior fiscal years	(3,126)	(2,828)
Amount of claims liabilities at the end of the year	<u>\$ 12,328</u>	<u>\$ 12,768</u>

#### Litigation

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

## 12. Related Party Transactions and Relationships

Prior to September 1, 2010, the System had a 50% ownership interest in a joint venture with another local-area governmental health care system. On September 1, 2010, the System along with the other governmental health care system sold a combined 11.11% interest to a third healthcare system which resulted in a new ownership interest for the System of 44.445%. The System is accounting for its interest in the joint venture under the equity method of accounting. The purpose of the joint venture was to develop a regional service center, LeeSar, Inc. ("LeeSar"), to meet the materials services and distribution needs of both health care systems. The investment in LeeSar, which is included in long-term other assets, was approximately \$11.8 million and \$10.3 million at September 30, 2013 and 2012, respectively. Excess of revenues over expenses for LeeSar was approximately \$3.4 million and \$4.0 million for the years ended September 30, 2013 and 2012, respectively.

The System has a 50% ownership interest in Bonita Community Health Center ("BCHC"), a not-for-profit organization. BCHC operates an urgent care center, an ambulatory surgical care center, a diagnostic imaging center and an outpatient rehabilitation center in Estero, Florida. Additionally, BCHC leases office space to physicians and other healthcare providers. The investment in BCHC is accounted for using the equity method. In conjunction with the issuance of long-term debt for the construction and equipping of the BCHC facility, the System has provided an unconditional guarantee to pay 50% of the obligations related to this debt should BCHC default. As of September 30, 2013 and 2012, total long-term debt outstanding net of current installments at BCHC was approximately \$22.9 million and \$23.6 million, respectively. BCHC had net losses of approximately \$1.5 million for the years ended September 30, 2013 and 2012.

**Lee Memorial Health System**  
**Notes to Consolidated Basic Financial Statements**  
**September 30, 2013 and 2012**

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Access Medical South is a partnership between Morton Plant Hospital Association and the System to provide durable medical equipment services in which the System's ownership is 50%. The System accounts for its ownership under the equity method. At September 30, 2013 and 2012, the System's ownership interest in Access Medical South is \$0.9 million and is recorded in Other Assets.

**13. Major Component Unit Information**

The System adopted GASB 61 as of October 1, 2012 (Note 1). GASB 61 requires disclosure of condensed combining information for major component units, including a condensed statement of net position, a condensed statement of operations and changes in net position, and a condensed statement of cash flows. Cape Memorial Hospital, Inc. is the System's only major component unit. A statement of net position and a statement of operations and changes in net position are presented in the accompanying supplemental consolidating information. The condensed statement of cash flows of Cape Memorial Hospital is as follows:

<i>(in thousands of dollars)</i>	<b>System (excluding Cape Memorial Hospital, Inc.)</b>	<b>Cape Memorial Hospital, Inc.</b>	<b>Total</b>
<b>Net cash provided by (used in)</b>			
Operating activities	\$ 117,533	\$ 33,762	\$ 151,295
Noncapital financing activities	15,348	(18,756)	(3,408)
Capital and related financing activities	(35,690)	(14,597)	(50,287)
Investment activities	(70,365)	65	(70,300)
	<u>26,826</u>	<u>474</u>	<u>27,300</u>
<b>Cash and cash equivalents</b>			
Beginning of year	<u>11,259</u>	<u>(474)</u>	<u>10,785</u>
End of year	<u>\$ 38,085</u>	<u>\$ -</u>	<u>\$ 38,085</u>

**14. Subsequent Events**

The System evaluated subsequent events through January 30, 2014, which is the date the consolidated basic financial statements were issued, and concluded there were no such events.

**Lee Memorial Health System**  
**Consolidating Basic Statement of Net Position**  
**September 30, 2013**

**Schedule I**

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health Inc.	Health Park Care Center Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
<b>Assets</b>									
Current assets									
Cash and cash equivalents	\$ 23,245	\$ -	\$ 20	\$ 2	\$ (1)	\$ 1	\$ 14,818	\$ -	\$ 38,085
Short-term investments	612,149	-	-	-	-	-	-	-	612,149
Assets whose use is restricted	371	1,238	7,770	-	-	-	-	-	9,379
Patient accounts receivable, net	111,025	21,778	37,109	387	1,812	3,388	-	-	175,499
Inventories	17,787	4,010	8,895	-	-	17	-	-	30,709
Other current assets	17,440	430	771	-	-	2	4,309	-	22,952
Total current assets	782,017	27,456	54,565	389	1,811	3,408	19,127	-	888,773
Noncurrent assets									
Assets whose use is restricted	924	-	-	-	-	3	39,761	-	40,688
Capital assets, net	346,021	87,529	257,025	74	674	3,887	-	-	695,210
Due from subsidiaries	-	144,934	-	-	1,708	-	-	(146,642) (a)	-
Other assets, net	(b) 21,211	11,065	99,345	-	1,164	-	17,264	-	150,049
Total assets	\$ 1,150,173	\$ 270,984	\$ 410,935	\$ 463	\$ 5,357	\$ 7,298	\$ 76,152	\$ (146,642)	\$ 1,774,720

(a) To eliminate intercompany receivables and payables.

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

**Lee Memorial Health System**  
**Consolidating Basic Statement of Net Position**  
**September 30, 2013**

**Schedule I**

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
<b>Liabilities and Net Position</b>									
Current liabilities									
Accounts payable	\$ 46,272	\$ 706	\$ 1,780	\$ 539	\$ 20	\$ 80	\$ 3	\$ -	\$ 49,400
Current installments of long-term debt	21,388	2,692	4,650	-	-	-	-	-	28,730
Accrued expenses									
Employee compensation	27,007	5,104	6,213	232	303	505	87	-	39,451
Interest	1,590	1,285	7,941	-	-	-	-	-	10,816
Other	22,003	4,123	4,752	10	-	431	38	-	31,357
Estimated third-party settlements	6,692	(5,598)	10,935	-	-	5	-	-	12,034
Total current liabilities	124,952	8,312	36,271	781	323	1,021	128	-	171,788
Noncurrent liabilities									
Long-term debt, excluding current installments	230,607	66,950	382,163	-	-	-	-	-	679,720
Due to subsidiaries	113,506	-	24,609	(870)	-	5,814	3,583	(146,642) (a)	-
Other liabilities	53,676	5,084	5,814	552	771	730	168	-	66,795
Total liabilities	522,741	80,346	448,857	463	1,094	7,565	3,879	(146,642)	918,303
Commitments and contingencies									
Net position									
Restricted for									
Nonexpendable	-	-	-	-	-	-	5,632	-	5,632
Expendable	-	-	-	-	-	-	64,867	-	64,867
Net investment in capital assets	94,027	17,887	(129,788)	74	674	3,887	-	-	(13,239)
Unrestricted	(b) 533,405	172,751	91,866	(74)	3,589	(4,154)	1,774	-	799,157
Total net position	627,432	190,638	(37,922)	-	4,263	(267)	72,273	-	856,417
Total liabilities and net position	\$ 1,150,173	\$ 270,984	\$ 410,935	\$ 463	\$ 5,357	\$ 7,298	\$ 76,152	\$ (146,642)	\$ 1,774,720

(a) To eliminate intercompany receivables and payables.

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

**Lee Memorial Health System**  
**Consolidating Basic Statement of Net Position**  
**September 30, 2012**

**Schedule I**

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health Inc.	Health Park Care Center Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
<b>Assets</b>									
Current assets									
Cash and cash equivalents	\$ 6,098	\$ (474)	\$ (16)	\$ 1	\$ -	\$ 2	\$ 5,174	\$ -	\$ 10,785
Short-term investments	496,623	-	-	-	-	-	-	-	496,623
Assets whose use is restricted	408	1,260	7,738	-	-	-	-	-	9,406
Patient accounts receivable, net	113,795	28,651	42,343	539	3,138	1,672	-	-	190,138
Inventories	17,288	3,762	8,774	-	-	15	-	-	29,839
Other current assets	19,501	551	983	-	-	2	3,480	-	24,517
Total current assets	653,713	33,750	59,822	540	3,138	1,691	8,654	-	761,308
Noncurrent assets									
Long-term investments	100	-	-	-	-	-	-	-	100
Assets whose use is restricted	987	-	-	-	2	4	29,154	-	30,147
Capital assets, net	326,682	89,650	275,663	110	736	3,784	-	-	696,625
Due from subsidiaries	-	124,923	-	-	3,019	-	-	(127,942) (a)	-
Other assets, net	(b) 18,617	11,023	98,971	-	1,121	-	4,254	-	133,986
Total assets	\$ 1,000,099	\$ 259,346	\$ 434,456	\$ 650	\$ 8,016	\$ 5,479	\$ 42,062	\$ (127,942)	\$ 1,622,166

(a) To eliminate intercompany receivables and payables.

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

**Lee Memorial Health System**  
**Consolidating Basic Statement of Net Position**  
**September 30, 2012**

**Schedule I**

(in thousands of dollars)

	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health, Inc.	Health Park Care Center, Inc.	Lee Memorial Health System Foundation, Inc.	Eliminations	Total
<b>Liabilities and Net Position</b>									
<b>Current liabilities</b>									
Accounts payable	\$ 64,015	\$ 941	\$ 1,008	\$ 543	\$ 38	\$ 22	\$ 15	\$ -	\$ 66,582
Current installments of long-term debt	13,336	3,205	3,605	-	-	-	-	-	20,146
Accrued expenses									
Employee compensation	10,519	4,859	5,887	403	284	388	80	-	22,420
Interest	1,707	1,260	7,815	-	-	-	-	-	10,782
Other	25,894	4,184	4,731	10	-	431	35	-	35,285
Estimated third-party settlements	(682)	(2,291)	8,365	-	17	5	-	-	5,414
<b>Total current liabilities</b>	<b>114,789</b>	<b>12,158</b>	<b>31,411</b>	<b>956</b>	<b>339</b>	<b>846</b>	<b>130</b>	<b>-</b>	<b>160,629</b>
<b>Noncurrent liabilities</b>									
Long-term debt, excluding current installments	199,854	69,125	386,343	-	-	-	-	-	655,322
Due to subsidiaries	61,044	-	62,587	(793)	-	3,793	1,311	(127,942) (a)	-
Other liabilities	58,165	4,606	5,135	487	486	666	165	-	69,710
<b>Total liabilities</b>	<b>433,852</b>	<b>85,889</b>	<b>485,476</b>	<b>650</b>	<b>825</b>	<b>5,305</b>	<b>1,606</b>	<b>(127,942)</b>	<b>885,661</b>
<b>Commitments and contingencies</b>									
<b>Net position</b>									
Restricted for									
Nonexpendable	-	-	-	-	-	-	5,625	-	5,625
Expendable	-	-	-	-	-	-	33,282	-	33,282
Net investment in capital assets	113,492	17,321	(114,286)	110	736	3,784	-	-	21,157
Unrestricted (b)	452,755	156,136	63,266	(110)	6,455	(3,610)	1,549	-	676,441
<b>Total net position</b>	<b>566,247</b>	<b>173,457</b>	<b>(51,020)</b>	<b>-</b>	<b>7,191</b>	<b>174</b>	<b>40,456</b>	<b>-</b>	<b>736,505</b>
<b>Total liabilities and net position</b>	<b>\$ 1,000,099</b>	<b>\$ 259,346</b>	<b>\$ 434,456</b>	<b>\$ 650</b>	<b>\$ 8,016</b>	<b>\$ 5,479</b>	<b>\$ 42,062</b>	<b>\$ (127,942)</b>	<b>\$ 1,622,166</b>

(a) To eliminate intercompany receivables and payables.

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



**Lee Memorial Health System**  
**Consolidating Basic Statement of Operations and Changes in Net Position**  
**September 30, 2013**

**Schedule II**

(in thousands of dollars)

	Lee Memorial Hospital	Physicians	Others	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health Inc.	Health Park Care Center Inc.	Lee Memorial Health System Foundation, Inc.	Total
<b>Operating revenues</b>											
Net patient service revenue	\$ 613,095	\$ 125,201	\$ 1,497	\$ 739,793	\$ 181,110	\$ 284,260	\$ 2,180	\$ 6,924	\$ 12,847	\$ -	\$ 1,227,114
Other revenue	7,624	6,189	8,875	22,688	1,437	1,142	793	500	95	3,206	29,861
Total operating revenues	<u>620,719</u>	<u>131,390</u>	<u>10,372</u>	<u>762,481</u>	<u>182,547</u>	<u>285,402</u>	<u>2,973</u>	<u>7,424</u>	<u>12,942</u>	<u>3,206</u>	<u>1,256,975</u>
<b>Operating expenses</b>											
Salaries, wages and benefits	281,067	140,437	5,034	426,538	89,986	128,623	4,674	9,392	9,882	1,758	670,853
Supplies and other services	168,542	19,051	2,451	190,044	44,086	78,447	88	1,013	2,100	1,422	317,200
Purchased services	52,307	41,034	412	93,753	18,433	23,569	(4,038)	651	1,562	281	134,211
Depreciation and amortization	30,863	3,541	521	34,925	9,865	25,668	36	296	379	19	71,188
Total operating expenses	<u>532,779</u>	<u>204,063</u>	<u>8,418</u>	<u>745,260</u>	<u>162,370</u>	<u>256,307</u>	<u>760</u>	<u>11,352</u>	<u>13,923</u>	<u>3,480</u>	<u>1,193,452</u>
Operating income (loss)	<u>87,940</u>	<u>(72,673)</u>	<u>1,954</u>	<u>17,221</u>	<u>20,177</u>	<u>29,095</u>	<u>2,213</u>	<u>(3,928)</u>	<u>(981)</u>	<u>(274)</u>	<u>63,523</u>
<b>Nonoperating items</b>											
Interest expense	(7,813)	(900)	(32)	(8,745)	(2,932)	(16,105)	-	(6)	(1)	(17)	(27,806)
Investment income, including realized and unrealized gains on investments	45,414	-	76	45,490	30	131	-	-	-	590	46,241
Unrealized gain on swap valuation	1,772	-	-	1,772	-	-	-	-	-	-	1,772
Contributions and grants	-	-	-	-	-	-	-	-	-	31,396	31,396
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	197	197
Loss on sale of capital assets	(512)	(11)	-	(523)	(97)	(24)	-	-	(18)	-	(662)
Other	5,964	-	6	5,970	3	1	(2,213)	1,006	559	(75)	5,251
Total nonoperating gain (loss)	<u>44,825</u>	<u>(911)</u>	<u>50</u>	<u>43,964</u>	<u>(2,996)</u>	<u>(15,997)</u>	<u>(2,213)</u>	<u>1,000</u>	<u>540</u>	<u>32,091</u>	<u>56,389</u>
Increase (decrease) in net position	<u>\$ 132,765</u>	<u>\$ (73,584)</u>	<u>\$ 2,004</u>	<u>61,185</u>	<u>17,181</u>	<u>13,098</u>	<u>-</u>	<u>(2,928)</u>	<u>(441)</u>	<u>31,817</u>	<u>119,912</u>
<b>Net position</b>											
Beginning of year				566,247	173,457	(51,020)	-	7,191	174	40,456	736,505
End of year				<u>\$ 627,432</u>	<u>\$ 190,638</u>	<u>\$ (37,922)</u>	<u>\$ -</u>	<u>\$ 4,263</u>	<u>\$ (267)</u>	<u>\$ 72,273</u>	<u>\$ 856,417</u>

\* For purposes of the consolidating basic Statement of Operations and Changes in Net Position, Total Lee Memorial Hospital is comprised of Lee Memorial Hospital, Physicians, and Others and is shown separately for Agency for HealthCare Administration reporting purposes only.

**Lee Memorial Health System**  
**Consolidating Basic Statement of Operations and Changes in Net Position**  
**September 30, 2012**

**Schedule II**

(in thousands of dollars)

	Lee Memorial Hospital	Physicians	Others	Total Lee Memorial Hospital	Cape Memorial Hospital, Inc.	Gulf Coast Medical Center	Lee County Trauma Services District	Lee Memorial Home Health Inc.	Health Park Care Center Inc.	Lee Memorial Health System Foundation, Inc.	Total
<b>Operating revenues</b>											
Net patient service revenue	\$ 591,972	\$ 112,561	\$ 1	\$ 704,534	\$ 178,691	\$ 279,295	\$ 1,696	\$ 9,146	\$ 12,246	\$ -	\$ 1,185,608
Other revenue	6,155	3,745	8,766	18,666	2,524	2,159	697	495	110	2,760	27,411
Total operating revenues	<u>598,127</u>	<u>116,306</u>	<u>8,767</u>	<u>723,200</u>	<u>181,215</u>	<u>281,454</u>	<u>2,393</u>	<u>9,641</u>	<u>12,356</u>	<u>2,760</u>	<u>1,213,019</u>
<b>Operating expenses</b>											
Salaries, wages and benefits	273,914	127,847	3,738	405,499	87,149	126,637	4,596	9,111	9,139	1,692	643,823
Supplies and other services	180,003	18,511	2,031	200,545	47,527	81,054	110	1,026	1,896	1,183	333,341
Purchased services	41,945	40,495	183	82,623	16,232	21,227	2,341	756	1,858	213	125,250
Depreciation and amortization	27,067	3,053	126	30,246	9,201	25,108	36	257	339	15	65,202
Total operating expenses	<u>522,929</u>	<u>189,906</u>	<u>6,078</u>	<u>718,913</u>	<u>160,109</u>	<u>254,026</u>	<u>7,083</u>	<u>11,150</u>	<u>13,232</u>	<u>3,103</u>	<u>1,167,616</u>
Operating income (loss)	<u>75,198</u>	<u>(73,600)</u>	<u>2,689</u>	<u>4,287</u>	<u>21,106</u>	<u>27,428</u>	<u>(4,690)</u>	<u>(1,509)</u>	<u>(876)</u>	<u>(343)</u>	<u>45,403</u>
<b>Nonoperating items</b>											
Interest (expense) income	(8,295)	(675)	-	(8,970)	(2,851)	(15,994)	-	1	(40)	60	(27,794)
Investment income, including realized and unrealized gains on investments	40,713	-	57	40,770	38	54	-	-	-	897	41,759
Unrealized gain on swap valuation	1,377	-	-	1,377	-	-	-	-	-	-	1,377
Contributions and grants	-	-	-	-	-	-	-	-	-	8,830	8,830
Investment activity on restricted nonexpendable investments	-	-	-	-	-	-	-	-	-	312	312
Loss on sale of properties	(267)	(2)	-	(269)	-	(596)	-	-	-	-	(865)
Transfers to affiliates	(6,100)	-	-	(6,100)	-	-	-	-	6,100	-	-
Other	(1,802)	-	4	(1,798)	(591)	1	4,690	1,073	415	(71)	3,719
Total nonoperating gain (loss)	<u>25,626</u>	<u>(677)</u>	<u>61</u>	<u>25,010</u>	<u>(3,404)</u>	<u>(16,535)</u>	<u>4,690</u>	<u>1,074</u>	<u>6,475</u>	<u>10,028</u>	<u>27,338</u>
Increase (decrease) in net position	<u>\$ 100,824</u>	<u>\$ (74,277)</u>	<u>\$ 2,750</u>	<u>29,297</u>	<u>17,702</u>	<u>10,893</u>	<u>-</u>	<u>(435)</u>	<u>5,599</u>	<u>9,685</u>	<u>72,741</u>
<b>Net position</b>											
Beginning of year				536,950	155,755	(61,913)	-	7,626	(5,425)	30,771	663,764
End of year				<u>\$ 566,247</u>	<u>\$ 173,457</u>	<u>\$ (51,020)</u>	<u>\$ -</u>	<u>\$ 7,191</u>	<u>\$ 174</u>	<u>\$ 40,456</u>	<u>\$ 736,505</u>

\* For purposes of the consolidating basic Statement of Operations and Changes in Net Position, Total Lee Memorial Hospital is comprised of Lee Memorial Hospital, Physicians, and Others and is shown separately for Agency for HealthCare Administration reporting purposes only.



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## ezDisclose Notice Proof Summary Report

478184

04/07/2014

**Client Name:** Regions Bank (Jacksonville)

**Reliance:** 4

**Notice Issuer:** LEE CNTY FLA HOSP BRD

**Issue Title:** LEE MEMORIAL HOSP PROJ

**Job Type:** Audited Financial  
Statements

**Issue Date:**

**Pub Date:** 04/07/2014

**Call Type:** Full

**Call Date:**

**Total Amt Called:** N/A

**Notice Memo:**

**Customers:**

Role	Bank Name	Bank #	DTC Agent	Address	City	State	Zip	Phone	AddressDesc
Notification	Regions Bank (Jacksonville)			10245 Centurion Parkway, 2nd Floor	Jacksonville	FL	32256		Street Address

**Issues:**

Cusip	Interest	AccrInt	Maturity	Int Types	Called/Cus	Price(%)	Cert No	Type	Prefix	Par Value	Called Value	Out Value	Trans
52349FAN7	6.7000	0.0000	04/01/1995 00	MU F	N/A	N/A				N/A	N/A	N/A	
												<b>Total for CUSIP</b>	<b>Amount Called</b>
												52349FAN7	N/A
52349FCZ8	4.5000	0.0000	04/01/1998 00	MU F	N/A	N/A				N/A	N/A	N/A	
												<b>Total for CUSIP</b>	<b>Amount Called</b>
												52349FCZ8	N/A
523857AH3	4.3750	0.0000	04/01/2010 00	MU F	N/A	N/A				N/A	N/A	N/A	
												<b>Total for CUSIP</b>	<b>Amount Called</b>
												523857AH3	N/A
52349FEL7	0.0000	0.0000	04/01/2025 00	MU F	N/A	N/A				N/A	N/A	N/A	
												<b>Total for CUSIP</b>	<b>Amount Called</b>
												52349FEL7	N/A
52349FBL0	7.8750	0.0000	04/01/2008 00	MU F	N/A	N/A				N/A	N/A	N/A	
												<b>Total for CUSIP</b>	<b>Amount Called</b>
												52349FBL0	N/A

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52385LBH1	4.5000	0.0000	04/01/2016 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52385LBH1	N/A
52349FBJ5	8.0000	0.0000	04/01/2014 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FBJ5	N/A
52349FDK0	5.3000	0.0000	04/01/2008 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FDK0	N/A
52385LBY4	5.0000	0.0000	04/01/2032 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52385LBY4	N/A
52349FEK9	0.0000	0.0000	04/01/2022 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FEK9	N/A
52349FCJ4	0.0000	0.0000	04/17/2020 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FCJ4	N/A
52385LAZ2	0.0000	0.0000	04/01/2013 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52385LAZ2	N/A
52385LCA5	5.0000	0.0000	04/01/2027 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52385LCA5	N/A
52349FAX5	7.2000	0.0000	04/01/1999 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FAX5	N/A
52349FBM8	5.5600	0.0000	04/01/1994 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FBM8	N/A

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52349FCK1	3.2500	0.0000	04/01/1993 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52349FCK1	N/A		
52349FDL8	5.4000	0.0000	04/01/2009 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52349FDL8	N/A		
52349FBZ9	0.0000	0.0000	04/01/2020 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52349FBZ9	N/A		
52349FBK2	8.0000	0.0000	04/01/2020 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52349FBK2	N/A		
52385LBZ1	5.0000	0.0000	04/01/2037 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52385LBZ1	N/A		
523857AJ9	4.5000	0.0000	04/01/2011 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										523857AJ9	N/A		
52349FAH0	5.9000	0.0000	04/01/1992 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52349FAH0	N/A		
52349FCM7	4.7000	0.0000	04/01/1995 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52349FCM7	N/A		
52349FAZ0	7.3000	0.0000	04/01/2000 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52349FAZ0	N/A		
52385LCF4	0.0000	0.0000	04/01/2037 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called		
										52385LCF4	N/A		

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52349FEN3	0.0000	0.0000	04/01/2027 00	MU	F	N/A	N/A	N/A	N/A	N/A

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523857AK6	5.7500	0.0000	04/01/2012 00	MU F	N/A	N/A	N/A	N/A	N/A

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52385LBT5	0.0000	0.0000	04/01/2027 00	MU F	N/A	N/A	N/A	N/A	N/A



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52385LAJ8	3.5000	0.0000	04/01/2012 00	MU F	N/A	N/A	N/A	N/A	N/A

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52349FCY1	0.0000	0.0000	04/01/2025 00	MU F	N/A	N/A	N/A	N/A	N/A

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523857AF7	4.0000	0.0000	04/01/2008 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										523857AF7
										N/A
52349FAD9	0.0000	0.0000	04/01/2020 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52349FAD9
										N/A
52349FCT2	6.1000	0.0000	04/01/2005 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52349FCT2
										N/A
52385LCE7	0.0000	0.0000	04/01/2037 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52385LCE7
										N/A
52349FEB9	6.0000	0.0000	04/01/2007 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52349FEB9
										N/A
52349FBF3	7.8750	0.0000	04/01/2008 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52349FBF3
										N/A
52349FEQ6	0.0000	0.0000	04/01/2018 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52349FEQ6
										N/A
52385LAH2	5.0000	0.0000	04/01/2011 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52385LAH2
										N/A
52385LCP2	0.0000	0.0000	04/01/2027 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52385LCP2
										N/A
52385LBW8	5.0000	0.0000	04/01/2032 00	MU	F	N/A	N/A	N/A	N/A	N/A
										<b>Total for CUSIP</b>
										<b>Amount Called</b>
										52385LBW8
										N/A

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523857AD2	4.0000	0.0000	04/01/2006 00	MU F	N/A	N/A	N/A	N/A	N/A

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52349FAV9	7.1000	0.0000	04/01/1998 00	MU F	N/A	N/A	N/A	N/A	N/A

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52349FBR7	6.1000	0.0000	04/01/1998 00	MU	F	N/A	N/A	N/A	N/A	N/A

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52349FDT1	5.0000	0.0000	04/01/1999 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FDT1	N/A
52385LAG4	3.4000	0.0000	04/01/2011 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52385LAG4	N/A
52385LBQ1	5.2500	0.0000	04/01/2035 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52385LBQ1	N/A
52349FAE7	5.6000	0.0000	04/01/1991 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FAE7	N/A
52349FCB1	5.8000	0.0000	04/01/2002 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FCB1	N/A
52385LAR0	4.0000	0.0000	04/01/2017 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52385LAR0	N/A
52349FEC7	5.0000	0.0000	04/01/2008 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FEC7	N/A
52349FAP2	6.7000	0.0000	04/01/1995 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52349FAP2	N/A
523857AA8	4.0000	0.0000	04/01/2003 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										523857AA8	N/A
52385LCC1	0.0000	0.0000	04/01/2037 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called
										52385LCC1	N/A

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52349FCU9	6.2000	0.0000	04/01/2006 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52349FCU9	N/A
52349FBE6	7.8750	0.0000	04/01/2008 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52349FBE6	N/A
52385LCQ0	0.0000	0.0000	04/01/2027 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52385LCQ0	N/A
52349FDD6	4.9000	0.0000	04/01/2002 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52349FDD6	N/A
52385LBA6	4.0000	0.0000	04/01/2009 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52385LBA6	N/A
52385LBR9	4.5000	0.0000	04/01/2037 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52385LBR9	N/A
52349FAG2	5.9000	0.0000	04/01/1992 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52349FAG2	N/A
52385LAB5	3.0000	0.0000	04/01/2006 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52385LAB5	N/A
52385LCN7	0.0000	0.0000	04/01/2033 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									52385LCN7	N/A
523857AQ3	5.0000	0.0000	04/01/2018 00	MU F	N/A	N/A	N/A	N/A	N/A	
									Total for CUSIP	Amount Called
									523857AQ3	N/A



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52349FBS5	6.2000	0.0000	04/01/1999 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										52349FBS5	N/A	
52385LBB4	4.0000	0.0000	04/01/2010 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										52385LBB4	N/A	
52349FDV6	5.0000	0.0000	04/01/2001 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										52349FDV6	N/A	
52385LBS7	4.5000	0.0000	04/01/2037 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										52385LBS7	N/A	
523857AR1	5.0000	0.0000	04/01/2019 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										523857AR1	N/A	
523857AC4	4.0000	0.0000	04/01/2005 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										523857AC4	N/A	
52385LAP4	3.8000	0.0000	04/01/2015 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										52385LAP4	N/A	
52349FCS4	5.5500	0.0000	04/01/2000 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										52349FCS4	N/A	
52385LCL1	0.0000	0.0000	04/01/2033 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										52385LCL1	N/A	
52349FEE3	5.0000	0.0000	04/01/2010 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A	N/A
										Total for CUSIP	Amount Called	
										52349FEE3	N/A	

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52385LAW9	5.0000	0.0000	04/01/2022 00	MU F	N/A	N/A	N/A	N/A	N/A

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523857AS9	5.0000	0.0000	04/01/2020 00	MU F	N/A	N/A	N/A	N/A	N/A

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52349FCN5	4.9000	0.0000	04/01/1996 00	MU	F	N/A	N/A	N/A	N/A	N/A

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523857AN0	5.7500	0.0000	04/01/2015 00	MU	F	N/A	N/A	N/A	N/A	N/A

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52385LCH0	0.0000	0.0000	04/01/2033 00	MU	F	N/A	N/A	N/A	N/A	N/A	N/A