LAKELAND REGIONAL HEALTH SYSTEMS, INC. AND SUBSIDIARIES

Consolidated Financial Statements

September 30, 2019

(With Independent Auditors' Report Thereon)

LAKELAND REGIONAL HEALTH SYSTEMS, INC.
AND SUBSIDIARIES

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

Independent Auditors' Report

The Board of Directors
Lakeland Regional Health Systems, Inc.:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lakeland Regional Health Systems, Inc. and Subsidiaries (The Health System), which comprise the consolidated balance sheet as of September 30, 2019, and the related consolidated statement of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Regional Health Systems, Inc. and Subsidiaries as of September 30, 2019, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1(t) to the consolidated financial statements, in fiscal year 2019, the Health System adopted new accounting guidance in connection with the implementation of Financial Accounting Standards

Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying other financial information on pages 28 and 29 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated 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 financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

January 28, 2020

LAKELAND REGIONAL HEALTH SYSTEMS, INC.
AND SUBSIDIARIES

Consolidated Balance Sheet

September 30, 2019

(In thousands)

Assets

Current assets:		
Cash and cash equivalents	$	27,360
Current portion of assets limited as to use		10,104
Patient accounts receivable, net		118,040
Estimated third-party settlements, net		1,348
Inventories		15,153
Prepaid expenses and other current assets		23,776
Total current assets		195,781
Assets limited as to use, less current portion		82,191
Long-term marketable securities		15,936
Investments		392,699
Property and equipment, net		593,129
Pledges receivable, net		23,570
Other assets		20,356
Total assets	$	1,323,662

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued expenses	$	35,887
Employee compensation and benefits		55,294
State of Florida medical assistance assessment		8,658
Current portion of long-term debt		8,425
Total current liabilities		108,264
Long-term debt, less current portion		319,449
Long-term liabilities		32,712
Total liabilities		460,425
Net assets:		
Without donor restrictions		827,727
With donor restrictions		35,510
Total net assets		863,237
Total liabilities and net assets	$	1,323,662

See accompanying notes to consolidated financial statements.

LAKELAND REGIONAL HEALTH SYSTEMS, INC.
AND SUBSIDIARIES

Consolidated Statement of Operations and Changes in Net Assets

Year ended September 30, 2019

(In thousands)

Changes in net assets without donor restrictions:		
Operating revenues and other support:		
Patient service revenue, net	$	803,515
Other revenues		12,970
Net assets released from restrictions used in operations		637
Total operating revenues and other support		817,122
Expenses:		
Employee compensation and benefits		431,511
Supplies		168,810
General and administrative		87,086
Professional fees		24,029
State of Florida medical assistance assessment		8,946
Depreciation		62,521
Interest		27,042
Total expenses		809,945
Operating income		7,177
Nonoperating gains:		
Investment income		20,064
Equity in earnings from interests in joint venture partnerships, net of applicable taxes		846
Gain on disposal of property and equipment		259
Total nonoperating gains, net		21,169
Excess of revenues, gains, and other support over expenses and losses	$	28,346

(Continued)

LAKELAND REGIONAL HEALTH SYSTEMS, INC.
AND SUBSIDIARIES

Consolidated Statement of Operations and Changes in Net Assets

Year ended September 30, 2019

(In thousands)

Changes in net assets without donor restrictions:		
Excess of revenues, gains, and other support over expenses and losses	$	28,346
Net assets released from restrictions used for capital		5,230
Pension related changes other than net periodic pension costs		1,223
Increase in net assets without donor restrictions		34,799
Changes in net assets with donor restrictions:		
Contributions		4,103
Investment income		5
Unrealized gains, net		2
Net assets released from restrictions		(5,867)
Decrease in net assets with donor restrictions		(1,757)
Increase in net assets		33,042
Net assets, beginning of year		830,195
Net assets, end of year	$	863,237

See accompanying notes to consolidated financial statements.

LAKELAND REGIONAL HEALTH SYSTEMS, INC.
AND SUBSIDIARIES

Consolidated Statement of Cash Flows

Year ended September 30, 2019

(In thousands)

Cash flows from operating activities:		
Increase in net assets	$	33,042
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Equity in earnings from joint venture partnerships, net of applicable taxes		(846)
Realized gains on investments		(695)
Unrealized gains on investments		(19,277)
Gain on disposal of property and equipment		(259)
Restricted contributions and investment income		(4,110)
Depreciation		62,521
Amortization of bond premium		(2,613)
Amortization of debt issue costs		242
Changes in operating assets and liabilities:		
Patient accounts receivable		13,653
Estimated third-party settlements		2,623
Inventories		(1,035)
Prepaid expenses and other current assets		(6,443)
Pledges receivable, net		1,956
Accounts payable and accrued expenses		(4,686)
Employee compensation and benefits		2,794
Long-term liabilities		1,511
Net cash provided by operating activities		78,378
Cash flows from investing activities:		
Purchases of property and equipment		(40,031)
Proceeds from sale of property and equipment		420
Dividends received from joint venture partnerships		1,007
Purchase of investments and assets limited as to use		(87,921)
Proceeds from sale of investments		55,824
Purchase of interests in joint venture partnerships		(2,677)
Net change in other long-term assets		2,248
Net cash used in investing activities		(71,130)
Cash flows from financing activities:		
Restricted contributions and investment income		4,110
Payments on long-term debt		(8,040)
Net cash used in financing activities		(3,930)
Increase in cash and cash equivalents		3,318
Cash and cash equivalents, beginning of year		24,042
Cash and cash equivalents, end of year	$	27,360
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$	24,462
Cash paid during the year for federal and state income taxes		285
Property and equipment included in accounts payable and accrued expenses		2,939

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Lakeland Regional Health Systems, Inc. (the Parent) is a tax-exempt parent holding company organized to promote the continued development of high-quality, cost-effective healthcare services in Lakeland, Florida (the City). The consolidated financial statements include the accounts of the Parent and its subsidiaries: Lakeland Regional Medical Center, Inc. (the Medical Center), and Lakeland Regional Medical Center Foundation, Inc. (the Foundation). The consolidated entities are hereinafter referred to as the Health System. All significant intercompany transactions among these entities have been eliminated from the consolidated financial statements.

The Medical Center has a lease and transfer agreement (the Agreement) with the City, whereby the Medical Center was formed primarily to manage, control, govern, and lease the existing medical center facility. In consideration of the Agreement, the Medical Center must pay rent of $1.00 per operating year plus additional payments to the City, as defined by the Agreement.

(b) Mission Statement

The Health System's strategic imperative is to develop as a nationally recognized, fiscally strong and growing collaborative regional health system that improves lives by offering safe, high quality, equitable and affordable healthcare, while demonstrating an equal commitment to the promotion of individual and community health, wellness and disease prevention.

(c) Use of Estimates

The preparation of these consolidated financial statements, in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a remaining maturity of three months or less at date of acquisition, excluding amounts included in assets limited as to use.

(e) Investments

Investments in private placement funds, debt and equity securities with readily determinable fair values and are measured at fair value in the consolidated balance sheet. Investment income (including realized gains and losses on investments, unrealized gains and losses on trading securities, interest, and dividends) is included in excess of revenues, gains, and other support over expenses and losses unless such earnings are subject to donor restrictions. Investment income that is restricted by donor stipulations is reported as an increase in net assets with donor restrictions.

The Health System invests a significant portion of its portfolio in private placement funds that are managed by Russell Investments. The funds employ an approach whereby portions of the funds are allocated to different money managers who employ distinct investment styles. The earnings and losses

of the fund result from the dividends, interest, and realized and unrealized gains or losses of the financial instruments held.

Marketable securities are recorded at fair value in the consolidated balance sheet and consist of equity and debt securities. The fair value of marketable securities is based on quoted market prices.

The Health System's investment securities are managed by external investment managers that are authorized to buy and sell investment securities in accordance with the Health System's approved investment policy. Since the Health System's investment securities, excluding those designated as held-to-maturity securities, are actively managed by outside investment managers, the Health System has classified its marketable securities, assets limited as to use and investments as trading securities.

(f) Assets Limited as to Use

Assets limited as to use include assets held by trustees under a malpractice funding arrangement. Additionally, assets limited as to use include assets internally designated by the board of directors for future capital improvements and self-insurance liability obligations. The board of directors retains control and may, at its discretion, subsequently use such assets for other purposes. Amounts expected to meet current obligations have been presented as current assets in the consolidated balance sheet at September 30, 2019. Assets limited as to use are included in the consolidated balance sheet at their fair values, which are based on quoted market prices, if available or estimated using quoted market prices for similar securities.

(g) Inventories

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

(h) Property and Equipment

Property and equipment have been recorded at historical cost at the date of acquisition or fair value at the date of donation. The cost of repairs and maintenance is charged to expense as incurred and remodeling and refurbishing costs are capitalized. Major asset classifications and useful lives are generally in accordance with those recommended by the American Hospital Association. The straight-line method of depreciation is used for all depreciable assets. Equipment under capital leases is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense. Estimated useful lives by asset category are as follows:

Buildings and land improvements	5 to 50 years
Equipment	3 to 10 years

Interest costs incurred as part of related construction projects are capitalized during the period of construction. Net interest capitalized for the year ended September 30, 2019 was approximately $130,000.

(Continued)

The Health System had outstanding contracts and other commitments of approximately $7,629,000 relating to the purchase or construction of various fixed assets as of September 30, 2019.

(i) Components of Net Assets

Net assets, revenues and other support and expenses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, the Health System classified net assets as follows:

Net assets without donor restrictions- net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions- net assets subject to donor-imposed stipulations that are available for use either by passage of time or for a specific purpose or must be maintained in perpetuity.

Expiration of donor restrictions are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. Donor-restricted contributions, whose restrictions are met in the same reporting period as the contributions are reported as increases in net assets without donor restrictions.

(j) Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which the Health System expects to be entitled for providing patient care. These amounts are due from patients, third-party payers, and others and include variable consideration for retroactive revenue adjustments due to settlements of audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to audits, review, and investigations. Generally, the Health System bills the patients and third-party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Health System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Health System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services or patients receiving services in outpatient centers. The Health System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the Health System’s patients and customers in a retail setting (e.g., cafeteria) as a component of other revenue in the accompanying consolidated statements of operations and the Health System does not believe it is required to provide additional goods or services related to that sale.

The Health System’s performance obligations relate to contracts with a duration of less than one year, therefore, the Health System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and is not required to disclose the aggregate amount of the transaction

price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Health System is utilizing the portfolio approach practical expedient in ASC No. 606, *Revenue From Contracts with Customers*, for contracts related to net patient service revenue. The Health System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment patterns expected in each portfolio category and the similar nature and characteristics of patients within each portfolio. The portfolios consist of major payer classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the Health System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The Health System has agreements with third-party payers that provide for payments to the Health 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 estimated net realizable amounts due from patients, third-party payers, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue was lowered by approximately $285,000 for the year ended September 30, 2019 for adjustments to prior year estimated third-party settlements.

For uninsured patients who do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates. The Health System’s policy is to provide an uninsured patient that did not qualify for financial assistance and whose income is greater than 400% of the Federal Poverty Guidelines a discount that is calculated using a ‘look-back’ method. Each year, claims for services provided during the prior 12-month period ended September 30, which were paid in full by Medicare fee-for-service and private insurers are analyzed to compute the implicit price concession or, discount percentage. The amount of discount provided to the uninsured in 2019 was 75% of standard rates. On the basis of historical experiences, a significant portion of the Health System’s uninsured patients will be unable or unwilling to pay for services provided. Thus, the Health System records a significant implicit price concession in the period the services are provided.

The composition of net patient service revenue (net of contractual adjustments, discounts, and implicit price concessions) by primary payer for the year ended September 30, 2019 is as follows (in thousands):

Medicare and Medicare HMO	$	340,755
Medicaid and Medicaid HMO		80,048
Managed Care		331,317
Other		51,395
Total	$	803,515

Accounts receivable are recorded at the estimated net realizable amounts due from patients, third-party payers, and others for services rendered. Patient service revenue is reduced by implicit price concessions and accounts receivable are reduced by an allowance for such concessions. These amounts are based on management's assessment of historical and expected net collections for each major payer source, considering business and economic conditions, trends in healthcare coverage, and other collection indicators. Net patient accounts receivable included approximately $37,462,000 or 32% due from the Medicare program and approximately 7,558,000 or 6% due from the Medicaid program as of September 30, 2019.

The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payers that provide payments for services. The Health System estimates the implicit price concession for uninsured patients on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The Health System records the implicit price concession related to the self-pay portion of insured accounts after the insurance payment has been received. The Health System classifies patient accounts pending Medicaid approval as self-pay.

The Health System's implicit price concession for self-pay patients was approximately 96% of self-pay accounts receivable at September 30, 2019.

(k) Charity Care

The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. A patient is classified as a charity patient by reference to certain established policies of the Health System. The Health System primarily follows the Agency of Healthcare Administration's (AHCA) definition of charity care eligibility at 200% of Federal poverty guidelines, unless the amount due from the patient exceeds 25% of the annual family income, limited to 400% the Federal poverty guidelines. The Health System provides charity care to certain eligible patients under its presumptive charity policy even if the patient does not request assistance. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Partial payments to which the Health System is entitled from public assistance and other programs on behalf of patients that meet the Health System's charity care criteria are reported as net patient service revenue in the consolidated statement of operations.

The Health System maintains records to identify and monitor the level of charity care and public assistance and other program services provided. These records include the amount of charges forgone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies.

U.S. GAAP requires healthcare entities to identify costs for providing care as direct or indirect, and disclose the method used to make this distinction. The Health System estimates its cost by calculating a ratio of cost to charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. The estimated cost of providing these services totaled approximately $27,553,000 during the year ending September 30, 2019.

(l) Excess of Revenues, Gains, and Other Support over Expenses and Losses

The accompanying consolidated statement of operations and changes in net assets include excess of revenues, gains, and other support over expenses and losses (the performance indicator). Changes in net assets without donor-restrictions, which are excluded from excess of revenues, gains, and other support over expenses and losses, consistent with industry practice, include changes in defined benefit plan obligations and contributions of long-lived assets, including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets are included in the statement of changes in net assets.

(m) Income Taxes

The Parent, Medical Center, and Foundation have been recognized by the Internal Revenue Service as tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code of 1986. Income earned in furtherance of the organizations' tax-exempt purposes is exempt from federal and state income taxes. Income taxes related the Health System's ownership interests in joint venture partnerships are not material to the Health System.

U.S. GAAP requires the Health System's management to evaluate tax positions taken by the Health System and recognize a tax liability (or asset) if the Health System has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Health System has analyzed its tax positions and has concluded that as of September 30, 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) in the consolidated financial statements or disclosure in the notes to the consolidated financial statements. The Health System is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Health System believes it is no longer subject to income tax examinations for tax years prior to 2015.

(n) Debt Issue Costs

Costs incurred in connection with the issuance of long-term debt are capitalized and amortized over the life of the debt. Amortization of debt issue costs of approximately $242,000 is included in interest expense in the accompanying consolidated statement of operations for the year ended September 30, 2019. The unamortized of debt issue cost is approximately $2,608,000 at September 30, 2019 and is recorded as a direct reduction of long-term debt.

(o) Bond Premiums

Bond premiums are being amortized using the effective interest method over the life of the related debt. Long-term debt on the consolidated balance sheet includes the related unamortized bond premiums in the amount of approximately $32,796,000 at September 30, 2019.

(p) Nonoperating Gains (Losses)

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Activities that result in gains or losses unrelated to the Health System's operations are considered to be nonoperating. Nonoperating gains (losses) include investment income and dividends on unrestricted investments, equity in earnings from interests in joint venture partnerships, gains (losses) on disposals of property and equipment.

(q) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Health System are reported at fair value at the date the promise is received. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Conditional promises to give are reported at fair value at the time the conditions are substantially met. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as revenue if used in operations and as a change in net assets without donor restrictions if used for the purchase of property and equipment. Donor-restricted contributions whose restrictions are met within the same year as received are reported as without donor restrictions in the accompanying consolidated financial statements.

(r) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate an impairment of the value of long-lived assets. If there is an indication that the carrying amount of an asset is not recoverable, the Health System estimates the projected undiscounted cash flows from the use and eventual disposition of the asset, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss, if any, is determined by comparing the historical carrying value of the asset to its estimated fair value. There were no such impairment losses recorded during the year ended September 30, 2019.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining lives.

(s) Collective Bargaining Agreements

The Medical Center's registered nurses and technical employees are represented by the United Food and Commercial Workers Union. The registered nurse and technical employee contracts expire on

April 30, 2020. Approximately 37% of the Medical Center's total employees are represented by the union contracts. The registered nurses represent 79% of the employees under union contract.

(t) Adoption of New Accounting Standards

Effective October 1, 2018, the Health System adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (ASC 606) using a full retrospective method. The standard's core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Health System's most significant impact of adopting the new standard is to the presentation of the consolidated statement of operations related to uninsured and underinsured patients. In accordance with the new standard, the Health System now recognizes the majority of its previously reported provision for bad debts as a direct reduction to net patient service revenue as an implicit price concession in lieu of a separate line item to arrive at net patient services revenue. For the year ended September 30, 2019, the Health System recorded approximately $148,514,000 of implicit price concessions as a direct reduction of net patient service revenue that would have been recorded as provision for bad debts prior to the adoption of ASC 606. For the year ended September 30, 2019, the Health System recorded approximately $127,067,000 as a direct reduction of patient accounts receivable that would have been reflected as allowance for uncollectable accounts prior to the adoption of ASC 606. The Health System has also eliminated the related presentation of the allowance for uncollectible accounts on the consolidated balance sheet in accordance with ASC 606. Other than these changes in presentation, the adoption of ASC 606 did not have a material impact on the consolidated balance sheets or consolidated statement of operations for the year ended September 30, 2019.

The Health System adopted FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (ASC 958) effective October 1, 2018. This standard focuses on improving the current net asset classification requirements and the information presented in financial statements and notes that would be useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. The standard also requires all not-for-profit entities to present expenses by function and nature to help users assess how not-for-profit entities utilize their resources. Expenses are presented by function and nature in Note 8. Liquidity and availability of financial assets are discussed in note 14.

(u) Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to record a lease liability that represents the lessee's future lease payments obligation and right-of-use asset that represents the lessee's right to use or control of a specified asset for the lease term. The Health System has not evaluated all of the provisions, which are effective for fiscal years beginning after December 15, 2018 for public business entities and not-for-profit entities that have issued publicly traded debt.

(2) Marketable Securities, Assets Limited as to Use and Investments

Certain investments are included in an investment pool maintained by the Health System for which the Health System and certain of its affiliated organizations are the only participants. The combined funds are included in various investment pools, which are managed by external investment managers.

Marketable securities, assets limited as to use and investments, stated at fair value, include the following at September 30, 2019 (in thousands):

Cash equivalents	$	3,108
Common stock		530
Mutual funds		15,936
Private placement funds:		
Fixed income		192,220
Multi-asset		252,529
Hedge fund		36,607
		500,930
Less amount included in current assets		(10,104)
	$	490,826

The composition of assets limited as to use is as follows at September 30, 2019 (in thousands):

Under malpractice funding arrangement	$	3,108
Internally designated by the board of directors:		
Capital improvement fund		55,266
Self-insurance funds		33,921
Total assets limited as to use		92,295
Less amount included in current assets		(10,104)
Assets limited as to use, less current portion	$	82,191

(Continued)

Investment income and gains and losses on cash equivalents, marketable securities, assets limited as to use, and investments are composed of the following during the year ended September 30, 2019 (in thousands):

Nonoperating gains (losses):		
Interest and dividend income	$	92
Realized gains, net of investment fees		695
Unrealized gains, net		19,277
Total	$	20,064
Changes in net assets with donor restrictions:		
Interest income	$	5
Unrealized gains, net		2
Total	$	7

(3) Property and Equipment

The components of property and equipment are as follows at September 30, 2019 (in thousands):

Land	$	28,697
Land improvements		29,733
Building and improvements		667,391
Equipment		568,614
		1,294,435
Less accumulated depreciation		(707,054)
		587,381
Construction in progress		5,748
Total	$	593,129

(4) Estimated Third-Party Settlements

Estimated third-party settlements include amounts payable or receivable primarily from the Medicare and Medicaid programs. A summary of the significant payment arrangements with these programs is as follows:

(a) Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on the Medicare Severity Diagnosis Related Group (MSDRG) assigned to the patient. Commercial insurers, which operate as Medicare Advantage Plans, generally follow the traditional Medicare MSDRG payment methodology. The majority of outpatient services are paid on prospectively determined rates per occurrence based on the ambulatory payment classification

(APC) assigned to the service provided. The Health System receives a final settlement for cost reimbursable and pass-through items after submission of its annual cost report and audits thereof by the Medicare fiscal intermediary. The Health System's Medicare cost reports have been audited and a Notice of Program Reimbursement has been issued by the Medicare fiscal intermediary through September 30, 2015.

(b) Medicaid

Historically, inpatient and outpatient services rendered to the Medicaid program beneficiaries were reimbursed under a cost reimbursement methodology, subject to certain limitations. Beginning on July 1, 2013, the Florida Legislature mandated a new inpatient payment methodology utilizing the All-Patient Refined Diagnosis Related Group (APR-DRG). The methodology, which is utilized by most state Medicaid programs, includes severity of illness information in a set of refined DRGs. In addition, the Florida Legislature mandated that the majority of Florida Medicaid beneficiaries be transitioned to statewide Medicaid Managed Care Plans (MMCP) beginning on June 1, 2014. Because certain populations are carved out of MMCP, the Health System has seen approximately 75% of its Medicaid reimbursement transition to these plans. The Health System continued to be paid for outpatient services on a cost-based rate per occurrence of service through June 30, 2017. Effective July 1, 2017 the Agency for Health Care Administration (AHCA) implemented a new outpatient prospective payment methodology utilizing Enhanced Ambulatory Payment Groups (EAPGs). The Medicaid regulations provide for retroactive settlements between the Health System and the Medicaid program if differences exist in allowable costs between the filed cost report and the audited cost reports. The Health System's Medicaid settlements have been audited by the Medicaid fiscal intermediary through September 30, 2015.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The Health System is aware of these laws and regulations and, to the best of its knowledge and belief, is in compliance. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(5) Long-Term Debt and Capital Lease Obligations

The Obligated Group, which includes the Medical Center and the Parent, is obligated under long-term debt as follows at September 30, 2019 (in thousands):

City of Lakeland, Florida, Hospital Revenue Refunding Bonds, Series 2016, including $83,245 of serial bonds due in varying amounts through November 2032, with interest rates from 3.00% to 5.00%	$	80,490
City of Lakeland, Florida, Hospital Revenue Bonds, Series 2015, including $31,815 of 5.00% serial bonds due in varying amounts through November 2035, $64,875 of 5.00% term bonds due November 2040, and $83,310 of 5.00% term bonds due November 2045		180,000
City of Lakeland, Florida, Hospital Revenue Refunding Bonds, Series 2011, refunding of the Refunded 1996, 1997 and 1999 bonds including $77,580 of serial bonds due in varying amounts through November 2025, with interest rates from 2.00% to 5.00%		37,195
		297,685
Unamortized premiums and debt issue costs, net		30,189
		327,874
Less current portion		(8,425)
	$	319,449

Maturities of long-term debt as of September 30, 2019 are as follows (in thousands):

2020	$	8,425
2021		8,850
2022		9,295
2023		9,755
2024		6,405
Thereafter		254,955
		297,685
Unamortized premiums and debt issue costs, net		30,189
	$	327,874

In 2016, the Health System issued $83,245,000 in Hospital Revenue Refunding Bonds through the City of Lakeland, Florida (Series 2016 Bonds) for the purpose of refunding the outstanding indebtedness of the Series 2006 Bonds. The Series 2016 Bonds include serial bonds with maturities ranging from November 15, 2017 to November 15, 2032, with fixed rate coupons ranging from 3.00% and 5.00%. The

(Continued)

Health System incurred approximately $938,000 in debt issuance costs as part of the issuance of the Series 2016 Bonds. The proceeds from the Series 2016 Bonds were placed in an irrevocable trust in order to satisfy remaining scheduled principal and interest payments of the Series 2006 Bonds. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust account have contractually relieved the Health System of any future obligations with respect to the Series 2006 Bonds, and the debt is not considered a liability of the Health System as of September 30, 2019.

In 2015, the Health System issued $180,000,000 in Hospital Revenue Bonds through the City of Lakeland, Florida (Series 2015 Bonds) for the purpose of financing capital projects. The Series 2015 Bonds include serial and term bonds with maturities ranging from November 15, 2033 to November 15, 2045, with a fixed rate coupon of 5.00%. The Series 2015 Bonds are subject to a mandatory redemption at a redemption price equal to the outstanding principal plus accrued interest at the redemption date if, at least 180 days prior to the scheduled expiration date of the term of the Agreement with the City (note 9), the bond trustee has not received written notice from the Health System that the Agreement has been extended. The Health System incurred approximately $1,924,000 in debt issuance costs as part of the issuance of the Series 2015 Bonds.

Prior to 2015, the Series 2006 and 2011 Bonds were secured under the Series 1999 Master Trust Indenture. In conjunction with the issuance of the Series 2015 Bonds, the 1999 Master Trust was amended and restated in its entirety effective February 1, 2015 for the purpose of, among others, substituting new covenants, modifying existing covenants and redefining terms to more accurately reflect the purpose of the Series 1999 Master Trust Indenture. The Series 2015 Master Trust Indenture secures all outstanding obligations under the Series 2016, 2015, and Series 2011. The Series 2015 Master Trust Indenture contains covenants that require, among other things, the maintenance of certain ratios. These ratios are calculated based on the Obligated Group's financial position and results of operations. Principal and interest payments are secured by the gross revenues and accounts (after payment of operating expenses) of the Obligated Group as defined in the Series 2015 Master Trust Indenture.

(6) Long-Term Liabilities

Long-term liabilities are comprised of the following (in thousands):

Accrued malpractice liability	$	22,040
State of Florida medical assistance assessment		4,802
Section 457(f) defined benefit plan liability		2,951
Section 457(f) defined contribution plan liability		1,524
Workers' compensation claims		1,132
Rent abatement liability		263
	$	32,712

(7) Employee Benefits

The Health System provides retirement and other benefits to substantially all employees through several benefit plans. Under the defined-contribution plans (the Plans), for all employee groups who meet minimum service requirements, the Health System provides a contribution of 2% of eligible employee wages up to

IRS limits each plan year. Additionally, the Health System provides a matching contribution of 50% of employee deferred contributions not to exceed 3% of the eligible employees wages up to IRS limits each plan year. In addition to the calculated annual contributions, the board of directors may establish an additional discretionary contribution to be made to the Plans for each year. Employees are fully vested after completing three years of service with at least 1,000 hours of service in each year.

The Health System provides a Supplemental Executive Retirement Plan (SERP) under Section 457(f) of the Internal Revenue Code. The SERP is a nonqualified defined-benefit plan limited to generally certain management or highly compensated employees as determined by the Health System. Upon vesting, the SERP provides participants with deferred compensation annually for 20 years, equal to 2% of the participant's final average compensation multiplied by his/her years of service (up to a maximum of 25 years of service). Compensation is based on participants' average compensation during the last three complete calendar years. Only calendar years beginning on or after January 1, 2004 are considered. Full vesting is generally effective after a participant completes 10 years of service with the Health System; however, the initial participants had individual vesting schedules. The SERP also provides for certain death or disability benefits. The actuarially computed net periodic benefit cost for the Health System's SERP for the year ended September 30, 2019 totaled approximately $602,000. The net periodic benefit cost was determined based on a discount rate of 4.00% for the year ended September 30, 2019, with an assumed rate of compensation increase of 5.00% for the year ending September 30, 2019.

The SERP's accrued benefit cost at September 30, 2019 was approximately $3,053,000. Of these amounts, approximately $2,951,000 is included in long-term liabilities in the accompanying consolidated balance sheet at September 30, 2019. At September 30, 2019, the SERP's accrued benefit cost expected to be paid in 2020 is $102,000 and is included in employee compensation and benefits in the accompanying consolidated balance sheet. These amounts were actuarially determined using a discount rate of 4.00% for the year ended September 30, 2019, with an assumed rate of compensation increase of 5.00% at September 30, 2019. The accumulated benefit obligation for the SERP was $1,659,000 at September 30, 2019.

The benefits expected to be paid in each year from 2020 and 2021 are approximately $102,000, and $3,415,000, respectively. No benefits are expected to be paid beyond 2021 due to the planned retirement of the final employee eligible under this plan. The expected benefits are based on the same assumptions used to measure the Health System's benefit obligations at September 30, 2019 and include estimated future employee service.

In 2015, the Health System implemented a new Supplemental Executive Defined Contribution Plan (DC SERP) under Section 457(f) of the Internal Revenue Code. The DC SERP is limited to certain members of management as determined by the Health System. The DC SERP provides annual contributions equal to 15% of eligible compensation, as defined by the plan, over a ten year period. The contributions will also be credited with a discretionary fixed interest rate (5.00% in 2019) as determined by the board of directors. Participants are vested 20% after two years of plan participation, and increases 10% per year of participation thereafter. The DC SERP's net periodic benefit cost during for the year ended September 30, 2019 was approximately $634,000 with an accrued benefit obligation of approximately $1,524,000 at September 30, 2019.

(Continued)

Expenses incurred for all employee retirement plans were approximately $13,104,000 for the year ended September 30, 2019, which is included in employee compensation and benefits expense in the accompanying consolidated statements of operations.

(8) Functional Expenses

The Health System's expenses are primarily related to providing healthcare services to the community. Substantially all of its resources are received based on providing healthcare in a manner similar to a business enterprise, and its accounting policies conform to the U.S. generally accepted accounting principles applicable to healthcare organizations.

Expenses related to providing these services for the year ended September 30, 2019 is reflected in the table below (in thousands).

	Program Services	Support Services	
	Health Care Services	General and Administrative Services	Total
Compensation and benefits	$ 366,155	65,356	431,511
Supplies	162,742	6,068	168,810
General and administrative	73,896	13,190	87,086
Other expenses	27,981	4,994	32,975
Depreciation	53,052	9,469	62,521
Interest	27,042	—	27,042
Total operating expenses	$ 710,868	99,077	809,945

(9) Commitments and Contingencies

(a) City Lease Obligation

Under the terms of the Agreement prior to fiscal year 2016, annual rent of $1.00 per operating year plus additional payments were made to the City of Lakeland (the City) based on a formula, which took into consideration the net revenues of the Medical Center, and net income of certain affiliated organizations, as defined in the Agreement.

An amendment to the Agreement was reached and became effective October 1, 2015. The amendment provided a lump sum payment of $15,000,000 to the City on October 1, 2015, with fixed annual additional payments due beginning in fiscal year ending September 30, 2016 through fiscal year ending September 30, 2040. The Health System recognized the lump sum payment of $15,000,000 to the City as a deferred charge included as part of other assets in the accompanying consolidated balance sheet as of September 30, 2019 and is amortizing on a straight-line basis over the 25 year term.

The additional payment for fiscal year ending September 30, 2019 was $14,379,000 and was scheduled to increase by 2.75% per operating year through the duration of the Agreement. However, an amendment to the Agreement became effective October 1, 2019 that removed the annual escalator through Fiscal Year 2024. For Fiscal Year 2025 and beyond, future annual additional payments will be subject to a 2.75% annual escalator applied to the base amount of $14,379,000. Expenses under the terms of the amended Agreement, included in interest expense in the accompanying consolidated statement of operations was approximately $14,979,000 during the year ended September 30, 2019.

(b) Operating Leases

The Health System leases equipment and facilities under operating leases expiring at various dates through 2025. Minimum future rental payments under noncancelable operating leases having terms in excess of one year are as follows (in thousands):

2020	$	3,320
2021		3,355
2022		3,441
2023		2,097
2024		990
Thereafter		242
	$	13,445

Rental expense under operating leases amounted to approximately $4,109,000 for the year ended September 30, 2019, and is included in general and administrative expenses in the consolidated statement of operations.

(c) Litigation

During the normal course of business, the Health System is involved in litigation with respect to professional liability claims and other matters. In addition, the Health System is subject to periodic regulatory investigations. The Health System has purchased insurance coverage to minimize its exposure to such risk. This coverage includes property, directors and officers, vehicles, medical malpractice, and general liability. Each policy has its own deductible and/or self-insurance retention.

(d) Professional Malpractice Insurance

As a provider of healthcare services, the Health System is subject to malpractice claims. The Health System is substantially self-insured for malpractice and general liability claims and related expenses. The Health System's current malpractice insurance policy provides for claims-made coverage. Under its current insurance coverage, the Health System's limit is $50 million (inclusive of defense costs) with a self-insured retention of $3 million per claim and an inner-aggregate deductible of $2 million. The Health System's self-insured retention exposure is capped by a single annual aggregate of $18 million (inclusive of defense costs).

Losses from both asserted and unasserted claims are accrued based on estimates that incorporate the Health System's past experience, as well as other considerations, including the nature of each claim or

incident, relevant trend factors, and estimates of incurred but not reported amounts. The Health System has engaged an independent actuary to estimate ultimate losses to be accrued. The Health System has internally designated certain funds for the payment of professional liability claim settlements. The balance of the internally designated funds was approximately $31,636,000 as of September 30, 2019, and is included in assets limited as to use in the accompanying consolidated balance sheet. Additionally, the Health System maintains funds in the amount of approximately $3,108,000 held in a separate trust account to fund professional liability claim settlements as required by the State of Florida.

Estimated losses of approximately $29,666,000 for medical malpractice claims of which $7,626,000 is included in accounts payable and accrued expenses and $22,040,000 included in other long-term liabilities in the accompanying consolidated balance sheet as of September 30, 2019. The Health System may be liable for losses in excess of amounts accrued, but within the deductible provisions.

(e) Workers' Compensation Liability and Employee Medical Insurance

The Health System is self-insured for workers' compensation claims and employee medical claims. Workers' compensation losses for asserted and unasserted claims are accrued based on estimates provided by an independent actuary. Estimated costs accrued for incurred but not reported workers' compensation claims and employee medical claims of approximately $6,412,000 of which $5,280,000 is included in employee compensation and benefits and $1,132,000 is included in other long-term liabilities in the accompanying consolidated balance sheet as of September 30, 2019. The estimates are based on the Health System's past experience, as well as other considerations, including the nature of each claim or incident, relevant trend factors, and estimates of amounts incurred but not reported. The Health System has established internally designated self-insurance funds for the payment of workers' compensation liability claim settlements. The balances of these funds totaled approximately $2,285,000 as of September 30, 2019 and are included in assets limited as to use in the accompanying consolidated balance sheet.

(f) Healthcare Industry

Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Health System has a Compliance and Integrity Program (the Program) with the primary objective to promote ethical and lawful conduct through compliance with both the letter and spirit of applicable laws and regulations. The Program develops a board approved annual work plan with the purpose to mitigate the legal and regulatory risks associated with operating a tax-exempt community health system and to actively prevent fraud, waste and abuse. From time to time, the Health System receives inquiries and audit demands from regulatory agencies to review activities in government sponsored programs, including Medicare and Medicaid. The Health System believes it is in compliance, to the best of its knowledge and belief, with laws and regulations from such government sponsored programs and at this time believes that the active inquiries and audit demands will not likely have a material adverse effect on the Health Systems.

(10) Concentration of Credit Risk

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The Health System does not charge interest on accounts receivable. The credit risk for other concentrations of receivables is limited due to the large number of insurance companies and other payers that provide payments for services. Accounts receivable are reported net of implicit concessions in the accompanying consolidated balance sheet.

The table below summarizes the percentage of net patient accounts receivable due from major payers as of September 30, 2019:

Medicare	32 %
Medicaid	5
Commercial	53
Self-pay/other	10
	100 %

(11) Investments in Joint Venture Partnerships

As of September 30, 2019, the Health System had a 44.75% ownership interest in the Lakeland Surgical and Diagnostic Center, LLP (the Surgical Center). The ownership interest is accounted for using the equity method. The equity in earnings of the Surgical Center was approximately $1,136,000 for the year ended September 30, 2019, net of federal and state income taxes of approximately $77,000 for the year ended September 30, 2019. The carrying value of the Health System's investment in the Surgical Center was approximately $3,206,000 as of September 30, 2019, and is included in other assets in the accompanying consolidated balance sheet.

The Health System also has partnership interests in other joint ventures accounted for using the equity method. The equity in losses from these joint ventures were approximately $290,000 for the year ended September 30, 2019. The carrying value of these joint ventures were approximately $4,250,000 at September 30, 2019, and is included in other assets in the accompanying consolidated balance sheet.

(12) Fair Value Measurements

U.S. GAAP defines fair value as the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 requires investments to be grouped into three categories based on certain criteria as noted below:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets and liabilities.

The table below summarizes the fair values of the Health System's cash, marketable securities, assets limited as to use and investments as of September 30, 2019 (in thousands):

	September 30, 2019	Fair value measurements at reporting date using (Level 1)	(Level 2)	(Level 3)	Net Asset Value[2]
Assets:					
Marketable securities, assets limited as to use and investments:					
Cash equivalents	$ 3,108	3,108	—	—	—
Common stock	530	530	—	—	—
Mutual funds	15,936	15,936	—	—	—
Private placed funds:					
Fixed income	192,220	—	192,220	—	—
Multi-asset [1]	252,529	—	252,529	—	—
Hedge funds	36,607	—	—	—	36,607
Total	$ 500,930	19,574	444,749	—	36,607

(1) Consists of investments in a Multi-Asset Core Plus Fund which is a dynamic, diversified portfolio, designed to capture market opportunities. The underlying allocations to various asset classes will shift over time, but the overall strategic allocation is 75% global equity; 12% marketable real estate; 13% global fixed income.

(2) Under U.S. GAAP investments that are measured at fair value using net asset value (NAV) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation to the fair value hierarchy to the amounts presented in the consolidated balance sheet.

The Health System's Level 1 assets include trading investments in equity securities and mutual funds and are valued at the quoted market prices. Trading investments in private placement funds that invest in U.S. treasuries and agency obligations, government securities, corporate debt securities, and asset-backed securities with fair values modeled by external pricing vendors are included as Level 2. There are no withdrawal restrictions on such funds.

Investments in the Hedge funds consist of a Total Return Fund with an objective to offer low correlation to traditional assets and aims to provide diversification, lower volatility, and higher risk-adjusted returns at the portfolio level. The Total Return Fund is valued at fair value using NAV as provided by the fund custodian on a monthly basis.

(Continued)

The Health System's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers of financial assets between Level 1, Level 2, or Level 3 during the years ended September 30, 2019.

The fair value of financial instruments has been estimated by the Health System using available market information as of September 30, 2019 and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Health System could realize in a current market exchange. Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could affect the estimates.

(13) Pledges Receivable, Net

Pledges receivable, net of discounts, ranging from 0.87% and 3.21%, include the following unconditional promises to give as of September 30, 2019 (in thousands):

Capital campaign	$	30,819
Less unamortized discount		(2,368)
	$	28,451
Amounts due in:		
Less than one year	$	4,881
One to five years		22,797
More than five years		3,141
	$	30,819

(Continued)

(14) Liquidity and Availability

The Health System has financial assets that could be available within one year of the balance sheet date to meet cash needs for general expenditures. These financial assets consist of cash, and cash equivalents accounts receivable, and other assets available within one year. While not classified as current assets, the Health System has long-term investments that are unrestricted and are available to meet any current needs that may arise. None of the financial assets quantified below are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The accounts receivable are expected to be collected within one year. The Health System structures its assets to be available as its general expenditure, liabilities and other obligations come due. The availability of the year ended September 30, 2019 is as follows (in thousands):

Cash and cash equivalents	$	27,360
Accounts receivable		118,040
Estimated third-party settlements, net		1,348
Non-current investments available within one year		431,876
Total	$	578,624

(15) Subsequent Events

The Health System has evaluated events and transactions occurring subsequent to September 30, 2019 through January 28, 2020 which is the date the consolidated financial statements were issued. The Health System believes that no material events have occurred since September 30, 2019 that require recognition or disclosure in the accompanying consolidated financial statements and notes to consolidated financial statements.

OTHER FINANCIAL INFORMATION

LAKELAND REGIONAL HEALTH SYSTEMS, INC.
AND SUBSIDIARIES

Consolidating Schedule – Balance Sheet

September 30, 2019
(In thousands)

Assets	Lakeland Regional Health Systems, Inc.	Lakeland Regional Medical Center, Inc.	Eliminations	Obligated Group	Lakeland Regional Medical Center Foundation, Inc.	Eliminations	September 30, 2019
Current assets:							
Cash and cash equivalents	$ 25,692	15	—	25,707	1,653	—	27,360
Current portion of assets limited as to use	—	10,104	—	10,104	—	—	10,104
Patient accounts receivable, net	10,402	107,638	—	118,040	—	—	118,040
Estimated third-party settlements, net	—	1,348	—	1,348	—	—	1,348
Inventories	—	15,153	—	15,153	—	—	15,153
Prepaid expenses and other current assets	2,075	16,820	—	18,895	4,881	—	23,776
Total current assets	38,169	151,078	—	189,247	6,534	—	195,781
Assets limited as to use, less current portion	92,295	(10,104)	—	82,191	—	—	82,191
Due to affiliates, less current portion	—	89,186	(89,186)	—	—	—	—
Long-term marketable securities	—	15,795	—	15,795	141	—	15,936
Investments	376,610	—	—	376,610	16,089	—	392,699
Property and equipment, net	49,179	543,950	—	593,129	—	—	593,129
Interest in net assets of the Foundation	—	46,311	—	46,311	—	(46,311)	—
Pledges receivable, net	—	—	—	—	23,570	—	23,570
Other assets	7,756	12,600	—	20,356	—	—	20,356
Total assets	$ 564,009	848,816	(89,186)	1,323,639	46,334	(46,311)	1,323,662
Liabilities and Net Assets							
Current liabilities:							
Accounts payable and accrued expenses	$ 2,113	33,765	—	35,878	9	—	35,887
Employee compensation and benefits	11,254	44,027	—	55,281	13	—	55,294
State of Florida medical assistance assessment	—	8,658	—	8,658	—	—	8,658
Current portion of long-term debt	—	8,425	—	8,425	—	—	8,425
Total current liabilities	13,367	94,875	—	108,242	22	—	108,264
Long-term debt, less current portion	—	319,449	—	319,449	—	—	319,449
Due to affiliates, less current portion	89,186	—	(89,186)	—	—	—	—
Long-term liabilities	—	32,712	—	32,712	—	—	32,712
Total liabilities	102,553	447,036	(89,186)	460,403	22	—	460,425
Net assets:							
Without donor restrictions	461,456	366,270	—	827,726	12,242	(12,241)	827,727
With donor restrictions	—	35,510	—	35,510	34,070	(34,070)	35,510
Total net assets	461,456	401,780	—	863,236	46,312	(46,311)	863,237
Total liabilities and net assets	$ 564,009	848,816	(89,186)	1,323,639	46,334	(46,311)	1,323,662

See accompanying independent auditors' report.

LAKELAND REGIONAL HEALTH SYSTEMS, INC.
AND SUBSIDIARIES

Consolidating Schedule – Statement of Operations

For the year ended September 30, 2019

(In thousands)

	Lakeland Regional Health Systems, Inc.	Lakeland Regional Medical Center, Inc.	Obligated Group	Lakeland Regional Medical Center Foundation, Inc.	Eliminations	Consolidated for the year ended September 30, 2019
Changes in net assets without donor restrictions:						
Operating revenues and other support:						
Patient service revenue, net	$ 62,893	740,622	803,515	—	—	803,515
Other revenues	2,779	10,788	13,567	125	(722)	12,970
Net assets released from restrictions used for operations	—	—	—	637	—	637
Contributions from affiliate	—	—	—	814	(814)	—
Total unrestricted revenues and other support	65,672	751,410	817,082	1,576	(1,536)	817,122
Expenses:						
Employee compensation and benefits	94,532	336,500	431,032	479	—	431,511
Supplies	3,326	165,479	168,805	5	—	168,810
General and administrative	11,513	76,151	87,664	958	(1,536)	87,086
Professional fees	6,089	17,931	24,020	9	—	24,029
State of Florida medical assistance assessment	—	8,946	8,946	—	—	8,946
Depreciation	3,412	59,109	62,521	—	—	62,521
Interest	—	27,042	27,042	—	—	27,042
Total expenses	118,872	691,158	810,030	1,451	(1,536)	809,945
Operating income (loss)	(53,200)	60,252	7,052	125	—	7,177
Nonoperating gains (losses):						
Investment income	18,596	651	19,247	817	—	20,064
Equity in earnings from interests in joint venture partnerships, net of applicable taxes	846	—	846	—	—	846
Gains on disposal of property and equipment	—	259	259	—	—	259
Total nonoperating gains (losses), net	19,442	910	20,352	817	—	21,169
Excess (deficit) of revenues, gains, and other support over expenses and losses	(33,758)	61,162	27,404	942	—	28,346

See accompanying independent auditors' report.