

Lee Health System, Inc. and Subsidiaries

**Consolidated Financial Statements and
Supplementary Information**
As of and for the Eleven-Month Period Ended
September 30, 2025

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



Lee Health System, Inc. and Subsidiaries

Consolidated Financial Statements and Supplementary Information
As of and for the Eleven-Month Period Ended September 30, 2025

Lee Health System, Inc. and Subsidiaries

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Independent Auditor's Report

The Audit Committee and Board of Directors
Lee Health System, Inc. and Subsidiaries
Fort Myers, Florida

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lee Health System, Inc. and its subsidiaries (the System), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of operations and changes in net assets and cash flows for the eleven-month period then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the System as of September 30, 2025, and the changes in their operations and their cash flows for the eleven-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 1 to the consolidated financial statements, on November 1, 2024, Lee Health System, Inc. received the operations, assets, and liabilities of Lee Memorial Health System, a special-purpose unit of local government, and its component units. Lee Health System, Inc. recognized a contribution of approximately \$2,691,631,000, representing the carrying value of the cumulative contributed net assets in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.



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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and by the State of Florida, Chapter 10.650, *Rules of the Auditor General*, is presented for purposes of additional analysis and are 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. Such information has been subjected to the auditing procedures applied in the audits 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2026, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

BDO USA, P.C.

February 26, 2026, except for our report
on the schedule of expenditures of federal awards
and state financial assistance, for which the report
date is June 30, 2026

Consolidated Financial Statements

Lee Health System, Inc. and Subsidiaries

Consolidated Balance Sheet (in thousands)

September 30, 2025

Assets

Current Assets

Cash and cash equivalents	\$	200,706
Patient accounts receivable, net		527,542
Inventories		58,626
Other current assets		92,198

Total Current Assets 879,072

Investments and Assets Whose Use is Limited 1,866,306

Third-party Settlements, Net 71,480

Property and Equipment, Net 1,743,619

Right-of-Use Assets - Operating Leases 147,339

Right-of-Use Assets - Finance Leases 62,576

Other Assets 123,510

Total Assets \$ 4,893,902

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$	140,613
Accrued employee compensation		111,788
Accrued interest		17,585
Other accrued expenses		52,937
Current portion of long-term obligations		90,750
Current portion of operating lease obligations		12,570
Current portion of finance lease obligations		1,633
Current portion of self-insurance liabilities		27,659

Total Current Liabilities 455,535

Long-Term Obligations, net of current portion 824,820

Operating Lease Obligations, net of current portion 137,509

Finance Lease Obligations, net of current portion 65,825

Self-Insurance Liabilities 41,365

Pension and Post-Employment Benefit Plan Liabilities 49,607

Other Long-Term Liabilities 43,245

Total Liabilities 1,617,906

Commitments and Contingencies (Note 16)

Net Assets Without Donor Restrictions

Controlling interest	3,192,807
Non-controlling interest	985

Total Net Assets Without Donor Restrictions 3,193,792

Net Assets With Donor Restrictions 82,204

Total Net Assets 3,275,996

Total Liabilities and Net Assets \$ 4,893,902

See accompanying notes to consolidated financial statements.

Lee Health System, Inc. and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets (in thousands)

11-month period ended September 30, 2025

Operating Revenue and Other Support	
Net patient service revenue	\$ 2,970,244
Other operating revenue	245,374
Federal and state grants without restriction	127,120
Net assets released from restrictions for operations	18,377
Total Operating Revenue and Other Support	3,361,115
Operating Expenses	
Salaries, wages, and benefits	1,653,357
Purchased services	359,928
Medical supplies and drugs	710,524
Other operating expenses	188,964
Depreciation and amortization	124,813
Interest	25,926
Total Operating Expenses	3,063,512
Operating Income	297,603
Nonoperating Gains (Losses)	
Investment income, net (Note 5)	181,557
Contributions and grants	5,477
Net periodic pension costs	(2,606)
Loss on disposal of assets	(865)
Other, net	21,988
Nonoperating Gains, Net	205,551
Total Excess of Revenue Over Expenses, including non-controlling interest	503,154
Less: excess of revenue over expenses attributable to non-controlling interest	(1,780)
Excess of Revenue Over Expenses Attributable to Lee Health System, Inc.	\$ 501,374

Lee Health System, Inc. and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets (in thousands)

11-month period ended September 30, 2025

Net Assets Without Donor Restriction, Controlling Interest	
Contribution of net assets from Lee Memorial Health System (Note 1)	\$ 2,691,631
Excess of revenue over expenses attributable to Lee Health System, Inc.	501,374
Change in funded status of defined-benefit plan	(1,958)
Net assets released from restriction for capital acquisitions	1,760
Change in Net Assets Without Donor Restriction, Lee Health System, Inc.	3,192,807
Net Assets Without Donor Restriction, Non-Controlling Interest	
Contribution of net assets from Lee Memorial Health System (Note 1)	1,461
Excess of revenue over expenses attributable to non-controlling interest	1,780
Distributions	(2,256)
Change in Net Assets Without Donor Restriction, Non-Controlling Interest	985
Change in Net Assets Without Donor Restriction	3,193,792
Net Assets with Donor Restriction	
Contribution of net assets from Lee Memorial Health System (Note 1)	68,172
Gifts and bequests	31,712
Investment income, net (Note 5)	2,457
Net assets released from restrictions	(20,137)
Change in Net Assets with Donor Restriction	82,204
Change in Net Assets	3,275,996
Net Assets, beginning of period	-
Net Assets, end of period	\$ 3,275,996

See accompanying notes to consolidated financial statements.

Lee Health System, Inc. and Subsidiaries

Consolidated Statement of Cash Flows (in thousands)

11-month period ended September 30, 2025

Cash Flows from Operating Activities	
Change in net assets	\$ 3,275,996
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net assets contributed by Lee Memorial Health System	(2,761,264)
Depreciation and amortization	124,813
Debt discount/premium amortization	(4,588)
Net provision related to inventory reserves	5
Net realized, and change in unrealized, gains on investments	(182,455)
Loss on sale or disposal of long-lived assets	865
Post-retirement benefit plan adjustments	2,591
Share of earnings in joint ventures	(1,408)
Distributions paid to non-controlling interest	2,256
Gain from sale of a line of business	(19,483)
Change in fair value of interest rate swap	132
Non-cash lease expense	12,628
Changes in operating assets and liabilities:	
Patient accounts receivable	(91,863)
Inventories	(2,582)
Other current assets	(2,119)
Third-party settlements	92,422
Other assets	(3,638)
Accounts payable	13,448
Accrued employee compensation, interest and other expenses	19,806
Operating lease liabilities	(10,945)
Pension and post-employment benefit plan liabilities	(1,562)
Self-insurance liabilities	15,626
Other liabilities	695
Net Cash Provided by Operating Activities	479,376
Cash Flows from Investing Activities	
Cash received from contribution of net assets of Lee Memorial Health System	91,527
Purchases of property and equipment	(358,153)
Proceeds from sale of property and equipment	97
Purchase of investments and assets whose use is limited	(146,706)
Proceeds from sale of investments and assets whose use is limited	151,345
Distributions received from joint ventures	3,156
Payment of long-term deposits	(11,977)
Other	(16)
Net Cash Used in Investing Activities	(270,727)
Cash Flows from Financing Activities	
Borrowings from long-term obligations	29,418
Repayment of long-term obligations	(33,757)
Principal payments on finance leases	(1,348)
Distributions paid to non-controlling interest	(2,256)
Net Cash Used in Financing Activities	(7,943)
Net Increase in Cash and Cash Equivalents	200,706
Cash and Cash Equivalents, beginning of period	-
Cash and Cash Equivalents, end of period	\$ 200,706

Lee Health System, Inc. and Subsidiaries

Consolidated Statement of Cash Flows (in thousands)

11-month period ended September 30, 2025

Supplemental Disclosures of Cash Flow Information

Cash paid for interest, net of amount capitalized	\$	18,248
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Supplemental Disclosure of Non-Cash Activities

Right of use assets obtained in exchange for lease obligations		
Operating leases	\$	21,480
Finance leases		222
Property and equipment purchases included in accounts payable		30,569
Non-cash contribution to joint venture		19,483

See accompanying notes to consolidated financial statements.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

1. Organization and Summary of Significant Accounting Policies

Organization

Lee Health System, Inc. (LHS) is a Florida not-for-profit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code. System operations include four acute-care hospitals: Lee Memorial Hospital, HealthPark Medical Center, Gulf Coast Medical Center (GCMC), and Cape Coral Hospital. Additionally, LHS operates other health care facilities and services, which include a 135-bed designated children's hospital, an 18-bed skilled nursing unit, a 75-bed skilled nursing unit, a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physicians' offices. LHS operates primarily in Lee County, Florida.

LHS has also formed various legal entities that enable it to participate in business relationships that provide investment opportunities and increase the provision of health care services throughout the community. LHS and these consolidated subsidiaries and affiliates are collectively referred to as the System throughout these notes to these consolidated financial statements.

Contribution from Lee Memorial Health System

Lee Memorial Health System (LMHS), a special-purpose unit of local government, and its component units operated as an independent special district under 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). In 2024, LMHS determined that a conversion to a non-governmental Florida nonprofit entity would be in the best financial interests of both LMHS and the residents of Lee County. As such, LHS was formed as the operator that would receive all of the operations, assets and liabilities of LMHS upon conversion (the Conversion Transaction).

On October 28, 2024, Lee County, LMHS, and LHS entered into a Mission Agreement (the Mission Agreement) effective November 1, 2024, setting forth the agreements of the parties with respect to the Conversion Transaction and the commitments and covenants of LHS to Lee County with respect to its ownership and operation of the health system following the Conversion Transaction (including, but not limited to, maintaining a policy of providing charity care to the underserved population of Lee County consistent with similarly situated tax-exempt safety net providers in Florida, continued participation in Medicare and Medicaid programs, and continuation of the scope of services currently provided by the System to Lee County residents).

In furtherance of the Mission Agreement, LMHS, LHS, and various LMHS component units entered Contribution and Conveyance Agreements effective November 1, 2024 which effectively gifted and transferred net assets, or contributed all remaining assets and liabilities, of LMHS and its component units to LHS. In connection with the Conversion and Conveyance, Lee County Trauma Services District (the Trauma District) transferred all of its operations, the blended component units and discrete component units of LMHS became affiliates/subsidiaries of LHS either through (a) a direct transfer of all of the membership interests held by LMHS in such component units to LHS, (b) a member substitution pursuant to which LMHS ceased being the member of such component unit and LHS became the member, or (c) changing the composition of such component unit/subsidiary's Board of Directors such that all or a majority of those boards were comprised of individuals serving as LHS's Board of Directors, officers, or employees.

Lee Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands unless otherwise stated)

On November 1, 2024, LHS recognized a contribution of \$2,761, representing the carrying value of contributed and/or transferred net assets of LMHS and its component units in conformity with accounting principles generally accepted in the United States of America (GAAP). No gain or loss was recognized in connection with the Conversion Transaction. There were no material subsequent events related to the Conversion Transaction.

The System's fiscal year end is September 30. Due to the Conversion Transaction on November 1, 2024, the consolidated financial statements present the results of operations for the 11-month period beginning November 1, 2024 and ending September 30, 2025. Management determined a presentation of comparative periods would not be meaningful due to the significant change in reporting entity basis of accounting. References herein to "System" refer to LMHS with respect to actions or other matters occurring prior to November 1, 2024, and to LHS with respect to actions or other matters occurring on or after November 1, 2024.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LHS and the following subsidiaries and affiliated entities over which LHS has control, either directly or indirectly. All significant intercompany transactions and balances have been eliminated in consolidation.

- HealthPark Care Center, Inc. (HPCC) is a wholly owned not-for-profit corporation which operates the System's skilled nursing facility.
- Lee Memorial Home Health, Inc. (LMHH) is a wholly owned not-for-profit corporation which operates the System's home health agency. LMHH is the sole owner of Access Medical South, LC, which provides durable medical equipment, oxygen, and respiratory services.
- Lee Health Home Infusion, LLC is a wholly owned subsidiary which operates the System's home infusion therapy services, providing in home treatment for a number of acute and complex conditions.
- Lee Memorial Health System Foundation, Inc. (the Foundation) is a not-for-profit corporation created to serve as a fund-raising organization in support of the System and operates under common management with LHS. Its Board of Directors consists of persons prominent in the community and interested in serving the community and System's needs. Two Board positions are also reserved on an ex-officio basis for the Chairman of the Board of Directors of LHS or member of such Board designated by the Chairman and the Chief Executive Officer of LHS or their designee.
- Best Care Collaborative, LLC and Best Care Partners, Inc. are wholly owned subsidiaries that provide the System's population health services, aimed at furthering the System's mission to be a trusted partner empowering healthier lives through care and compassion.
- Florida Radiology Leasing, LLC (FRL) is a wholly owned subsidiary that operates freestanding multi-diagnostic outpatient radiology centers in various leased locations.
- LHS is the sole member of CB Medical North, LLC, which owns the land and building housing the Lee Health Regional Cancer Center at the Sanctuary, and CB Medical South, LLC, which owns the land and building housing the Outpatient Center at the Sanctuary.

Lee Health System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Dollar amounts in thousands unless otherwise stated)

- LHS also is the sole owner of Community Healthcare Innovations, LLC (CHI). CHI was created to participate in investments and advantageous business relationships. CHI has the sole membership interest in the following entities:
 - Lee Healthcare Holdings, LLC (LHH) was formed to participate in joint ventures and future investment ventures.
 - Lee Healthcare Investments, LLC (LHI) operates the System's wholly owned ambulatory surgery centers.
- LHH holds a 51% membership interest in Paramount Surgery Center, LLC (Paramount), which operates a specialized orthopedic ambulatory surgical center. The System separately presents the non-controlling interest in the accompanying balance sheet and statement of operations and changes in net assets, representing the 49% of Paramount's equity not owned by the System.
- The System currently holds a controlling financial interest through a 99.9% ownership interest in the invested capital of LH GPA Fund I, L.P. (LH GPA) which manages certain portfolio investments of the System.

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include valuation allowances for patient accounts receivable and third-party reimbursement settlements, self-insurance liabilities and pension and post-employment benefit plan obligations; carrying amounts of property and equipment; fair values of investments report at net asset value and assets or liabilities arising from interest rate swap agreements. Actual results could materially differ from those estimates.

Cash and Cash Equivalents

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

The System places its cash and cash equivalents with what management believes to be high-credit-quality financial institutions. Included in cash and cash equivalents are bank deposits that may be in excess of the federal insured amount of \$250. Management does not anticipate nonperformance risk by the financial institutions.

Patient Accounts Receivable

Patient accounts receivable include charges for amounts due from all patients or third-party payors less estimated contractual adjustments provided to third-party payors and discounts and implicit price concessions provided to uninsured patients relating to allowances for the excess of established charges over the payments to be received by or on behalf of patients. LHS determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

Allowance for Credit Losses

The System recognizes an allowance for credit losses on patient account and contribution receivables which are not subject to, or for losses in excess of, contractual adjustments or implicit price concessions. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term) which includes consideration of prepayments and based on expectations as of the balance sheet date.

The System pools receivables based on similar risk characteristics in estimating expected credit losses. Credit losses for receivables which do not share the same risk characteristics are measured individually. The adequacy of the allowance is evaluated considering factors such as the age of outstanding receivables, historical write-off experience, trends in payor mix, changes in economic conditions, and other relevant factors.

As of September 30, 2025, the System recognized an allowance for credit losses related to contributions receivable of approximately \$1,367. No allowance for credit losses were recognized for patient account receivables as of September 30, 2025. No expected credit losses were recognized for the 11-month period ended September 30, 2025.

Receivables are written off when the System determines that such financial assets are deemed uncollectible or based on regulatory requirements, whichever is earlier. Write-offs are recognized as a deduction from the allowance for credit losses. Expected recoveries of amounts previously written off, not to exceed the aggregate of the amount previously written off, are included in determining the necessary valuation allowance at the consolidated balance sheet date.

Inventories

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

Investments and Assets Whose Use is Limited

Investments are recorded at estimated fair value in the consolidated balance sheet. For investments whose values are based on quoted market prices in active markets, the market price of the investment is used to report fair value. The System elected the practical expedient provided in Accounting Standards Update (ASU) 2009-12, *Investments in Certain Entities that Calculate Net Asset Value (NAV) per Share (or its Equivalent)*, and has estimated the fair value of alternative investment funds based on the per share NAV reported by the fund managers. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, the System has concluded that NAV approximates fair value.

Assets whose use is limited include investments restricted by donors for specific purposes or subject to timing restrictions, investments held by the trustee under the terms of the System's bond indenture agreements, investments set aside by the Board of Directors for future use, investments designated for construction projects, and assets held for other uses (see Note 4).

Investment income, including interest, dividends, realized gains and losses on sales of investments, and unrealized gains and losses, are included in excess of revenue over expenses. Should realized or unrealized gains and losses be restricted by donor or law, such amounts are reported as a change in net assets with donor restrictions.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method, except for leasehold improvements. Leasehold improvements are depreciated over the life of the related lease or the useful life of the asset, whichever is shorter.

The following useful lives are used in computing depreciation:

	Years
Buildings and land improvements	10-80
Equipment	2-20
Computer software	3-10

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets. Interest cost is capitalized as part of the historical cost of the related assets during the period in which activities necessary to prepare the assets for their intended use are in progress, including incurrence of construction expenditures and interest cost. Capitalization ceases when the asset is substantially complete and ready for its intended use. For periods in which construction activity is suspended for an extended period, interest capitalization is suspended. For qualifying assets financed with project-specific borrowings, the System capitalizes interest cost using the specific borrowing rate on the related debt, applied to the average accumulated expenditures for the qualifying assets.

Gains or losses on disposal of property and equipment are included in nonoperating gains (losses). Routine repairs and maintenance costs are expensed as incurred.

Gifts of long-lived operating assets such as land, buildings, or equipment are reported as an increase in net assets without donor restrictions and are excluded from excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted gifts.

Recoverability of Long-Lived Assets

The System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount of the asset group to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset group. If the carrying amount exceeds the undiscounted cash flows, an impairment loss is recognized in the amount by which the carrying amount exceeds fair value. Fair value is determined based on market prices, appraisals, and/or discounted cash flow techniques, as applicable. There were no events or conditions identified during the 11-month period ended September 30, 2025 that caused the System to conclude that long-lived assets should be tested for impairment and no impairment losses were recognized.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies. The System elected the not-for-profit private company accounting alternative to amortize goodwill on a straight-line basis over ten years and to assess goodwill for impairment only upon the occurrence of a triggering event in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *Topic 350, Intangibles - Goodwill and Other*. If events or circumstances indicate the fair value of the System is less than its carrying amount, the Company will perform an impairment test and recognize a goodwill impairment charge for the amount by which the enterprise carrying amount exceeds its fair value. There were no events or conditions identified during the 11-month period ended September 30, 2025 that caused the System to conclude that goodwill should be tested for impairment and no impairment losses were recognized.

Deferred Financing Costs and Discounts and Premiums on Long-Term Obligations

Significant costs incurred related to obtaining the System's debt are capitalized and amortized to interest expense over the life of the related debt using the straight-line method, which does not differ materially from the effective interest method, extending over the term of the indebtedness. Deferred financing costs, if any, are presented as a direct deduction from the carrying amount of the related debt.

Issuance discounts and premiums related to the System's bonds are amortized/accreted to interest expense using the effective interest method over the life of the related debt. Bond discounts and premiums are presented as a direct deduction from the carrying amount of the related debt in the consolidated balance sheet.

Interest Rate Swap Agreements

The System utilizes interest rate swaps to protect against its fixed rate interest risk, effectively converting fixed interest rates for certain of its long-term obligations to variable interest. The System reports its investments in interest rate swap agreements at fair value on a recurring basis, estimated using a discounted cash flow method at a rate commensurate with the specific risk involved. Changes in the fair value of the interest rate swap agreements are reported as nonoperating gains in the consolidated statement of operations and changes in net assets. Net cash settlements are included in interest expense.

The System is exposed to financial loss in the event of underperformance by a counterparty to an interest rate swap agreement. General market conditions could impact the credit standing of the counterparties and therefore, potentially impact the value of the instruments on the System's consolidated balance sheet. The System controls this counterparty risk by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Lease Liabilities and Right-of-Use Assets

The System enters into lease agreements for real estate (land, medical office buildings, clinics, administrative offices), medical equipment, and vehicles. These leases include both operating and finance leases, with terms ranging from 1 to 34 years.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

The System determines if an arrangement contains a lease at the inception of a contract. Right-of-use assets represent the System's right to use an underlying asset for the lease term and lease liabilities represent the System's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of the lease, renewal date of the lease, or assumption date of a lease acquired in a business combination, based on the present value of the remaining future minimum lease payments. The System uses a risk-free discount rate for leases without readily determinable incremental borrowing rates, which include buildings, equipment, land, and vehicles. For other leases, the incremental borrowing rate is estimated based on the Hospital System's credit profile and lease term. Operating lease right-of-use assets also include lease payments made before commencement and are reduced by lease incentives, if any.

The System's leases typically contain options that permit renewals for additional periods. Such renewal option periods are included within the lease term and the associated payments are included in the measurement of the right-of-use asset and lease liability if they are considered reasonably certain of being exercised at lease commencement. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet, and lease expense is recognized on a straight-line basis over the terms of such short-term leases.

The System accounts for lease components and non-lease components as a single lease component. Certain leases require additional payments or reimbursement for real estate taxes, common area maintenance, and insurance, which are expensed as incurred as variable lease costs.

Self-Insurance Liabilities

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.

Net Assets

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor restrictions.

Net Assets with Donor Restrictions - Net assets with donor restrictions are those whose use by LHS has been limited by donors to a specific time period, purpose, or in perpetuity. Annual changes in fair value are reported as increases or decreases in net assets with donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions or law. Expiration of donor restrictions of net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets if used to acquire capital assets; otherwise, they are recorded as operating revenue without donor restrictions. Related income on donor restricted net assets is classified based on donor restriction until the restriction is met and the funds are appropriated for expenditure.

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Endowment Funds

The System's endowment funds consist of individual funds established for a variety of purposes and are entirely donor restricted. The System follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the state of Florida in July 2012 as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the System retains in net assets with donor restrictions in perpetuity: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate perpetual endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the perpetual endowment fund, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

The System has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Under these policies, the endowment assets are invested in a manner that is intended to produce results that over time provide a rate of return that meets the spending policy objectives adjusted for inflation. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives for endowment funds, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term rate-of-return objectives within prudent risk constraints.

The System's spending policy targets annual distributions of up to 5% of the average fair market value of the permanent endowment funds as of June 30 over the preceding three-year period. The distributions are further limited to the year over year market value appreciation. Distributions made during the 11-month period ended September 30, 2025 were 3.54% of the average fair market value of endowment funds over the preceding three-year period.

From time to time, the fair market value of assets associated with donor-restricted endowment funds may fall below the level required to be maintained by the donor or law (underwater endowments). At September 30, 2025, there were no underwater endowments.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to LHS are reported at net present value on the date the promise is received. Conditional promises to give and indications of intentions to give are reported at net present value at the date the gift is received conditions related to the gift are substantially met. The gifts are reported as net assets 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 net assets without donor restrictions and reported in the

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consolidated statements of operations and changes in net assets as net assets released from restrictions.

Grants

Grants awarded by government agencies or passed through to LHS from another donor are generally considered nonreciprocal transactions restricted by the awarding agency for certain purposes. Revenue is recognized when qualifying expenditures are incurred and conditions under the grant agreement are met and reported within operating revenue. A grant receivable is established for expenditures for services or projects for which government funds have not been drawn. Deferred revenue is recorded when LHS receives funds prior to recognizing the revenue.

Other Operating Revenue

Other revenue for the 11-month period ended September 30, 2025 is primarily comprised of \$208,087 related to the provision of on-site pharmacy and specialty pharmacy services. The remainder includes amounts earned for food and beverage sales, gift store sales, unrestricted gifts and donations, rental income, and other amounts not directly related to patient care. The System recognizes pharmacy service revenue at the time of service (i.e., when prescriptions are dispensed to patients) at estimated net realizable amounts from patients, third-party payors, and others. The System recognizes food and beverage and gift store sales at the time goods or services are exchanged.

Nonoperating Gains and Losses

The System's mission is to be a trusted partner, empowering healthier lives through care and compassion. Only those activities directly associated with the furtherance of this mission are considered to be operating activities.

Other activities that result in gains or losses unrelated to the System's mission are considered to be nonoperating. Nonoperating gains and losses include investment income and losses, realized gains and losses on sales of investments, change in value of interest rate swap agreements that are not designated as hedges, unrestricted contributions and grants not related to operations, net periodic pension costs, the gain on sale of assets as further described below, and other nonrecurring items that are considered extraordinary or unusual in nature.

Other changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses include net assets released from restrictions for capital acquisitions.

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients

Net patient service revenue is reported at the amount that reflects the consideration to which LHS expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

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Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized as the services are provided. The 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 at the System's hospitals or patients receiving services in outpatient centers or in their homes. The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, 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 the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the practical expedient provided in FASB ASC 606-10-50-14(a) and, therefore, 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. However, the System occasionally enters into payment arrangements in excess of one year with patients. For those arrangements, a financing component is not deemed to be significant to the contract. The System has elected to take advantage of the practical expedient exception in accordance with ASC 606-10-32-18.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Implicit price concessions relate primarily to amounts due directly from patients. Estimated price concessions are recorded for all uninsured accounts, regardless of the age of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been made. There have been no significant changes in the current period to the underlying assumptions used by the System to estimate the allowance for uncollectible accounts. Significant changes in payor mix, economic conditions or trends in federal and state governmental healthcare coverage could affect the nature, amount, timing and uncertainty of these revenues and cash flows. Adjustments to previous reimbursement estimates are reported in net patient service revenues in the periods that such adjustments become known. For the 11-month period ended September 30, 2025, the impact of changes to previous transaction price estimates was considered immaterial to the current period.

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The System grants credit without collateral to its patients, most of whom are area residents insured under third-party payor agreements. The mix of net accounts receivable from patients and third-party payors as of September 30, 2025 is as follows:

	(%)
Medicare	32
Medicaid	6
Blue Cross	16
Other commercial and managed care	33
Other and self-pay	13
	100

The System determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with classes of patients using a portfolio approach as a practical expedient to account for patient contracts as a group rather than individually. The financial statement effects of using this practical expedient are not materially different from an individual contract approach. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as operating expenses in the accompanying consolidated statements of operations and changes in net assets. The provision for doubtful accounts was not material for the months ended September 30, 2025.

Agreements with third-party payors typically provide for payments at amounts less than established charges. Management continually reviews the contractual estimation process to incorporate updates to laws and regulations and frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

The System's payment arrangements with major third-party payors include the following:

Medicare - Certain inpatient acute care services, rehabilitative services, psychiatric services, skilled nursing services, hospital outpatient services and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. The System is reimbursed for cost reimbursable items at a tentative rate with final settlements determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been audited, and final Notice of Program Reimbursement (NPR) has been issued by the Medicare fiscal intermediary through September 30, 2018.

Medicaid - Medicaid reimburses the System for inpatient services on an interim basis under a prospective payment system using an All-Patient Refined Diagnosis Related Groups (APR DRG) methodology. The payments made under APR DRG are paid on a per-case basis based on the APR DRG assignment that reflects severity of illness and resources related to services rendered. Medicaid reimburses most outpatient services, except for laboratory and pathology services, on an interim basis under a prospective payment system using an Enhanced Ambulatory Patient Groups (EAPG) methodology. Patients in each EAPG have similar clinical characteristics and similar resource use

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and cost. Under the Medicaid Supplemental Payment Program (MSPP), AHCA makes payments to the System in addition to the above prospective fee for service payments received for services provided. As of September 30, 2025, Florida Medicaid has nine active MSPP programs: Low Income Pool; Disproportionate Share Hospital; Medicaid Graduate Medical Education; Medicaid Indirect Medical Education; Directed Payments; Physician Supplemental Payments (limited primarily to medical school/teaching physician arrangements); Multi-Visceral Transplant Program; Florida Cancer Hospital Program; and the Public Emergency Medical Transportation (PEMT) program. Funds available under the MSPP are authorized by the Florida legislature either through statute or the General Appropriations Act and are approved by CMS. AHCA collects inter-governmental transfers (IGTs) to pay the state match for Medicaid supplemental payments under Letters of Agreement (LOAs) signed between AHCA and the System each state fiscal year, which state the amount of funds the System intends to contribute. AHCA uses IGTs to draw down federal funds based on the Federal Medical Assistance Percentage. AHCA then distributes the combined state and federal funds to qualified providers based on a legislatively approved distribution funding model. Each supplemental payment program has defined participation requirements for providers. A distribution funding model is approved for each state fiscal year (July 1 through June 30). The System recognizes MSPP revenue ratably over each state fiscal year based on its qualifications and budgeted or final approved distribution funding models.

Commercial Insurance and Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily 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.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant for the 11-month period ended September 30, 2025.

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Consistent with the System's mission, services are provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge or at amounts substantially less than established rates in accordance with the System's financial assistance policy. Since the System does not pursue collection of these amounts, they are determined to qualify as charity care and are not reported as revenue. While charity care is excluded from net patient service revenue, the System maintains records to identify and monitor the level of charity care it provides. This includes charges foregone and the estimated costs incurred for services and supplies furnished under its charity care policy. Costs incurred are estimated based on the ratio of total operating expense to gross charges. The estimated cost to provide charity care was approximately \$751,900 for the 11-month period ended September 30, 2025.

The composition of net patient service revenue by primary payor for the 11-month period ended September 30, 2025 is as follows:

Medicare	\$	1,143,422
Medicaid		293,932
Managed care		1,276,471
Self-pay and other		256,419
	\$	2,970,244

It is the System's practice to assign a patient to the primary payor and not reflect other uninsured balances as self-pay. Therefore, revenue from patient deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of net patient service revenue based on the System's lines of business for the 11-month period ended September 30, 2025 is as follows:

Inpatient	\$	1,371,241
Outpatient		1,292,695
Professional		306,308
	\$	2,970,244

3. Pledges Receivable

Pledges receivable consist of unconditional promises to give and are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in periods beyond one year are recorded at the present value of estimated future cash flows using discount rates ranging from 3.08% to 4.60%. The discount rates reflect the System's assessment of appropriate rates at the time the promises are received.

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Contributions receivable at September 30, 2025 are expected to be collected as follows:

Less than one year	\$ 4,106
One to five years	10,048
More than five years	1,030
Total Pledges Receivable	15,184
Present value discount	(1,136)
Allowance for credit losses	(1,367)
Contributions Receivable, Net	\$ 12,681

Pledges receivable are presented in the accompanying consolidated balance sheet within other current and noncurrent assets based on the expected timing of collection. The System does not have significant concentrations of credit risk related to contributions receivable at September 30, 2025.

4. Liquidity and Available Resources

As part of a liquidity management plan, the System structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. Cash in excess of daily requirements are invested in overnight and other short-term investments. In the event of an unanticipated liquidity need, the System maintains liquid investments, as part of its investment portfolio. Financial assets available for general expenditures within one year of September 30, 2025 include:

Cash and cash equivalents	\$ 200,706
Patient accounts receivable, net	527,542
Investments and assets whose use is limited	1,750,944
	\$ 2,479,192

Assets whose use is limited which are available for debt service expenditures within one year have been included in the amounts above. Assets whose use is limited for donor-restricted, capital additions and improvements, and other purposes which are not available for general expenditures within the next year and are not included in the amounts above.

5. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited are invested for the following purposes at September 30, 2025:

Without restriction or limitation	\$ 1,750,884
Designated by donors for specific purposes	76,362
Restricted for capital additions and improvements under loan agreements	35,296
Held in trust or designated by Board of Directors for other uses	3,704
Held by trustee under bond indenture agreements	60
Investments and Assets Whose Use Is Limited	\$ 1,866,306

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LHS primarily invests its resources in domestic and international equity and fixed-income mutual funds and securities, alternative investment funds, U.S. government obligations, and money market funds. The System's investment portfolios include investments available for current operations, as well as investments designated as assets whose use is restricted.

Investments are recorded in the consolidated financial statements at estimated fair value. For investments made directly by the System whose values are based on quoted market prices in active markets, the market price of the investment is used to report fair value. The System's interest in alternative investment funds is reported at the net asset value (NAV) reported by the fund manager. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, the System has concluded, as a practical expedient, that NAV approximates fair value.

All investments are classified as available-for-sale. The System periodically evaluates whether any declines in fair value of investments that are not classified as trading securities are other-than-temporary. The evaluation considers the length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near-term prospects for recovery of the fair value of a security; and the System's intent and ability to hold the security until the fair value recovers. Declines in fair value below cost that are determined to be other-than-temporary are included in the statement of operations and changes in net assets as nonoperating losses. Investments with unrealized losses as of September 30, 2025 are de minimis and the System has the intent and ability to hold such investments until recover of fair value.

Realized gains and losses on sales of investments and unrealized gains and losses on debt and equity securities are included in excess of revenue over expenses. Should realized or unrealized gains and losses be restricted by donor or law, they are included with change in net assets with donor restriction in the consolidated statement of operations and changes in net assets as appropriate.

SEI Investments Company (SEI) manages substantially all investments under Investment Management Agreements with the System. The remainder of investments are monitored and managed through the Foundation on a quarterly basis or are comprised of investments in money markets which are monitored daily. The System's mutual fund investments can be liquidated within the trade date plus one business day and the fixed-income securities at the trade date plus two business days. SEI requires a 30-day notice for termination and full liquidation of public market funds held in the portfolio.

As of September 30, 2025, alternative investment funds represented approximately 11.0% of total investments and assets whose use is restricted. The fair value, unfunded commitments, redemption frequency, and redemption notice period for investments with fair values reported at NAV are as follows at September 30, 2025:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
SEI Core Property Fund, LP	\$ 101,995	\$ -	Quarterly	105 days
SEI Special Situation Fund, Ltd.	90,472	-	Semi-annual	95 days
SEI Vista Fund, LP	728	-	Quarterly	95 days
LH GPA SEI Investment Funds	12,951	37,000	N/A	N/A
	\$ 206,146	\$ 37,000		

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SEI holds 10% of total redemptions until completion of the underlying fund audits. The System intends to fund its unfunded commitments using unrestricted cash generated from funds raised within the investment portfolio.

The System's investment portfolio is exposed to concentration of credit risk, which arises from the potential inability of issuers within the underlying investments to meet their contractual obligations. To mitigate this risk, the System invests in pooled investment funds, including mutual funds, separately managed accounts, and alternative fund products. These funds are managed by SEI and are diversified across multiple issuers and industries. The company's maximum exposure to concentration of credit risk is the carrying amount of its investments in these funds, which are measured at fair value and totaled \$1,866,306 at September 30, 2025.

The System does not have visibility into individual issuer concentrations within the pooled funds; however, the funds are subject to diversification guidelines in the System's investment policy and the SEI Investment Management Agreement. These guidelines require strategic allocation across multiple asset classes and investment styles to reduce concentration of credit risk. SEI and the System monitor the credit quality of fund managers and investment objectives to mitigate risk. Management does not believe these concentrations expose the System to a severe near-term impact due to the diversification strategies in place. As of September 30, 2025, no single pooled fund represents more than 25% of the System's total portfolio.

Investment income, net of fees and expenses, for the 11-month period ended September 30, 2025 includes the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest income	\$ 112,064	\$ 1,537	\$ 113,601
Net realized gains	29,983	4	29,987
Net unrealized gains on interest rate swap agreements	132	-	132
Net unrealized gains	45,309	916	46,225
Investment fees	(5,931)	-	(5,931)
	\$ 181,557	\$ 2,457	\$ 184,014

6. Fair Values of Assets and Liabilities

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820, *Fair Value Measurements*, establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

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Assets and liabilities measured and reported at fair value are classified within their fair value hierarchy as follows:

Level 1 - This level consists of valuations based on quoted market prices in active markets.

Level 2 - This level consists of investments that trade in markets that are considered to be active but are based on dealer quotations or alternative pricing sources supported by observable inputs or investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs.

Level 3 - This level consists of investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The System's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value of assets and liabilities and their placement within the fair value hierarchy levels.

Assets and Liabilities at Fair Value on a Recurring Basis

Level 1 investments include fixed income, domestic, and international equity mutual funds and U.S. Treasury obligations, which are valued based on prices readily available in the active markets in which those securities are traded and money market funds, which are based on their transacted values. Level 2 investments include U.S. government and agency obligations, corporate and municipal bonds, asset-backed securities, non-agency commercial mortgage-backed securities and interest rate swap agreements, which are valued on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets.

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The table below presents assets measured at fair value on a recurring basis at September 30, 2025:

	Level 1	Level 2	Level 3	NAV	Total
Assets					
Mutual Funds					
Domestic equity	\$ 470,903	\$ -	\$ -	\$ -	\$ 470,903
International equity	390,528	-	-	-	390,528
Domestic fixed income	590,348	-	-	-	590,348
Total Mutual Funds	1,451,779	-	-	-	1,451,779
Fixed-Income Securities					
U.S. government and agency obligations	2,082	95,973	-	-	98,055
Corporate bonds	-	11,526	-	-	11,526
Municipal bonds	-	6,438	-	-	6,438
Asset-backed securities	-	3,032	-	-	3,032
Non-agency CMBS	-	275	-	-	275
Total Fixed-Income Securities	2,082	117,244	-	-	119,326
Alternative Investments					
SEI Core Property Fund, LP	-	-	-	101,995	101,995
SEI Special Situation Fund, Ltd.	-	-	-	90,472	90,472
SEI Vista Fund, Ltd.	-	-	-	728	728
LH GPA SEI Investment Funds	-	-	-	12,951	12,951
Total Alternative Investments	-	-	-	206,146	206,146
Cash, Money Market Funds, and Commercial Paper					
	89,055	-	-	-	89,055
Investments and Assets Whose Use is Limited					
	\$ 1,542,916	\$ 117,244	\$ -	\$ 206,146	\$ 1,866,306
Interest Rate Swap Agreements	\$ -	\$ 132	\$ -	\$ -	\$ 132
Total Assets Measured at Fair Value on a Recurring Basis	\$ 1,542,916	\$ 117,376	\$ -	\$ 206,146	\$ 1,866,438

No liabilities were measured at fair value on a recurring basis at September 30, 2025.

Transfers of investments between levels are recognized at the date of the event or change in circumstances that caused the transfer. During the 11-month period ended September 30, 2025, the System transferred \$8,000 of investments from funds classified as level 1 to investments measured at NAV. During the 11-month period ended September 30, 2025, there were no transfers between Level 1, Level 2, and Level 3 investments. The System has no Level 3 assets or liabilities measured at fair value as of September 30, 2025.

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7. Property and Equipment

Property and equipment, net, consists of the following at September 30, 2025:

Equipment	\$ 1,467,680
Buildings and improvements	1,304,440
Land	196,247
Construction in progress	321,663
	3,290,030
Less: accumulated depreciation	(1,546,411)
Property and Equipment, Net	\$ 1,743,619

Depreciation expense related to property and equipment for the 11-month period ended September 30, 2025 of \$120,128 is presented within depreciation and amortization on the accompanying consolidated statement of operations and changes in net assets.

Construction in progress primarily consists of various in-house construction projects. The estimated cost to complete these projects as of September 30, 2025 is approximately \$657,000. The System capitalized interest of approximately \$2,900 during the 11-month period ended September 30, 2025.

8. Other Non-Current Assets

Other non-current assets consist of the following at September 30, 2025:

Deposits and other assets	\$ 24,094
Goodwill	8,342
Investments in joint ventures	91,074
Other Assets	\$ 123,510

Goodwill

The carrying amount goodwill, net as of September 30, 2025 of \$8,342, which consists of goodwill of \$18,308 and accumulated amortization of \$9,966, is included in other assets on the accompanying consolidated balance sheet. Changes in the carrying amount of goodwill for the 11-month period ended September 30, 2025 are as follows:

Balance, November 1, 2024	\$ -
Contribution of net assets of Lee Memorial Health System (Note 1)	10,196
Amortization expense	(1,854)
Balance, end of period	\$ 8,342

The amortization periods of goodwill conveyed upon the contribution of net assets by Lee Memorial Health Care (see Note 1) are based upon the original measurement dates of the individual components of goodwill.

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Future amortization of goodwill as of September 30, 2025 is as follows:

Year ending September 30,

2026	\$	1,831
2027		1,831
2028		1,831
2029		1,831
2030		728
Thereafter		290
	\$	8,342

Investments in Joint Ventures

The System participates in the following joint ventures over which the System has significant influence, but not control, and therefore accounts for the investments under the equity method.

Encompass Health Rehabilitation Hospital of Cape Coral, LLC and Encompass Health Rehabilitation Hospital of Fort Myers, LLC

The System, through LHH, holds a 49.0% membership interest in Encompass Health Rehabilitation Hospital of Cape Coral, LLC (Encompass Health CC) and accounts for such interest under the equity method. Encompass Health CC owns and operates a 40-bed rehabilitation facility in Cape Coral, Florida. The System's interest in Encompass Health CC's equity was approximately \$16,111 as of September 30, 2025. The System reported its interest in Encompass Health CC's net earnings of \$3,218 as non-operating gain for the 11-month period ended September 30, 2025.

The System also holds a 49.0% membership interest in Encompass Health Rehabilitation Hospital of Fort Myers, LLC (Encompass Health FM) and also accounts for such interest under the equity method. Encompass Health FM owns and operates a 60-bed rehabilitation facility in Fort Myers, Florida which opened in May 2025. The System's interest in Encompass Health FM's equity was approximately \$37,298 as of September 30, 2025, which includes a non-cash contribution of \$19,483 related to the assignment of the System's inpatient rehabilitation unit operations of Lee Memorial Hospital during the 11-month period ended September 30, 2025. The System recognized a non-operating gain of \$19,400 during the 11-month period ended September 30, 2025, representing the excess of consideration received over the carrying value of the transferred assets. The System reported its interest in Encompass Health FM's net earnings as a non-operating loss of \$2,089 for the 11-month period ended September 30, 2025.

The System and Encompass Health are parties to an Ancillary Services Agreement to provide laboratory, radiology, cardiovascular imaging, and emergency room services to Encompass Health patients. The agreement is for a one-year term and automatically renews for additional one-year terms, unless otherwise terminated. Either party may terminate the agreement without cause with at least 60 days' prior written notice. Where permitted, the System directly bills the patient or insurer for services provided to Encompass Health patients. Where not permitted by law, government, or a commercial third party to directly bill the patient, Encompass Health pays the System for the services provided at rates equal to the Medicare fee schedule. During the 11-month period ended September 30, 2025, the System recorded net patient service revenue of \$120 under this agreement.

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LeeSar, Inc. and Cooperative Services of Florida, Inc.

The System holds a 44.45% membership interest in a not-for-profit organization, LeeSar, Inc. (LeeSar), and accounts for such interest under the equity method. The System, along with the two other member health systems, developed LeeSar to meet the participating health systems' materials services and distribution needs. The System's interest in the equity of LeeSar was approximately \$27,976 as of September 30, 2025. The System's interest in LeeSar's excess of revenues over expenses was approximately \$109 for the 11-month period ended September 30, 2025, and is presented within other non-operating gains on the accompanying consolidated statement of operations and changes in net assets.

LeeSar provides supplies, storage and distribution services, meal preparation services, and medical equipment sterilization services to the System. Total payments to LeeSar for such services were \$185,500 for the 11-month period ended September 30, 2025. As of September 30, 2025, amounts due to LeeSar of approximately \$4,400 are included in accounts payable in the consolidated balance sheet. A note receivable from LeeSar of \$2,670 at September 30, 2025 is reported in other current assets in the accompanying consolidated balance sheet.

The System participates in a purchasing cooperative arrangement with Cooperative Services of Florida, Inc. (CSF), a Florida not-for-profit, non-stock membership corporation and related party of LeeSar, that provides group purchasing and related services to its members. In connection with the System's participation in CSF purchasing arrangements, the System receives volume purchase rebates from CSF. The System accounts for such rebates as reductions of the related purchase costs and records them as an offset to medical supplies and drugs in the accompanying statement of operations in the period the related purchases occur. Amounts earned but not yet received are recorded as a receivable included in other current assets.

For the 11-month period ended September 30, 2025, the System recognized volume purchase rebates from CSF of approximately \$13,000. As of September 30, 2025, amounts due from CSF related to patronage distributions were \$7,245 and are included in other current assets.

Other Joint-Ventures

At September 30, 2025, the System also held interests in the following limited liability companies through LHH:

- A 50% interest in Bimini Square 2, LLC (Bimini Square), a Florida limited liability company that will develop a mixed residential and medical office building in Cape Coral, Florida. The System's interest in the net assets of Bimini Square was \$3,010 at September 30, 2025. Bimini Square was not yet operational as of September 30, 2025.
- A 5.88% interest in Orthopedic Surgery Building, LLC (OSSWF), which owns and operates a medical office building in Fort Myers, Florida. The System's interest in OSSWF was \$79 at September 30, 2025 and its interest in OSSWF's net loss for the 11-month period then ended was \$17.
- A 50% interest in Proton Fusion, LLC (Proton Fusion), which is developing and will own and operate a proton therapy center in Fort Myers, Florida. The System's interest in the net assets of Proton was \$6,600 at September 30, 2025. Proton Fusion was not yet operational as of September 30, 2025.

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9. Long-Term Obligations

Revenue bonds consist of the following outstanding principal balances at September 30, 2025:

Hospital Revenue Bonds, 2024 Series A (2024 Series A Bonds), payable in variable annual installments beginning April 2030 through April 2054	\$ 143,945
Hospital Revenue Bonds, 2019 Series A (2019 Series A Bonds), payable in variable annual installments beginning April 2020 through April 2049, including unamortized premium of approximately \$26,216	389,401
Hospital Revenue Bonds, 2019 Series B (2019 Series B Bonds), payable in variable annual installments beginning April 2038 through April 2049	50,315
Total Revenue Bonds	583,661
Less: current installments	(74,600)
Revenue Bonds, less current portion	\$ 509,061

2024 Series A Bonds

The System's obligations with respect to the 2024 Series A Bonds are secured by Obligation No. 37 issued under the Master Trust Indenture (MTI). Obligation No. 37, the trust indenture, the loan agreement, and swap transaction confirmation are fully disclosed on the Electronic Municipal Market Access (EMMA) website.

The 2024 Series A Bonds were originally issued in an index rate mode based on the Daily SOFR Index plus 85 basis points with daily resets. While in the fixed rate mode, interest on the 2024 Series A Bonds is payable semi-annually on April 1 and October 1. On December 5, 2024, the System entered into an interest rate swap agreement (the total return swap, or TRS) to effectively convert the fixed interest rates applicable to the 2024 Series A Bonds bond maturities due April 1, 2036 (TRS Swap A) and April 1, 2054 (TRS Swap B) to variable interest rates. The System pays a variable rate of interest based upon the SIFMA Municipal Swap Index (SIFMA) rate, 2.65% as of September 30, 2025, plus an additional spread which varies depending on the System's credit rating (the TRS Variable Rate). The counterparty pays an amount equivalent to the fixed interest rate payable on the 2024 Series A bonds (the TRS Fixed Rate).

The following summarizes the general terms for each of the System's interest rate swap agreements:

Description	Notional Amount September 30, 2025	Notional Amount at Effective Date	Effective Date	Termination Date	TRS Fixed Rate (%)	TRS Variable Rate
TRS Swap A	\$ 43,945	\$ 43,945	12/5/2024	12/5/2029	5.875	Weighted Average SIFMA + 0.39%
TRS Swap B	100,000	100,000	12/5/2024	12/5/2029	6.625	Weighted Average SIFMA + 0.39%

The System reported a noncurrent asset of \$132, representing the fair value of the interest rate swaps, at September 30, 2025. For the 11-month period ended December 31, 2025, the change in the fair value of the System's interest rate swap arrangement resulted in a net gain of approximately \$132.

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2019 Series A Bonds

The 2019 Series A Bonds were issued in two interest rate modes: (1) 2019 Series A-1 as fixed rate and (2) 2019 Series A-2 as term rate. Both modes pay interest semi-annually on April 1 and October 1 each year. The 2019A-2 Series Bonds are subject to mandatory tender for purchase on April 1, 2026, which is the end of the initial term rate period, at which time a new term rate period could be established, or the 2019 Series A-2 Bonds could be converted to a new interest rate mode. As such, the System has classified the full outstanding balance of the 2019 Series A-2 Bonds as a current liability in the accompanying September 30, 2025 consolidated balance sheet.

2019 Series B Bonds

The 2019 Series B Bonds were issued as variable in the R-FLOATS mode with interest rates reset weekly and payable monthly. Weekly rates are determined by the remarketing agent based off current relevant market conditions and credit rating factors. If the remarketing agent fails to determine the weekly rate, an alternate rate based off the Securities Industry and Financial Markets Association (SIFMA) index is utilized. Principal is paid annually in April beginning in 2038.

Master Trust Indenture

LHS is the sole member of the Obligated Group, a party to the MTI that secures the System's outstanding revenue bonds and other debt obligations. Full disclosure of the MTI is available on the EMMA website. Per the MTI, the following are considered financial events of default:

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

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

The MTI and certain loans, notes payable, and direct borrowing 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 a pledge of revenues of the System on a parity basis. The System was in compliance with all MTI and other covenants for the 11-month period ended September 30, 2025.

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Loans and notes payable consist of the following outstanding principal balances as of September 30, 2025. Payment descriptions refer to principal payments only.

Loans and Notes Payable

2025 NMTC Loans, payable in variable installments beginning January 1, 2033 through December 2055	\$ 23,460
2022 TD Bank Loan, payable in variable annual installments beginning April 2023 through April 2052	69,760
2022 JP Morgan Chase Loan, payable in variable annual installments beginning April 2023 through April 2052	69,760
2020 TD Bank Loan, payable in variable annual installments beginning April 2021 through April 2050	89,081
2020 JP Morgan Chase Loan, payable in fixed annual installments beginning April 2021 through April 2032	30,333
Other direct borrowings	49,515
Total Loans and Notes Payable	331,909
Less: current installments	(16,150)
Loans and Notes Payable, excluding current installments	\$ 315,759

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

2025 NMTC Loan

During the 11-month period ended September 30, 2025, the System sponsored a financing of the equipping and working capital needs of its Ft. Myers laboratory and data processing facility under the New Market Tax Credit (NMTC) program. NMTC financing allows organizations such as the System to receive low-interest loans or investment capital from certified community development entities (CDEs) which allows third-party investors to receive Federal income tax credits based upon the amount of total investment in projects in certain "low-income communities." As an inducement to such third-party tax credit investors and a CDE to invest in the project, the Foundation committed a leverage loan of \$11,977 to LH Fort Myers Investment Fund, LLC (the Fund), a Delaware limited liability company. The \$11,977 leverage loan receivable is reported with other noncurrent assets in the accompanying consolidated balance sheet as of September 30, 2025.

Bank United provided an additional \$5,000 leverage loan to the Fund. Regions Community Investments, LLC (RCI), a Delaware limited liability company, contributed \$7,488 as an equity investment in the Fund in exchange for a 100% membership interest in the Fund. Using the \$24,465 aggregate proceeds of the leverage loans and equity investment, less fees totaling \$465, on July 24, 2025, the Fund made "qualified equity investments" to three Sub-CDEs as follows: (i) \$6,000 to BBIF Subsidiary CDE 32, LLC (BBIF), (ii) \$12,000 to CCC Sub-CDE 18, LLC (CCC), and (iii) \$6,000 to UB CD Sub-CDE USS Amberjack, LLC (UBCD) such that the Fund is the 99.99% owner of each Sub-CDE.

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The Sub-CDEs used substantially all of the proceeds to loan \$23,460 to a “qualified active low-income community business” of the System pursuant to a Loan and Security Agreement (the 2025 NMTC Loan Agreement). The System granted a continuing security interest in and lien upon the equipment purchased with the loan proceeds, the disbursement cash account into which the System deposited the loan proceeds, and reserve accounts held for the benefit of the Sub-CDEs. The System will deposit loan proceeds into the reserve accounts to pay for fees owed to the Sub-CDEs in connection with the 2025 NMTC Loan. The disbursement and reserve accounts are reported with investments and assets whose use is limited in the accompanying balance sheet at September 30, 2025.

Under the 2025 NMTC Loan Agreement, the following Qualified Low-Income Community Investment (QLICI) A and B Loans were made to LHS from the Sub-CDEs and are included in long-term obligations in the accompanying consolidated balance sheet at September 30, 2025:

Description	Maturity Dates, December 31,	Issue Amount	Balance, September 30, 2025
UBCD QLICI A	December 31, 2032	\$ 4,308	\$ 4,308
UBCD QLICI B	December 31, 2055	1,572	1,572
BBIF QLICI A	December 31, 2055	4,413	4,413
BBIF QLICI B	December 31, 2055	1,527	1,527
CCC QLICI A	December 31, 2055	8,256	8,256
CCC QLICI B	December 31, 2055	3,384	3,384
2025 NMTC Loans		\$ 23,460	\$ 23,460

The 2025 NMTC Loans bear interest at a fixed rate equal to 2.26%. Interest-only payments are due quarterly commencing September 1, 2025, through July 24, 2032. Thereafter, quarterly principal and interest payments are due from January 1, 2033 through December 31, 2055. No prepayment of principal is allowed prior to July 24, 2032.

The System neither controls nor has economic interest in the assets of either the Fund or the Sub-CDEs. The Fund is controlled and wholly owned by RCI, and the Fund controls and funds the Sub-CDEs.

For RCI to earn the tax credit, the Fund must remain invested in the Sub-CDEs for a seven-year period from July 24, 2025 through July 23, 2032 (the Compliance Period). The System is also subject to financial and community impact reporting covenants under the 2025 NMTC Loans. The System was in compliance with the covenants as of and during the 11-month period ended September 30, 2025.

The System also entered into an Put and Call Agreement with RCI. Under the Put and Call Agreement, during the 90-day period following the end of the seven-year compliance period relating to the tax credits, RCI may exercise a put option to sell all its interest in the Fund to the System for \$1,000. If RCI does not exercise the put option, the System has 180 days to exercise a call option to purchase RCI’s interest in the Fund at an appraised fair market value. These put/call options do not represent embedded derivatives and, accordingly, have not been accounted for as derivative instruments in accompanying consolidated financial statements.

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2022 TD Bank Loan

The 2022 TD Bank Loan is secured by Obligation No. 34 issued under the MTI. Principal payments are paid annually in April and amortized over 30 years with a mandatory purchase date of April 12, 2037. Interest is payable quarterly accruing at a fixed rate of 2.42% per annum. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 34 is an accelerable instrument upon an event of default. Obligation No. 34 and the loan agreement are located on the EMMA website for full disclosure.

2022 JP Morgan Chase Loan

The 2022 JP Morgan Chase Loan is secured by Obligation No. 35 under the MTI. Principal payments are paid annually in April and amortized over 30 years with a mandatory purchase date of April 12, 2037. Interest is payable semi-annually in October and April accruing at a fixed rate of 2.33% per annum. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 35 is an accelerable instrument upon an event of default. Obligation No. 35 and the loan agreement are located on the EMMA website for full disclosure.

2020 TD Bank Loan

The 2020 TD Bank Loan is secured by Obligation No. 33 issued under the MTI. Principal payments are paid annually in April and amortized over 30 years with a mandatory purchase date of June 25, 2035. Interest is payable quarterly accruing at a fixed rate of 1.88% per annum. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 33 is an accelerable instrument upon an event of default. Obligation No. 33 and the loan agreement are located on the EMMA website for full disclosure.

2020 JP Morgan Chase Loan

The 2020 JP Morgan Chase Loan is secured by Obligation No. 32 under the MTI. Principal payments are paid annually in April with the loan set to mature in April 2032. Interest is payable semi-annually in October and April accruing at a fixed rate of 1.68% per annum. The loan agreement includes covenants and events of default that are more expansive than the MTI and provides that Obligation No. 32 is an accelerable instrument upon an event of default. Obligation No. 32 and the loan agreement are located on the EMMA website for full disclosure. Issuance costs were paid with internal funds.

Other Direct Borrowings

Other direct borrowings include two mortgages with outstanding principal balances of \$17,046 and \$23,420 at September 30, 2025 for the land and medical office buildings housing the System's Lee Health Regional Cancer Center at the Sanctuary and the Outpatient Center at the Sanctuary, respectively. The mortgages mature in August 2033 and January 2034 and bear fixed interest rates of 6.08% to 6.51% per annum, respectively. Payments of principal and interest are payable monthly in arrears. The related land and buildings have a cumulative net carrying value of approximately \$41,400 and are included in property and equipment in the accompanying consolidated balance sheet as of September 30, 2025. The remaining outstanding other direct borrowings of \$9,048 at September 30, 2025 relate to five individually immaterial financing agreements that mature through September 2030.

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The System is obligated to make payments of principal and interest that correspond to its debt obligation agreements. The aggregate annual principal payments for each of the five years subsequent to September 30, 2025 and thereafter are as follows:

Year ending September 30,

	Bonds	Loans and Notes Payable
2026	\$ 74,600	\$ 16,150
2027	4,235	16,826
2028	24,080	17,515
2029	25,035	17,503
2030	4,890	16,772
Thereafter	424,605	247,143
	557,445	331,909
Unamortized premium	26,216	-
	\$ 583,661	\$ 331,909

10. Leases

Lessee

As of September 30, 2025, the System reported right-of-use assets and lease liabilities related to 65 active operating leases and four active finance leases as follows:

Assets

Operating lease right-of-use assets, net	\$ 147,339
Finance lease right-of-use assets, net	62,576
Total Lease Assets	\$ 209,915

Liabilities

Current

Operating lease liabilities	\$ 12,570
Finance lease liabilities	1,633

Non-Current

Operating lease liabilities	137,509
Finance lease liabilities	65,825

Total Lease Liabilities	\$ 217,537
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The components of lease expense for the 11-month period ended September 30, 2025 are as follows:

Operating lease cost:		
Amortization of right-of-use asset	\$	12,629
Interest on lease liabilities		4,686
Variable lease cost		2,982
Finance lease cost:		
Amortization of right-of-use asset		2,969
Interest on lease liabilities		2,611
Short-term leases		2,526
Total Lease Costs	\$	28,403

The interest on lease liabilities portion of the finance lease costs is included in interest expense in the accompanying statement of operations and changes in net assets.

The following summarizes net future minimum lease payments due under noncancelable operating leases at September 30, 2025:

Year ending September 30,

	Operating Leases	Finance Leases
2026	\$ 18,251	\$ 4,188
2027	15,361	4,230
2028	12,655	4,272
2029	10,974	4,333
2030	10,657	4,376
Thereafter	154,480	80,441
Total Lease Payments	222,378	101,840
Less: imputed interest	(72,299)	(34,382)
Present Value of Lease Liabilities	\$ 150,079	\$ 67,458

The following table presents the weighted-average remaining lease term and discount rate as of September 30, 2025:

Weighted-average remaining lease term:	
Operating leases	18.8 years
Finance leases	22.1 years
Weighted-average discount rate:	
Operating leases	3.98%
Finance leases	3.85%

Lessor

The System, as lessor, leases space in multiple medical and administrative offices to third parties under noncancelable operating leases. Lease terms generally range from one to ten years and may include renewal or termination options. The System recognizes lease income monthly based on the

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terms of each lessor lease. The System accounts for lease and non-lease payments under its lessor arrangements as a single lease component. The System recognizes variable lease revenue for additional lessee payments for real estate taxes, common area maintenance, and insurance.

For the 11-month period ended September 30, 2025, lease income recognized from operating leases was approximately \$4,700. Income from variable lease payments not included in the measurement of lease receivable was \$700.

The following table presents a maturity analysis undiscounted future lease payments to be received under noncancelable leases as of September 30, 2025:

Year ending September 30,

2026	\$	4,958
2027		4,349
2028		2,827
2029		2,283
2030		2,055
Thereafter		12,453
	\$	28,925

11. Self-Insurance Liabilities

Professional Liability

The System is subject to various medical malpractice claims arising in the normal course of its business activities. The System carries claims-made professional liability and excess liability insurance coverage, with aggregate coverage up to \$25,000 per occurrence and in the aggregate, subject to a \$5,000 per-claim self-insured retention. To the extent pending claims relate to matters occurring prior to November 1, 2024, the limitations and protections of the Waiver of Sovereign Immunity Act of the State of Florida (the Act) apply. The Act limits the damages the System would be required to pay up to \$100 per claimant or \$200 per incident. Effective October 1, 2011, the sovereign immunity limits in Florida were increased to \$200 per claimant or \$300 per incident.

Professional liability losses that are subject to the deductible provisions have been estimated and accrued in the accompanying consolidated financial statements. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such losses. The System has established a liability that provides for estimated malpractice claims identified under the System's risk management program based on several factors, including the nature of each claim, historical claims experience, advice from legal counsel, and actuarial studies, using a 4% discount rate. The recorded professional liability reserve includes estimated losses and allocated loss adjustment expense (ALAE) for claims that have been incurred but not yet reported as of September 30, 2025. The System records its professional liability reserve on a present value basis using a 4% discount rate as of September 30, 2025. Although actual future results may differ from estimates, management believes the estimated liability at September 30, 2025 is adequate and reasonably stated.

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The estimated claims incurred, payments on claims, and the balance of the reserve for professional liability claims for the 11-month period ended September 30, 2025 are as follows:

Professional Liability , beginning of period	\$	-
Professional liability assumed from LMHS (Note 1)		20,734
Professional liability claims expense		18,829
Payments on claims attributable to events of both the current fiscal year and prior fiscal years		(5,678)
Professional Liability , end of period	\$	33,885

The estimated professional liability is classified as current and non-current according to the timing of expected future payments and reported within self-insurance liabilities in the accompanying consolidated balance sheet. Professional liabilities of \$6,607 are estimated to be due within one year as of September 30, 2025.

Employee Health Benefits Liability

The System is self-insured for employee group health benefits. The employee health benefits liability, including an estimate for incurred but not reported claims, is estimated based on an historical paid claims analysis. Although actual future results may differ from estimates of incurred but not reported claims, management believes the employee health benefits liability is adequately stated as of September 30, 2025. The estimated expense incurred, payments on claims, and the balances of the employee health benefits liability for the 11-month period ended September 30, 2025 are as follows:

Employee Health Benefits Liability , beginning of period	\$	-
Claims liability assumed from LMHS (Note 1)		16,212
Employee health benefits expense, net of employee contributions		61,078
Payments on claims attributable to events of both the current fiscal year and prior fiscal years		(59,578)
Employee Health Benefits Liability , end of period	\$	17,712

The estimated employee health benefits liability is classified as current according to the timing of expected future payments and reported within self-insurance liabilities in the accompanying consolidated balance sheet.

Workers' Compensation Liability

The System is self-insured for workers' compensation claims. The liability for workers' compensation claims is estimated based on historical claims experience, advice from legal counsel, and actuarial studies, discounted at a rate of 5% at September 30, 2025.

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The estimated claims incurred, payments on claims, and balances of the estimated workers' compensation liability for the 11-month period ended September 30, 2025 are as follows:

Workers' Compensation Liability , beginning of period	\$	-
Claims liability assumed from LMHS (Note 1)		16,452
Incurred workers' compensation claims expense		7,464
Payments on claims attributable to events of both the current fiscal year and prior fiscal years		(6,489)
Workers' Compensation Liability , end of period	\$	17,427

The workers' compensation liability is classified as current and non-current according to the timing of expected future payments and reported within self-insurance liabilities in the accompanying consolidated balance sheet. Workers' compensation liabilities estimated to be due within one year were \$3,340 as of September 30, 2025.

12. Pension and Post-Employment Benefit 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 Health System, Inc. 403(b) Retirement Plan purchases annuity contracts or deposits funds into custodial accounts for participating employees through salary reduction, thereby deferring taxability of these amounts. For employees with one year or more of eligible service, the System participates in the Plan by matching up to 5% of the participating employees' salaries. The System has the sole discretion to amend the Plan and change the contribution amount. Vesting for the employer match portion occurs after three years of service. Employees may participate upon hiring. The System's contributions to employee annuities was approximately \$33,600 for the 11-month period ended September 30, 2025.

Post Employment Benefit Plan

The System sponsors the Lee Health Retiree Health Plan, which provides defined benefit post-employment health care benefits to eligible retired employees. The Plan is unfunded, there are no employee contributions, and benefits are paid directly from the System's cash and cash equivalents balances as they become due. Eligibility for postretirement medical benefits is limited to employees hired before July 1, 2008. Employees who retire after attaining age 65 with 20 years of continuous full-time (or equivalent) service are eligible for an annual retiree credit of \$2,500 (in dollars, not thousands), which increases at a rate of 2% per year following retirement. Certain employees with 30 or more years of service as of September 30, 2009 (Sunset Group) are eligible for retiree health coverage at retirement after age 55, with reduced cost sharing prior to age 65 and free lifetime coverage thereafter, secondary to Medicare. Disabled employees with 20 years of service are eligible for coverage until they are eligible for Medicare benefits. Spouses are generally not eligible except under COBRA or for disabled participants.

The Plan's obligation is measured using the projected unit credit cost method, with costs allocated pro-rata over the service period from hire date to full eligibility. The Plan is accounted for in accordance with ASC 715-60, *Compensation - Retirement Benefits*, and ASC 958, *Not-for-Profit Entities*, and actuarial assumptions are selected to represent the best estimate of future

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Notes to Consolidated Financial Statements (Dollar amounts in thousands unless otherwise stated)

experience. The principal actuarial assumptions used in the valuation include a discount rate of 5.3% as of September 30, 2025, a current health care cost trend rate of 6.5% grading down to an ultimate rate of 5.0% by 2031, and annual administrative expenses of \$224 (in dollars, not thousands) per participant, which are included in per capita costs. Mortality assumptions are based on the Pri-2012 tables with MP-2021 improvement scale, and retirement, termination, and disability rates are based on recent experience studies.

As of April 1, 2024, the census date for the valuation, there were 1,784 active employees and 666 retirees, spouses, and surviving spouses participating in the Plan. In addition, 569 retirees were receiving the annual credit benefit.

The following table summarizes the changes in the accumulated postretirement benefit obligation for the 11-month period ended September 30, 2025:

Accumulated Postretirement Benefit Obligation, beginning of period	\$	-
Obligation assumed from LMHS (Note 1)		43,079
Service cost		520
Interest cost		2,086
Benefit payments		(2,050)
Actuarial loss		2,440
Accumulated Postretirement Benefit Obligation, end of period	\$	46,075

The components of net periodic benefit cost for the 11-month period ended September 30, 2025 consists of the following:

Components of net periodic cost:		
Service cost	\$	520
Interest cost		2,086
Net Periodic Cost, end of period	\$	2,606

The measurement of the accumulated postretirement benefit obligation and net periodic benefit cost is subject to estimation uncertainty due to assumptions about future events, including healthcare cost trends, participant demographics, and legislative changes. Actual results may differ from those estimates due to changes in assumptions or actual experience.

Amounts not yet recognized as a component of net periodic benefit cost as of September 30, 2025 include a net actuarial loss of approximately \$2,440 and no net prior service cost or credit. The net actuarial loss for the 11-month period was primarily attributable to updated retirement and termination assumptions and a decrease in the discount rate.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

The following table presents the expected future benefit payments for the next 10 years as of September 30, 2025:

Year ending September 30,

2026	\$	2,721
2027		2,922
2028		3,085
2029		3,225
2030		3,332
2031 through 2035		17,525

Defined Benefit Pension Plan

LHS sponsors the Retirement Plan for Former Employees of Cape Coral Medical Center, Inc. (the Plan), a noncontributory, single-employer, defined benefit pension plan covering eligible former employees, administered by a committee appointed by the System. The Plan was frozen as of September 30, 1995; no new participants have entered since that date, and all benefit accruals are frozen. Benefits are based on years of service and final average compensation as of the freeze date.

Plan Provisions

The Plan provides retirement, early retirement, deferred vested, disability, and preretirement death benefits. The normal retirement benefit is a monthly life annuity equal to 2% of average monthly compensation multiplied by years of benefit service, up to a maximum of 20 years. The normal retirement age is 65. Early retirement is available at age 55 with at least 10 years of vesting service, subject to reduction for early commencement. Optional forms of payment include various annuity options and lump sums for small benefit amounts. No employee contributions are permitted.

Net Pension Liability

The System's net pension liability was determined by an actuarial valuation as of September 30, 2025. The actuarial present value of benefit obligations and net periodic pension cost are determined using the projected unit credit cost method.

Significant assumptions used in the valuation are as follows:

Discount rate	5.18%
Investment rate of return (net of pension plan investment expense, including inflation)	6.45%
Salary increases	-
Measurement date	September 30, 2025

As of September 30, 2025, the assumption for mortality amounts weighted rates from the Pri-2012 mortality study projected generationally from 2012 with Scale MP-2021.

The long-term expected rate of return on the Plan's investments was determined using a building block method in which best-estimate ranges of expected real rates of return (expected returns, net of plan investment expenses, and inflation) are developed for each major asset class. These ranges

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation.

The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The Plan's target asset allocations at September 30, 2025 are summarized as follows:

Asset Class	Target Allocation (%)
Public equity	58.2
Investment-grade debt and interest rate hedging assets	31.0
High yield debt	6.0
Real assets	1.0
Cash or cash equivalents	3.8
Total	100.0

The table below presents the Plan's investments measured at fair value on a recurring basis (see Note 6) at September 30, 2025:

	Level 1	Level 2	Level 3	Total
Plan Assets				
Mutual Funds				
Domestic equity	\$ 9,367	\$ -	\$ -	\$ 9,367
International equity	6,608	-	-	6,608
Total Mutual Funds	15,975	-	-	15,975
Fixed-Income Securities				
Government funds	821	-	-	821
Corporate bonds	-	1,644	-	1,644
Fixed income exchange-traded funds	7,687	-	-	7,687
Real estate	-	276	-	276
Total Fixed-Income Securities	8,508	1,920	-	10,428
Other				
Cash and cash equivalents	1,032	-	-	1,032
Total Plan Assets	\$ 25,515	\$ 1,920	\$ -	\$ 27,435

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

The funded status of the Plan and changes in the net pension liability for the 11-month period ended September 30, 2025 is as follows:

Projected Pension Liability , beginning of period	\$	-
Pension liability assumed from LMHS (Note 1)		31,829
Interest cost		1,464
Benefit payments		(2,475)
Actuarial loss		149
Projected Pension Liability , end of period		30,967
Fair Value of Plan Assets , beginning of period		-
Net assets transferred by LMHS (Note 1)		26,339
Gain of plan assets, net of expenses		2,956
Contributions from the System		615
Benefit payments		(2,475)
Fair Value of Plan Assets , end of period		27,435
Net Pension Liability , end of period	\$	3,532

The components of net periodic pension cost (gain) for the 11-month period ended September 30, 2025 are:

Interest cost	\$	1,464
Expected return on plan assets		(1,531)
Net Periodic Pension Gain	\$	(67)

Plan benefits expected to be paid for the 10 years following September 30, 2025 are as follows:

<i>Year ending September 30,</i>		
2026	\$	2,759
2027		2,726
2028		2,744
2029		2,743
2030		2,710
2031 through 2035		12,851

Payable to the Defined Benefit Pension Plan

As of September 30, 2025, there are no payables to the Plan. The System expects to contribute \$1,018 to the plan during the fiscal year ending September 30, 2026.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

13. Net Assets with Donor Restrictions

Net assets with donor restrictions are as follows at September 30, 2025:

Capital	\$	811
Education		7,096
Healthcare		59,442
Other		2,174
Time restricted		12,681
	\$	82,204

During the 11-month period ended September 30, 2025, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of indigent care, capital acquisitions, and program expenses, which totaled approximately \$20,137.

The changes in endowment net assets for the 11-month period ended September 30, 2025, are summarized below:

	Restricted for a Specific Purpose	Restricted in Perpetuity	Total
Endowment Net Assets , beginning of period	\$ -	\$ -	\$ -
Contribution by LMHS (Note 1)	6,176	12,231	18,407
Investment income, net	2,391	-	2,391
Contributions	-	1,320	1,320
Appropriation for expenditure	(452)	-	(452)
Endowment Net Assets , end of period	\$ 8,115	\$ 13,551	\$ 21,666

14. Functional Expenses

LHS provides a broad range of healthcare services to residents within its primary and secondary service areas. The consolidated financial statements report expenses that are attributable to both healthcare services and supporting functions. Expenses can be identified either as healthcare services or general and administrative activities and are charged directly according to their natural expense classifications. The System allocates certain salaries, wages and benefits expenses between healthcare services and supporting functions on a pro-rata basis according to the time and effort provided by certain shared personnel.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

Expenses related to providing these services for the 11-month period ended September 30, 2025 are as follows:

	Healthcare Services	General and Administrative	Fundraising	Total Expenses
Salaries, wages, and benefits	\$ 1,607,608	\$ 43,345	\$ 2,404	\$ 1,653,357
Purchased services	350,614	8,744	570	359,928
Medical supplies and drugs	714,422	(3,898)	-	710,524
Other operating expenses	165,372	23,393	199	188,964
Depreciation and amortization	114,163	10,650	-	124,813
Interest	24,398	1,528	-	25,926
Total Operating Expenses	\$ 2,976,577	\$ 83,762	\$ 3,173	\$ 3,063,512

15. Tax Status

LHS, HPCC, LMHH, and the Foundation are exempt from income tax under Section 501(a) of the Internal Revenue Code. Accordingly, no income taxes have been provided for these entities in the accompanying consolidated financial statements except for taxes related to certain unrelated business income engaged in by LHS.

Access Medical South, L.C.; Best Care Collaborative, LLC; CB Medical North, LLC; CB Medical South, LLC; CHI; FRL; LHH; LHI; and Lee Health Home Infusion, LLC are disregarded for federal income tax purposes and, therefore, are included under LHS's tax return.

LHS has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2025. LHS believes income taxes for reporting periods through December 31, 2022 are no longer subject to income tax examinations.

16. Commitments and Contingencies

Risk Management

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

The System is also exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. A combination of commercial insurance and self-administered, self-funded programs provide coverage for claims arising from such matters. Claims settled during the 11-month period ended September 30, 2025 have not exceeded the System's commercial insurance coverage.

Other Industry Risks

The health care industry is subject to numerous complex laws and regulations imposed by federal, state, and local governments. Compliance with these laws and regulations can be subject to

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

government review and interpretation by both the System with respect to implementation, as well as the government with respect to retrospective review. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Such investigations and allegations often take multiple years to resolve. Violations of these laws and regulations could result in significant fines and penalties, including repayments for patient services previously reimbursed.

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

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

17. Subsequent Events

Management has evaluated subsequent events through February 26, 2026, the date at which the consolidated financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in the consolidated financial statements, except for the following plan of financing.

In February 2026, the Lee County Industrial Development Authority (the Authority) issued Official Statements for the offer of \$265,060 of Hospital Revenue Bonds (Lee Health System, Inc. Project), 2026 Series A (the 2026 Series A Bonds) and \$125,000 of Hospital Revenue Bonds (Lee Health System, Inc. Project), 2026 Series B (the 2026 Series B Bonds), for the benefit of the System. The bonds will be conduit debt obligations of LHS and are expected to be issued on March 4, 2026, pursuant to a trust agreement between the Authority and Regions Bank as bond trustee. The bonds will be payable by the System under a loan agreement (2026 Series A) to be dated March 1, 2026 between LHS and the Authority and Obligations No. 39 and No. 40 to be issued pursuant to the MTI. Proceeds of the bonds will be used by the System to finance and reimburse the cost of development, construction and equipping of certain health care facilities and to refund or refinance amounts outstanding under the Series 2019 A-2 Bonds and the Series 2019 B Bonds.

Lee Health System, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Dollar amounts in thousands unless otherwise stated)

Terms of the bonds are as follows:

2026 Series A-1:	\$65,980 to be issued with a premium of \$7,768, with serial maturities in varying amounts beginning April 1, 2030 through April 1, 2033, and bearing interest at a fixed rate mode (5%) payable on April 1 and October 1 of each year beginning October 1, 2026
2026 Series A-2:	\$89,080 to be issued with a premium of \$11,764, payable in a single installment on April, 2065, bearing interest at a term rate mode payable on April 1 and October 1 of each year beginning October 1, 2026, subject to mandatory tender and purchase on April 1, 2033, and scheduled for mandatory redemption in varying amounts beginning April 1, 2051
2026 Series A-3:	\$110,000 to be issued with a premium of \$16,045, payable in a single installment on April, 2065, bearing interest at a term rate mode payable on April 1 and October 1 of each year beginning October 1, 2026, subject to mandatory tender and purchase on April 1, 2035, and scheduled for mandatory redemption in varying amounts beginning April 1, 2051
2026 Series B:	\$125,000 to be issued, bearing interest at a daily rate mode payable monthly beginning April 1, 2026, subject to scheduled mandatory redemption at varying amounts beginning April 1, 2038 through April 1, 2065 and additionally secured by and payable from an irrevocable direct-pay letter of credit that provides for the bond trustee to draw amounts sufficient to pay principal and interest on the bonds when due and the purchase price upon optional tender by a bondholder



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

The Audit Committee and Board of Directors
Lee Health System, Inc.
Ft. Myers, FL

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lee Health System, Inc. and its subsidiaries (the System), which comprise the System's consolidated balance sheet as of September 30, 2025, and the related consolidated statements of operations and changes in net assets and cash flows for the eleven-month period then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 26, 2026.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control that we consider to be a material weakness, which is described in the accompanying schedule of findings and questioned costs as item 2025-001.



Report on Compliance and Other Matters

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

Purpose of This Report

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

BDO USA, P.C.

February 26, 2026, except for our report
on the schedule of expenditures of federal awards
and state financial assistance, for which the report
date is June 30, 2026



Independent Auditor's Report on Compliance for Each Major Federal Program and State Project and Report on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.650, *Rules of the State of Florida Auditor General*

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

Report on Compliance for Each Major Federal Program and State Project

Opinion on Each Major Federal Program and State Project

We have audited Lee Health System, Inc. and its subsidiaries' (the System) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* and in the State of Florida's *Department of Financial Services' State Projects Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs and state projects for the eleven-month period ended September 30, 2025. The System's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the eleven-month period ended September 30, 2025.

Basis for Opinion on Each Major Federal Program and State Project

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and Chapter 10.560, *Rules of the State of Florida Auditor General* (Chapter 10.650). Our responsibilities under those standards and the Uniform Guidance and Chapter 10.650 are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program and state project. Our audit does not provide a legal determination of the System's compliance with the compliance requirements referred to above.



Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the System's federal programs and state projects.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance and Chapter 10.650 will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the System's compliance with the requirements of each major federal program and state projects as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and Chapter 10.650, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the System's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the System's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and Chapter 10.650, and which is described in the accompanying schedule of findings and questioned costs as item 2025-002. Our opinion on the major federal program and state projects is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The System's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The System is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The System's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

BDO USA, P.C.

June 30, 2026

Lee Health System, Inc.

Schedule of Expenditures of Federal Awards and State Financial Assistance

11-month period ended September 30, 2025

Federal/State Agency Pass-Through Entity Federal Program/State Project	Federal Assistance Listing/Catalog of State Financial Assistance Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal/State Expenditures
U.S. Department of Health and Human Services				
Medicaid Cluster: Medical Assistance Program - Medicaid passed through the Healthy Start Coalition of Southwest Florida, Inc.: Care Coordination	93.778	N/A	\$ -	\$ 1,321,137
Maternal and Child Health Block Grant passed through the Healthy Start Coalition of Southwest Florida, Inc.: Care Coordination	93.994	N/A	-	67,117
Maternal, Infant and Early Childhood Home Visiting Grant Program passed through the Healthy Start Coalition of Southwest Florida, Inc.	93.870	N/A	-	337,440
State and National Tobacco Cessation Support Systems passed through the Healthy Start Coalition of Southwest Florida, Inc.	93.699	N/A	-	255,422
Children's Health Insurance Program passed through the University of South Florida Board of Trustees: Florida Health Kids Corp (FHKC)	93.767	6414-1078-00-C		25,000
Connecting Kids to Coverage Outreach and Enrollment Coop Agreements	93.767	N/A	-	17,708
Total Children's Health Insurance Program Passed Through the University of South Florida Board of Trustees			-	42,708
Total U.S. Department of Health and Human Services			-	2,023,824
Federal Emergency Management Agency				
Disaster Grants - Public Assistance passed through Florida Division of Emergency Management: Hurricane Ian	97.036	N/A	-	3,088,306
COVID-19 Response	97.036	N/A	-	172,485,716
Total Federal Emergency Management Agency			-	175,574,022
Total Federal Expenditures			\$ -	\$ 177,597,846

Lee Health System, Inc.

Schedule of Expenditures of Federal Awards and State Financial Assistance

11-month period ended September 30, 2025

Federal/State Agency Pass-Through Entity Federal Program/State Project	Federal Assistance Listing/Catalog of State Financial Assistance Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal/State Expenditures
State of Florida Department of Elder Affairs Alzheimer Interventions, Memory Disorder Clinics, Brain Banks and Alzheimer Special Projects	65.002	XZL23	\$ -	\$ 544,923
State of Florida Department of Health Trauma Center Financial Support	64.075	TRA-10	-	541,991
State of Florida Division of Emergency Management State Hurricane Recovery Grant Program Emergency Wells Grant	31.081	D1497	-	420,771
Total Expenditures of State Financial Assistance			-	1,507,685
Total Expenditures			\$ -	\$ 179,105,531

The accompanying notes are an integral part of this schedule.

Lee Health System, Inc.

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance Eleven-Month Period Ended September 30, 2025

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal and state award activity of the System under programs of the federal government and the State of Florida for the eleven-month period ended September 30, 2025. The information in the Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, *Rules of the State of Florida Auditor General* (Chapter 10.650). Because the Schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the System.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and Chapter 10.650, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The System has elected not to use the 15% de minimis indirect cost rate allowed under the Uniform Guidance.

4. Out-of-Period Expenditures

The Federal Emergency Management Agency program 97.036 amount on the Schedule of \$175,574,022 is out-of-period expenditures, which is reported in accordance with the Office of Management and Budget's compliance supplement specific to this program.

5. Subsequent Events

The System has evaluated subsequent events occurring after the consolidated financial statements date of September 30, 2025 through February 26, 2026, except for our report on the Schedule, for which the subsequent events date is June 30, 2026, which is the date these consolidated financial statements were available to be issued. No events arose during those periods that would require adjustments or additional disclosures.

Lee Health System, Inc.

Schedule of Findings and Questioned Costs Eleven-Month Period Ended September 30, 2025

Section I. Summary of Auditor's Results

Consolidated Financial Statements

Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to consolidated financial statements noted?

 yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X yes no

Identification of major federal programs:

Assistance Listing Numbers

Name of Federal Program or Cluster

97.036

Disaster Grants - Public Assistance:
Hurricane Ian

97.036

Disaster Grants - Public Assistance:
COVID 19 Response

Dollar threshold used to distinguish between type A and type B programs:

\$3,000,000

Auditee qualified as low-risk auditee?

 yes X no

Schedule of Findings and Questioned Costs Eleven-Month Period Ended September 30, 2025

Lee Health System, Inc.

Schedule of Findings and Questioned Costs Eleven-Month Period Ended September 30, 2025

Cause

The internal controls established for the preparation, review and approval of the Schedule to ensure its completeness and accuracy did not fully operate as designed. The Organization only prepares the Schedule once per year in conjunction with the annual audit. This annual process lends itself to less familiarity with the processes necessary to provide a complete Schedule due to the multiple steps required to address reporting requirements.

Effect

Inaccurate or incomplete expenditures may result in improper scoping of major federal programs and state projects for testing.

Recommendation

We recommend that management review its internal control process over the preparation, review and approval of the Schedule to ensure that appropriate personnel are involved in all facets of the process. These individuals should have sufficient knowledge of the various reporting requirements and financial acumen to ensure that the expenditures being reported are complete and accurate in accordance with the appropriate federal and state guidance.

Views of Responsible Officials

Management agrees with finding 2025-001: Improper Completion of the Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule). The material weakness resulted from deficiencies in the underlying processes regarding the appropriate basis and timing for recognizing expenditures on the Schedule. Specifically, the absence of a standardized process and consistently applied methodology for selecting between expenditure dates, obligation dates, and check dates when recording grant activity resulted in inaccuracies in the original draft of the Schedule.

Section III. Federal Award Findings and Questioned Costs

2025-002: Reporting - Submission of the Data Collection Form

Information on Federal Programs

Federal Emergency Management Agency:

Assistance Listing Number: 97.036

Assistance Listing Name: Disaster Grants - Public Assistance passed through Florida
Division of Emergency Management

U.S. Department of Health and Human Services

Assistance Listing Number: 93.778

Assistance Listing Name: Medicaid Cluster - Medical Assistance Program

Lee Health System, Inc.

Schedule of Findings and Questioned Costs Eleven-Month Period Ended September 30, 2025

Criteria

In accordance with 2 CFR Section 200.512(a), the audit must be completed and the data collection form and reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's report, or nine months after the end of the audit period, adjusted for any extensions permitted by the Office of Management and Budget.

Condition

The data collection form and reporting package for the period ended October 31, 2024 was not filed with the Federal Audit Clearinghouse (FAC) by the deadline of July 31, 2025. This finding pertains to the federal programs identified and tested as major programs for the audit period ended October 31, 2024, which are noted above.

Cause

The data collection form and reporting package for the period ended October 31, 2024 was submitted one day after the reporting deadline of July 31, 2025 due to an oversight in management's identification of the correct record to submit within the FAC system.

Effect

Untimely reporting could affect future funding from government agencies.

Questioned Costs

None noted.

Recommendation

We recommend that management review its internal control process over reporting to ensure there are multiple individuals involved in the process to ensure reporting requirements are properly met.

Views of Responsible Officials

Management acknowledges finding 2025-002: Reporting - Submission of the Data Collection Form related to the timely submission of the Single Audit reporting package to the Federal Audit Clearinghouse (FAC). The established process requires a two-step procedure: (1) certification of the submission and (2) final submission to the FAC. While management completed the certification step by the required due date, the final submission step was not completed until one day after the deadline. As a result, the overall submission was not considered timely. The delay was the result of an oversight in the final step of the submission process. Going forward Management will add a validation step with a secondary review by another team member to validate that both steps have been clearly completed and we will add this to our reporting checklist that is part of the Single Audit Process Narrative. Management believes these enhancements will ensure the completeness and timeliness of future submissions and mitigate

Lee Health System, Inc.

Schedule of Findings and Questioned Costs Eleven-Month Period Ended September 30, 2025

the risk of recurrence. The corrective actions have been implemented and are in operation as of June 30, 2026. Management believes these enhancements significantly strengthen the control environment over the submission process and reduce the risk of recurrence.

Section IV. State Award Findings and Questioned Costs

There were no findings and questioned costs for state awards (as defined in Chapter 10.650) that are required to be reported.

Section V. Management Letter

No management letter is presented as there were no management letter comments required to be reported relating to state awards (as defined in Chapter 10.650).

Section VI. Prior Audit Findings

A summary schedule of prior audit findings is not presented as there were no prior audit findings to be reported.

Corrective Action Plan (CAP)

2025-001: Improper Completion of the Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule)

Management will implement and maintain the following corrective actions:

- Staff education and training: Financial Services, Grants Personnel, and Program Managers have been and will continue to be trained on the appropriate methodology for recognizing expenditures for SEFA reporting, including proper period-of-performance considerations.
- Standardized procedures: Formal written guidance will be developed outlining the correct basis for SEFA reporting and where to find guidance for specific awards.
- Quarterly SEFA maintenance: Rather than preparing the Schedule only at year-end, management will maintain the SEFA throughout the fiscal year, with periodic reconciliations to the general ledger and grant subsidiary records.
- Multi-level review: Prior to submission for audit, the SEFA will undergo documented preparation, supervisory review, Controller review, and or Vice President of Financial Services (or CFO) certification to ensure completeness, accuracy, and compliance with Uniform Guidance and State reporting requirements.

Responsible Party: Controller, under the oversight of the Vice President of Financial Services/Chief Financial Officer, in coordination with the Grants function.

Anticipated completion date: September 30, 2026, for implementation of the revised control process. Ongoing thereafter.

2025-002: Reporting - Submission of the Data Collection Form

Information on Federal Programs

Federal Emergency Management Agency

Assistance Listing Number: 97.036

Assistance Listing Name: Disaster Grants - Public Assistance passed through Florida Division of Emergency Management

U.S. Department of Health and Human Services

Assistance Listing Number: 93.778

Assistance Listing Name: Medicaid Cluster - Medical Assistance Program

Management will implement and maintain the following corrective actions:

- Management has added a validation step with a secondary review by another team member to validate that all steps relating to submission have been clearly completed.
- Management has also added this to our reporting checklist that is part of the Single Audit Process Narrative.

Responsible Party: Controller, under the oversight of the Vice President of Financial Services/Chief Financial Officer, in coordination with the Grants function.

Completion date: June 30, 2026

Sincerely,

A handwritten signature in black ink, appearing to read "John C. Mallia".

John Mallia, Interim Chief Financial Officer