

Lee Memorial Health System

October 31, 2024



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

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Lee Memorial Health System and its subsidiaries and the pension trust fund (the “System”) as of and for the 13-month period ended October 31, 2024, and have issued our report thereon dated March 4, 2025, except for our report on the schedule of expenditures of federal awards and state financial assistance, for which the report date is July 30, 2025.

Auditors’ Responsibility

Additionally, we conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.550, *Rules of the Auditor General*.

Other Report

We have issued our 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*; 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*; and Schedule of Findings and Questioned Costs for the 13-month period ended October 31, 2024.

Disclosures in those reports and schedules, which are dated July 30, 2025, (refer to specific reports for dual dating, as applicable), should be considered in conjunction with this Letter of Comments and Recommendations.

Prior Audit Findings

Section 10.554(1)(i)1., *Rules of the Auditor General*, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. We have submitted the accompanying summary of corrective actions prepared by management in response to recommendations noted in connection with the audit of the System’s consolidated financial statements as of and for the year ended September 30, 2023.

Official Title and Legal Authority

Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the consolidated financial statements. The System was established in 1963 under the provision of Chapter 63-1552 of the Laws of Florida as recodified by Chapter 2000-439, Laws of Florida, Special Acts, 2000.



Financial Condition

Section 10.554(1)(i)5.a., *Rules of the Auditor General*, requires that we report the results of our determination as to whether or not the System has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the System did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), *Rules of the Auditor General*, we applied financial condition assessment procedures. It is management's responsibility to monitor the System's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same. In connection with our audit, our procedures did not disclose deteriorating financial conditions as defined in the aforementioned section.

Special District Component Units

Section 10.554(1)(i)5.c., *Rules of the Auditor General*, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

As required by Section 218.39(3)(a), Florida Statutes, and Sections 10.554(1)(i)6 through 10.554(1)(i)8, *Rules of the Auditor General*, the System reported the specific information in the Exhibit I accompanying this report. The information for compliance with Section 218.39(3)(a), Florida Statutes and Sections 10.554(1)(i)6 through 10.554(1)(i)8, *Rules of the Auditor General*, has not been subjected to the auditing procedures applied in the audit of the consolidated basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Matters

Section 10.554(1)(i)2., *Rules of the Auditor General*, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we are submitting for consideration the accompanying recommendations designed to help improve financial management.

Section 10.554(1)(i)3., *Rules of the Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the consolidated financial statements that is less than material, but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.



Purpose of this Letter

This Letter of Comments and Recommendations is intended solely for the information and use of the Board of Directors and Audit Committee of Lee Memorial Health System, the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BDO USA, P.C.

July 30, 2025

**Lee Memorial Health System
 Prior Period Audit Findings
 Special District Component Unit Reporting (Unaudited)**

Corrective actions, as prepared by management, related to internal control findings and recommendations noted in connection with our audit of the System’s consolidated financial statements as of and for the year ended September 30, 2023 are listed below.

| Category | Description and Recommendation |
|--|--|
| <p>Identification of Subscription-Based Information Technology Arrangements (SBITAs)</p> <p>Significant Deficiency</p> <p>Reference No. 2023-001</p> | <p>The System adopted GASB Statement 96, <i>Subscription-Based Information Technology Arrangements</i> (GASB 96), during the year ended September 30, 2023. Management relied on the System’s IT personnel to identify arrangements meeting the criteria of GASB 96. The omission of several significant SBITAs resulted in a \$38.2 million understatement of right-of-use subscription assets recorded by management as of September 30, 2023.</p> <p>We recommend management design and implement internal controls to ensure that personnel with sufficient knowledge of GASB 96 criteria review all new and renewed IT subscription and license agreements that meet the criteria are properly capitalized and amortized. Additionally, a quarterly review of monthly disbursements and expenses posted to selected IT general ledger account and department criteria by accounting personnel to identify potential SBITAs not communicated to or received by accounting personnel will help ensure that recorded SBITA right-of-use assets and subscription liabilities are complete.</p> <p>Management’s Corrective Actions:</p> <p><i>The System implemented a standard process that has significantly improved the accuracy and completeness of accounting for SBITAs. Contract owners must complete an “in-take form” for all new or renewed technology-related contracts to ensure those arrangements meeting the criteria are recorded in accordance GASB 96. Finance personnel perform a secondary review of all contracts identified by the contract owner as a SBITA, and if appropriate, enters all necessary information into the System’s SBITA and lease software. The Finance department provides a complete list of all SBITA contracts to IT monthly. IT codes invoices related to all SBITA contracts to a designated general ledger account. The Finance department reviews invoices coded to the SBITA account against the respective SBITA amortization schedules to verify the payment has been properly applied to the SBITA liability.</i></p> <p><i>Each month, the Finance department reviews all departments’ purchased services invoices for potential previously unidentified subscription agreements and reviews the related contracts to determine if they meet SBITA criteria. Additionally, management implemented a purchased services contract review committee to review all new non-IT multi-year contracts for the existence of SBITAs. All SBITA contracts identified through these reviews are subjected to the SBITA process described herein.</i></p> |

**Lee Memorial Health System
 Prior Period Audit Findings
 Special District Component Unit Reporting (Unaudited)**

| Category | Description and Recommendation |
|---|--|
| <p>Existence, Completeness, and Accuracy of Retail Pharmacy Accounts Receivable Control Deficiency</p> <p><i>Reference No. 2023-002</i></p> | <p>Approximately \$20.9 million of retail pharmacy accounts receivable are included in other current assets in the consolidated balance sheet as of September 30, 2023. Management relies on a third-party service organization, Central Pay, to maintain the details of the retail pharmacy individual billed claims and payments. Management does not receive a sufficiently detailed aged accounts receivable listing at the invoice/patient level to support the existence, completeness and accuracy of the recorded receivable. Additionally, absent the supporting detail, management is unable to perform an adequate assessment of the collectability of outstanding retail pharmacy accounts receivable balances.</p> <p>We recommend management work with Central Pay to receive, on a monthly basis, sufficiently detailed aged accounts receivable data, reconciled to the reported accounts receivable balance. Additionally, absent an appropriate Service Organization Controls (SOC) Report over the suitability of the design and operating effectiveness of Central Pay’s controls. We recommend management design and implement internal controls to verify the existence, completeness and accuracy of the information provided by Central Pay to support the recorded retail pharmacy accounts receivable.</p> <p>Management’s Corrective Actions:</p> <p><i>Management implemented a formal Claim Submission and Reconciliation process for pharmacy claims, including those billed through a Pharmacy Benefit Manager (PBM) and those submitted directly by the system. Pharmacy personnel run and retain a month-end Detailed Aged Receivables report from the PBM, which includes the accounts receivable detail by prescription number (not patient name). Several days after each month-end, the PBM provides the System with the Aged Receivables Summary report, which includes pharmacy claims activity (billing, adjustments and payments) related to prescription fill dates on or before month-end that were processed during the period subsequent to month-end. As such, the Detailed Aged Receivables report and the Aged Receivables Summary report will not agree.</i></p> <p><i>The PBM is committed to identifying and implementing a software program which better supports the pharmacy claims reconciliation and reporting process but does not anticipate implementation until the latter half of 2025. The process was further complicated by the cyber-attack suffered by Change Healthcare in February 2024, which is the intermediary that allows pharmacies to adjudicate pharmacy claims with PBMs. The System ultimately terminated its contract with Change Healthcare contracted with RX Linc in April 2024. The RX Linc contract includes requirements for the reconciliation of pharmacy claims and accounts receivable. Management will continue to review the Claims Submission and Reconciliation process with the PBM and will work to design and implement internal controls to verify the existence, completeness and accuracy of the information provided by the PBM to support the recorded retail pharmacy accounts receivable.</i></p> |

**Lee Memorial Health System
 Prior Period Audit Findings
 Special District Component Unit Reporting (Unaudited)**

| Category | Description and Recommendation |
|--|--|
| <p>Control Deficiency:</p> <p>Existence, Completeness, and Accuracy of the Transfer and Depreciation of Completed Capital Projects</p> <p><i>Reference No. 2023-003</i></p> | <p>Management performs a year-end analysis of all completed capital projects placed in service during the fiscal year and records an adjustment to transfer the project costs to the appropriate capital asset class (e.g., buildings, etc.) and to record estimated depreciation of those transferred assets from the date placed in service through year-end. The individual assets from those project costs are entered into the fixed asset subledger the following fiscal year. In performance of our testing, BDO identified two assets that were completed and placed in service during the year ended September 30, 2022 but were not included in the prior year transfer and depreciation adjustment, resulting in a misclassification of capital assets and an understatement of depreciation expense that was “trued-up” during the year ended September 30, 2023. Additionally, certain completed capital projects for the Trauma District, and the estimated depreciation expense, were overstated in the prior year as the actual assets transferred were assigned longer useful lives than estimated. In consideration of the significant volume and material dollar amounts of capital asset acquisitions and construction, for both the System and Trauma District, it is probable material misclassifications of capital assets by asset class and misstatements of depreciation expense will continue to occur.</p> <p>We recommend that accounting personnel continue to work with capital projects personnel to refine the current process to ensure that all capital projects are supported by, and reconciled to, individual asset invoices, contracts, or other supporting documentation, and that assets placed in service are timely identified, transferred and entered into the fixed asset subledger and depreciated in the proper period. We recommend that management consider performing the review and reconciliation on a monthly or quarterly basis during the year rather than at the end of each fiscal year.</p> <p>Management’s Corrective Actions:</p> <p><i>During the 13-month period ended October 31, 2024, management worked with Supply Chain personnel to improve the process for entering receipts timely to ensure invoices are processed within the month of invoice date, which has provided additional time for the finance personnel to properly classify assets and accrue depreciation for any expenditures not transferred to the fixed asset system as of period-end. Additionally, management updated the utility in the Capital Tracking application used by finance personnel to more easily identify “ready-use” projects with expenditures greater than or equal to 90% of the “adjusted budget” amount. During the monthly review process, finance personnel flag a project as “complete,” follow-up on any outstanding purchase orders and invoices for processing, and transfer the expenditures to the fixed asset system. Finance personnel also investigate active projects with issued purchase orders but no actual spending within 15 months of the capital project/request approval.</i></p> |

**Lee Memorial Health System
 Prior Period Audit Findings
 Special District Component Unit Reporting (Unaudited)**

| Category | Description and Recommendation |
|--|---|
| <p>Control Deficiency:</p> <p>Reconciliation of Payroll Reports to Reported Compensation Expense</p> <p><i>Reference No. 2023-004</i></p> | <p>During the year ended September 30, 2023, the System implemented the cloud-based version of its general ledger payroll module. After the implementation, management was unable to generate or obtain year-to-date payroll reports and information previously used to reconcile and support recorded compensation expense. Management was ultimately able to reconcile recorded annual compensation and related benefit expenses from the payroll reports to the general ledger within an acceptable margin of error.</p> <p>We recommend that accounting personnel continue to work with the software vendor to design routine system reporting with information sufficient to reconcile compensation and benefits earned and paid per the payroll registers to the related general ledger recorded expense and to design and implement a formal payroll reconciliation process on a monthly and annual basis.</p> <p>Management’s Corrective Actions:</p> <p><i>During the 13-month period ended October 31, 2024, management completed a manual monthly reconciliation of payroll registers to reported payroll expense to ensure accurate reporting of payroll transactions; however, this process was a work-around to the universal standard of reconciling payroll register reports generated from the source system. Subsequently, management was able to obtain a system generated report with the information necessary to facilitate a timely reconciliation of payroll expense to the general ledger, and currently performs such reconciliation for each payroll period and for the annual reporting period.</i></p> |
| <p>IT Logical Access and Change Management General Controls</p> <p>Control Deficiency</p> <p><i>Reference No. 2023-005</i></p> | <p>BDO’s IT assurance specialists performed a review of the System’s IT general controls over logical access and change management and noted the following:</p> <ul style="list-style-type: none"> ▪ Management represented that a periodic review of access is performed for all platforms and systems; however, evidence of the reviews, including documentation of the completeness and accuracy of the system generated user access listing, results of the review of roles and permissions assigned to individuals and the timely update of access modification requests was not sufficiently documented and retained for certain platforms. We recommend management identify standard documentation and a sufficient document retention period as part of its policies and procedures, and ensure such documentation, including documentation of the completeness and accuracy of the system generated user access listing, the nature and results of the review, and the individual performing the review, is maintained for all access reviews performed. If the review is performed by an individual with access to that system, a separate individual should review and document the appropriateness of the reviewer’s access. ▪ We noted that three individuals had access to both build and migrate changes in EPIC based on the level of evidence provided. Management has represented that additional security measures in EPIC segregate these abilities; however, we were not able to timely review evidence supporting that assertion. We |

**Lee Memorial Health System
 Prior Period Audit Findings
 Special District Component Unit Reporting (Unaudited)**

| Category | Description and Recommendation |
|---|---|
| | <p>recommend that management document the additional security measures and consider performing and documenting a periodic review of all change activity.</p> <p>Management’s Corrective Actions:</p> <p><i>IT management reviewed its access provisioning processes and documentation and is currently building out the change ticket and reporting functions to support documentation of access and change management reviews and audits. Additionally, user access roles and change management process will be assessed by the IT security team and any further segmentation will also be evaluated before the end of the calendar year.</i></p> <p><i>The IT department tightly restricts access to EPIC by job role and segregates production migration duties from change application teams. The IT department is also currently implementing Sailpoint Phase I, an identity management software with additional security measures. Management plans to evaluate and implement the user access review feature (where appropriate) in a future implementation phase.</i></p> |
| <p>Reliance On Internal Controls Of Third-Party Service Organizations Control Deficiency</p> <p>Reference No. 2023-006</p> | <p>Consistent with the prior year, management relies on information provided by several third-party service or trust organizations, such as SEI Private Trust Company, Northern Trust Bank, Web-TPA and others, in the preparation of its consolidated financial statements and disclosures. As part of the System’s internal control over financial reporting for the current year, various departments obtained, and financial management reviewed, certain third-party organizations’ Service Organization Controls (SOC) Reports over the suitability of design and operating effectiveness of the organizations’ controls. In response to the control deficiency identified in the prior year, management implemented procedures and templates to document their review of the SOC reports. While a significant improvement over the prior year, management’s assessment did not include SOC Reports for all significant third-party service organizations. Additionally, management performed and documented its assessments near or after year-end.</p> <p>We recommend management continue to refine its SOC Report review process, including documentation of their inventory of all third-party service organizations used by the System, the availability and expected timing of the issued SOC Report, and the responsible party for each SOC Report review. We further recommend management consider acceleration of its SOC Report review processes and performance and documentation of ongoing monitoring of the identified user entity controls throughout the year. We also recommend management consider any proposed new service provider’s internal controls and availability of a SOC report as a condition for vendor selection. Management bears the ultimate responsibility for the fair presentation of its consolidated financial statements. Proper evaluation of SOC reports and responsive design and implementation of UECs by the System provides management with a basis for reliance on data or services provided by its third-party service organizations.</p> |

Lee Memorial Health System
Prior Period Audit Findings
Special District Component Unit Reporting (Unaudited)

| Category | Description and Recommendation |
|----------|---|
| | <p>Management's Corrective Actions:</p> <p><i>Finance management has documented a current inventory of the System's reliance on service organizations and the expected availability and timing of SOC reporting for each. Management will document the review of each SOC Report annually, upon release of the respective SOC Report. Management will also consider the availability of relevant, effective SOC reporting as new third-party service organizations are considered for vendor selection.</i></p> |

Lee Memorial Health System

Audit Findings

October 31, 2024

The following comments and recommendations were noted in connection with our audit of the System’s consolidated financial statements as of and for the 13-month period ended October 31, 2024.

| Category | Definition |
|------------------------|---|
| Control Deficiency | 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. |
| Significant Deficiency | A deficiency or 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. |
| Material Weakness | A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the System’s financial statements will not be prevented or detected and corrected on a timely basis. |

| Category | Description and Recommendation |
|---|---|
| Estimation of Employee Health Liabilities Control Deficiency <i>Reference No. 2024-001</i> | <p>Management’s estimate of the liability for employee health claims incurred but not paid (“IBNP Liability”) is manual, complex, and dependent on claims information provided by its third-party service provider, Key Benefit Administrators (“KBA”). The System has no formalized process for the extraction, review for completeness and accuracy of data, and retention of source documentation from KBA, or a reconciliation of year-to-date KBA claims registers to recorded claims expense and management’s calculation of the IBNP liability, which increases the risk of a material misstatement due to incorrect data used, incorrect assumptions, or other errors. At October 31, 2024, the recorded employee health liability did not reconcile to management’s calculation of the IBNP liability. Per discussion with management, the difference is due to a belief that the current methodology overstated the liability, but no additional analysis or revised estimate was performed. BDO did not identify a misstatement as the recorded liability fell within in an immaterial difference from our independent actuarial valuation; however, the System’s internal control over financial reporting may not place reliance on external auditor estimates.</p> <p>We recommend the System develop and implement a formal process related to the IBNP Liability, including periodic (monthly or quarterly) extraction of KBA data under prescribed, consistent report parameters, validation of data completeness and accuracy via reconciliation of such data to recorded claims expense and review of data trends, etc., and a revised methodology responsive to management’s concerns and reflective of the System’s actual liability. Furthermore, the process should include a robust, periodic (monthly, quarterly, or at year-end at a minimum) second-level review and documented rationale/support for any deviations in the recorded liability as compared to management’s estimate.</p> |

Lee Memorial Health System
Exhibit I
Special District Component Unit Reporting (Unaudited)

| Category | Description and Recommendation |
|---|--|
| | <p><u>Management’s Response:</u></p> <p><i>There were numerous interruptions to the internal operations of KBA, the service provider who is charged with maintaining the EE Health claims data, during the 2024 financial year. KBA experienced a security breach which caused a shutdown of all systems for nearly 8 weeks and thereafter took 6 weeks to catch up on claims processing. This resulted in increased volatility between the claims incurred and recorded, which in turn impacted the resulting calculations of the IBNR liability at month and year ends. Management believed that purely calculating the expected IBNR at year-end based on volatile report extracts from KBA would not likely result in an accurate estimate. Therefore, Management took a more conservative approach, based on a combination of the historical liability values coupled with the activity in claims incurred during the year. Management is now implementing a process whereby at the end of each month, the detailed KBA reports will be reconciled to the claims incurred and the liability calculation will be based on the most recent reports. A retrospective review in the following month will be performed to vet the prior months expected IBNR. Changes to the calculation will be implemented where required in order to refine the estimation process, so that there is always an accurate recording of the liability with the resulting underlying support being retained.</i></p> |
| <p>Consolidation and Presentation of Paramount Surgery Center, LLC Control Deficiency Reference No. 2024-002</p> | <p>Due to its controlling interest in Paramount Surgery Center, LLC (“PAR”), the System consolidates PAR’s financial position and results of operations in its consolidated financial statements. The System receives quarterly financial reports and detailed patient-level service information for PAR and posts a summary journal entry to the general ledger. Rather than utilizing the established chart of accounts classification policies, the summary journal entry has historically, and through the interim testing date for the current year audit, classified all revenue (gross patient revenue, contractual adjustments, provision for uncollectible accounts, etc.) as operating revenue and all expenses (salaries, wages and benefits, supplies, purchased services, etc.) as other operating expense, resulting in an inconsistent presentation for financial reporting purposes. BDO identified and discussed the matter with management during the interim audit testing. Management subsequently corrected the journal entry process and financial statement presentation and BDO verified the matter was properly remediated as of and for the 13-month period ended October 31, 2024.</p> <p><u>Management’s Response:</u></p> <p><i>This deficiency was identified during the interim phase of the audit and management corrected the financial statement presentation for the 13-month period ended October 31, 2024.</i></p> |

Lee Memorial Health System
Exhibit I
Special District Component Unit Reporting (Unaudited)

| Category | Description and Recommendation |
|---|--|
| <p>Segregation of Duties - Treasury and Cash Management Control Deficiency</p> <p><i>Reference No.</i> 2024-003</p> | <p>One of the System’s finance managers is granted IT access and functional permissions within the Bank of America Cash Pro interface in excess of those required for his or her job function, exposing the System to greater risk due to conflicts in the segregation of duties for the treasury function. For example, the finance manager can create, approve and send wire templates and to initiate, approve and send external payments. Access rights and permissions should be tailored to an individual’s job function and should ensure a proper segregation of duties such that one person could initiate, authorize, record, and reconcile a transaction without oversight. Management subsequently corrected the access and permissions for the finance manager and BDO verified the matter was properly remediated as of and for the thirteen months ended October 31, 2024.</p> <p><u>Management’s Response:</u></p> <p><i>This deficiency was identified during the interim phase of the audit and management subsequently corrected the access and permissions for the finance manager as of October 31, 2024.</i></p> |
| <p>Segregation of Duties - CCMC Pension Control Deficiency</p> <p><i>Reference No.</i> 2024-004</p> | <p>Segregation of Duties - CCMC Pension</p> <p>The System lacks adequate segregation of duties related to the accounting and reporting for its frozen, noncontributory, single-employer, defined benefit retirement plan (the “CCMC Plan”). A Senior Benefit Consultant is tasked with all CCMC Plan administrative duties, including record keeping and the authorization and initiation of transactions, and acts as the sole liaison with Northern Trust, the System’s CCMC Plan custodian and benefits manager. Changes in beneficiary status and information communicated to Northern Trust by the Senior Benefit Consultant were not subject to additional review or authorization, exposing the System to greater risk of loss due to conflicts in the segregation of duties for the CCMC Plan administration, as well as a risk of loss of data or business process interruption. For example, the Senior Benefits Consultant is responsible for the identification and communication of changes in eligibility for benefit payments and the investigation of “undeliverable” benefit payments reported by Northern Trust. The Senior Benefits Consultant is also solely responsible for communications with plan participants and/or beneficiaries. As such, the Senior Benefit Consultant would be able to communicate to Northern Trust a continuation of benefit payments to himself using a fraudulent address and/or bank account rather than a termination of benefits for a newly deceased plan participant or beneficiary. Alternatively, if the Senior Benefits Consultant were to have an unplanned extended absence from work, the System would encounter difficulty in the continuation of benefits administrative duties.</p> <p><u>Management’s Response:</u></p> <p><i>Management is transitioning all accounting of the CCMC Pension to AON Consulting, with anticipated completion in March 2025. Management expects</i></p> |

Lee Memorial Health System
Exhibit I
Special District Component Unit Reporting (Unaudited)

| Category | Description and Recommendation |
|--|--|
| | <p><i>the change in processing to address the segregation of duties conflicts and recognize the effective design and implementation of internal controls and correct accounting and reporting for the CCMC Pension remains the ultimate responsibility of the System. Upon completion of the transition, we will evaluate the design of internal controls over pension accounting and reporting, including any reliance placed on AON Consulting as a third-party service provider, and address any identified gaps or areas for improvement.</i></p> |
| <p>IT System Access Control Deficiency</p> <p>Reference No. 2024-005</p> | <p>BDO's IT assurance specialists performed a review of the System's IT general controls over system access. During our review, it was identified that there is a significant delay in the removal of system access for employees who have been terminated from both the Axiom and UKG systems. We observed two instances where terminated employees retained access to these for extended periods after their termination date. This delay in deactivating access rights poses a risk to the organization's information security and failure to promptly remove system access for terminated employees increases the risk of unauthorized access to sensitive information, which could lead to data breaches, financial loss, and damage to the organization's reputation. Best practices in access management and internal controls require that access to systems and data be promptly revoked upon an employee's termination to prevent unauthorized access and potential data breaches.</p> <p><u>Management's Response:</u></p> <p><i>IT management determined this specific finding was due to an account being de-provisioned 35 days after termination was entered. The System began the final stages of implementation of a new application, Sailpoint Identity Access Management on May 5, 2024, which will address such issues by automating the de-provisioning of accounts twice daily, at 10am and 10pm.</i></p> |

Lee Memorial Health System
Exhibit I
Special District Component Unit Reporting (Unaudited)

For the 13-Month Period Ended October 31, 2024

(dollars in thousands)

Data Element

| | |
|--|-----------------------------|
| 1. Total number of System employees compensated in the last pay period of the 13-month period ended October 31, 2024 | 16,834 |
| 2. Total number of independent contractors to whom nonemployee compensation was paid for the month ended October 31, 2024 | 274 |
| 3. All compensation earned by or awarded to employees, whether paid or accrued, regardless of contingency, for the 13-month period ended October 31, 2024 | \$ 1,597,575 |
| 4. All compensation earned by or awarded to nonemployee independent contractors, whether paid or accrued, regardless of contingency, for the 13-month period ended October 31, 2024 | \$ 27,867 |
| 5. Expenditures during the 13-month period ended October 31, 2024 for construction projects with a total cost equal to or greater than \$65,000 approved by the System and begun on or after October 1, 2023 | Refer to following schedule |
| 6. Budget variance report based on the budget adopted under Section 189.016(4), Florida Statutes, | Refer to following schedule |

Lee Memorial Health System

Exhibit I

Special District Component Unit Reporting (Unaudited)

Expenditures during the 13-month period ended October 31, 2024 for construction projects with a total cost equal to or greater than \$65,000 approved by the System and begun on or after October 1, 2023 are as follows:

| Project Description | <i>(dollars in thousands)</i> | |
|--|-------------------------------|-------|
| | Expenditures | |
| CCH water management disinfection | \$ | 71 |
| CCH chiller replacement | | 548 |
| CCH Roof Replacement | | 924 |
| CCH ED vertical fast track expansion | | 73 |
| CCH electrical OR suite pressure monitors and ALS controls | | 135 |
| CCH generator | | 67 |
| CCH HVAC - Air Handler Unit | | 6 |
| CCH utility piping replacement | | 299 |
| CCH nurse call system | | 104 |
| CCH radiology CT | | 7 |
| CCH southwest parking lots | | 260 |
| CCH heat pumps | | 179 |
| CCH ADA restrooms | | 35 |
| CCH ED telemetry relocation | | 3 |
| CCH child development playground resurfacing | | 86 |
| LPG allergy relocation | | 0 |
| LPG renovation (2 exam rooms and a restroom) | | 59 |
| LPG roof replacement, Summerlin pediatric ophthalmology | | 203 |
| LPG Med Plaza IV Electrical Service Panel Replacement | | 20 |
| LPG CCH GME faculty offices | | 93 |
| LPG BHC general and vascular surgery - design fees | | 2 |
| GCMC HVAC | | 39 |
| GCMC utility piping | | 58 |
| GCMC cooling tower fan motor | | 90 |
| GCMC wells storm repairs | | 35 |
| GCMC renovation | | 195 |
| GCMC Metasys building Controls | | 12 |
| HPCC HVAC roof top unit t | | 270 |
| HPCC generator | | 124 |
| HPCC interior phase 4 renovation | | 132 |
| HPMC chiller and cooling tower | | 1,283 |
| HPMC HVAC atrium smoke exhaust fans | | 89 |
| HPMC door operator replacement | | 66 |
| HPMC electrical tower booster pump | | 74 |
| HPMC Auto Door Replacement | | 34 |
| HPMC Door Replacement | | 14 |
| HPMC utility piping replacement | | 102 |
| HPMC roof replacement | | 483 |
| HPMC wells storm repairs | | 9 |
| HPMC continuous oxidant controllers | | 105 |
| LH Home Infusion infusion suite conversion | | 14 |
| LMH HVAC MOC secondary chilled water pump | | 15 |
| LMH HVAC roof top unit replacement | | 128 |
| LMH HVAC AHU controls and fan coils controls | | 95 |

Lee Memorial Health System
Exhibit I
Special District Component Unit Reporting (Unaudited)

| Project Description | <i>(dollars in thousands)</i> | |
|--|-------------------------------|-------|
| | Expenditures | |
| LMH chiller #3 | | 29 |
| LMH HVAC 7 th floor north | \$ | 41 |
| LMH HVAC vacuum pump | | 76 |
| LMH roof replacement | | 723 |
| LMH A side UPS replacement | | 74 |
| LHCP water quality upgrades boiler | | 95 |
| Veterans and Santa Barbara property | | 77 |
| Veterans Park programming and concept design | | 78 |
| Bass Medical One HVAC replacement | | 76 |
| Bimini Square tenant improvements | | 1,546 |
| BHC HVAC replacement | | 75 |
| LHCC fire alarm replacement | | 64 |
| Shoppes at Coconut Point roof replacement | | 425 |
| IT warehouse renovation | | 903 |

Lee Memorial Health System
Audit Findings
October 31, 2024

The budget variance report based on the budget adopted under Section 189.016(4), Florida Statutes, for the 13-month period ended October 31, 2024 is as follows:

| | <i>(dollars in thousands)</i> | | |
|--|-------------------------------|-------------------|-------------------|
| | Budget | Actual | Variance |
| Operating Revenues | | | |
| Net patient service revenue, net | \$ 3,073,334 | \$ 3,258,098 | \$ 184,764 |
| Other revenue | 247,900 | 268,799 | 20,899 |
| Total Operating Revenues | 3,321,234 | 3,526,897 | 205,663 |
| Operating Expenses | | | |
| Salaries, wages, and benefits | 1,772,389 | 1,822,405 | 50,016 |
| Supplies and other services | 842,038 | 909,393 | 67,355 |
| Purchased services | 344,573 | 365,944 | 21,371 |
| Depreciation and amortization | 162,926 | 181,312 | 18,386 |
| Total Operating Expenses | 3,121,926 | 3,279,054 | 157,128 |
| Operating Income | 199,308 | 247,843 | 48,535 |
| Non-Operating Income and Expenses | | | |
| Interest expense | (37,807) | (39,434) | (1,627) |
| Net investment income, including realized and unrealized gains and losses on investments | 93,002 | 219,745 | 126,743 |
| Contributions and grants | 4,288 | 5,896 | 1,608 |
| Investment activity on restricted nonexpendable investments | - | 2,335 | 2,335 |
| Net loss on disposal of capital assets | - | (6,389) | (6,389) |
| Federal and state appropriations | - | 3,480 | 3,480 |
| Other, net | 15,444 | 11,772 | (3,672) |
| Total Non-Operating Income | 74,927 | 197,405 | 122,478 |
| Excess of Revenues and Income Over Expenses | 274,235 | 445,248 | 171,013 |
| Other Changes in Net Position | | | |
| Distributions to minority interests in joint ventures | - | (2,195) | (2,195) |
| Increase in Net Position | \$ 274,235 | \$ 443,053 | \$ 168,818 |

Lee Memorial Health System

Consolidated Financial Statements,
Required Supplementary Information,
Other Supplementary Information,
and Supplemental Schedule of Expenditures
of Federal Awards and State Financial
Assistance

13-Month Period Ended October 31, 2024

Lee Memorial Health System

Consolidated Financial Statements, Required Supplementary Information,
Other Supplementary Information, and Supplemental Schedule of
Expenditures of Federal Awards and State Financial Assistance
13-Month Period Ended October 31, 2024

Lee Memorial Health System

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Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lee Memorial Health System and the pension trust fund (collectively, the System) as of and for the 13-month period ended October 31, 2024 and the related notes to the consolidated financial statements, which collectively comprise the System's basic consolidated financial statements as listed in the table of contents.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the System as of October 31, 2024, and the changes in its fund net position and its cash flows for the 13-month period then ended, and the financial position of the pension trust fund as of October 31, 2024, and the respective change in financial position for the 13-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. The financial statements of Lee Memorial Health System Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Emphasis of a Matter

As described in Note 1 to the consolidated financial statements, in anticipation of a Conversion Transaction on November 1, 2024, management elected to present consolidated financial statements for the 13-month period ended October 31, 2024, which include the final month of the System's operations prior to the Conversion Transaction. 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 17 and the schedules of changes in the net pension liability and related ratios, employer contributions, investment returns, changes in total other post-employment benefits (OPEB) liability, and total other post-employment benefits (OPEB) contributions on pages 66 through 74 be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the System's basic consolidated financial statements. The supplemental consolidating schedules on pages 76 through 78 are presented for purposes of additional analysis and are not required parts of the basic consolidated financial statements.

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2025 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.

March 4, 2025, except for our report on the schedule of expenditures of federal awards and state financial assistance, for which the report date is July 30, 2025

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

Introduction

This section of Lee Memorial Health System's (LMHS) consolidated financial report presents management's discussion and analysis of the financial position and performance of LMHS and its component units (collectively, the System) for the 13-month period ended October 31, 2024, presented with the consolidated financial position and performance of the System for the year ended September 30, 2023. Refer to the discussion below for further information related to the presentation of non-comparative reporting periods. Management prepared this unaudited discussion and analysis, which should be read in conjunction with the accompanying consolidated financial statements and related consolidated financial statement disclosures.

LMHS is governed by a ten-member, publicly elected Board of Directors (the Board). Each Board member can be elected to an unlimited number of four-year terms with six members being up for election normally in the presidential election year and four in the nonpresidential election year. This assists in providing leadership continuity among the Board members.

The System is an integrated health care provider that consists of 1,877 acute-care hospital beds located at four campuses, which includes a 135-bed designated children's hospital, a 60-bed rehabilitation hospital, a 75-bed skilled nursing unit, and an 18-bed skilled nursing unit. In addition, the System operates a 112-bed skilled nursing facility, a home health agency, outpatient treatment and diagnostic centers, and physician offices. For further detail on these entities, refer to Note 1 of the consolidated financial statements.

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

Four strategic enablers underpin the Board's strategic plan to achieve the System's mission and vision: (1) deliver on the brand promise; (2) accelerate digital transformation and innovation; (3) elevate the human experience in health; and (4) drive clinical and performance. These strategic enablers will be achieved by resourcing and deploying strategies and tactics that are fully aligned and deployed to operations through the System's lean operating system. The strategies will be driven by data analytics to improve processes, standardize to best practices, and utilize human capital and technology to achieve the highest probability of success in improving outcomes and lowering costs.

Subsequent Conversion to a Not-for-Profit Health System

The Florida Legislature and LMHS recognize that the health care industry changed significantly since the System was created in 1963, growing from a single hospital into a vibrant, full-service, multi-hospital health system. Due to this growth, the Florida Legislature and LMHS further recognize that the continued operation of the System as a special-purpose unit of local government may no longer be an effective or beneficial function of the State of Florida, Lee County, or the System, and that the interests of Lee County residents may be better served by a conversion to a non-governmental, not-for-profit, community hospital system.

Subsequent to the 13-month period ended October 31, 2024, effective November 1, 2024, the System was converted from a special-purpose unit of local government to a non-governmental, not-for-profit, community hospital system pursuant to a transaction by which all of the operations,

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

assets, and liabilities of the System were transferred from to Lee Health System, Inc. (LHS), a newly formed Florida not-for-profit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code (the Code) (the Conversion Transaction). In connection with the Conversion Transaction, (i) Lee County Trauma Services District transferred all of its operations, assets, and liabilities to LMHS and (ii) the other blended component units and discrete component units of LMHS became affiliates or 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) a change in the composition of such component unit'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. On November 1, 2024, LMHS notified the Florida Department of Commerce of the completion of the Conversion Transaction, and LMHS was dissolved as a matter of law and ceased to exist as of such date.

While management is still evaluating the impact of the Conversion Transaction on the financial reporting of LHS and its subsidiaries and affiliates (collectively, the Converted System), management believes the Conversion Transaction provides greater flexibility in the Converted System's operations and enables the Converted System to expand its operations and obtain additional financial resources that will permit it to continue to operate and grow in a way that provides greater access to health care services for the citizens of its service area, enhances the provision of high-quality and cost-effective health care, and positions the Converted System to adapt effectively to the changes taking place locally and nationally in the health care delivery and financing systems. For additional detail regarding the Conversion Transaction, refer to Note 1 of the consolidated financial statements.

The System's fiscal year-end is September 30. However, in anticipation of the Conversion Transaction on November 1, 2024, management elected to present the consolidated financial statements for the 13-month period ended October 31, 2024, so as to include the final month of the System's operations prior to the Conversion Transaction and LMHS's dissolution. As a result, management's discussion and analysis presents a comparison of the 13-month period ended October 31, 2024 to the 12-month period (or year) ended September 30, 2023.

Overview of the Consolidated Financial Statements

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

Required Consolidated Financial Statements

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

The consolidated statement of net position reflects all of the System's assets, liabilities, deferred inflows and outflows of resources, and net position and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). Assets,

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

liabilities, and deferred activity are presented in a classified format, which distinguishes between their current and long-term time frame. The difference between the assets plus deferred outflows of resources and liabilities plus deferred inflows of resources is reported as net position.

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

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

Financial Analysis

Condensed Consolidated Statements of Net Position

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

| | October 31, 2024 | September 30, 2023 |
|---|---------------------|-----------------------|
| Assets | | |
| Current and other non-current assets | \$ 2,602,744 | \$ 2,148,632 |
| Capital assets, net | 1,681,737 | 1,581,851 |
| Total Assets | \$ 4,284,481 | \$ 3,730,483 |
| Total Deferred Outflows of Resources | \$ 101,364 | \$ 103,901 |
| Liabilities | | |
| Current liabilities | \$ 361,850 | \$ 336,638 |
| Non-current liabilities | 1,175,228 | 1,087,209 |
| Total Liabilities | \$ 1,537,078 | \$ 1,423,847 |
| Total Deferred Inflows of Resources | \$ 27,615 | \$ 32,438 |
| Net Position | | |
| Restricted | \$ 73,889 | \$ 65,115 |
| Net investment in capital assets | 564,075 | 537,103 |
| Unrestricted | 2,183,188 | 1,775,881 |
| Total Net Position | \$ 2,821,152 | \$ 2,378,099 |

Total assets at October 31, 2024 increased by \$554.0 million, or 14.9%, over the prior reporting period due primarily to an increase in short term investments of \$160.2 million, an increase in estimated third-party settlements of \$123.5 million, and an increase in net capital assets of \$99.9 million. The increase in short-term investments is primarily the result of the System's reinvestment of \$82.8 million of realized gains and interest income, net of investment expenses and a \$136.9 million increase in unrealized gains, partially offset by \$65 million net cash withdrawals during the 13-month period ended October 31, 2024. Estimated third-party settlements were

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

\$163.9 million at October 31, 2024, primarily comprised of receivables related to the System's advanced funding of inter-governmental transfers (IGTs) to the Agency of Health Care Administration (AHCA) under the Medicaid Supplemental Payment Program (MSPP) for the Medicaid fiscal year ended June 30, 2025. As of October 31, 2024, AHCA had not yet reimbursed the System's IGT advances or paid the System the additional supplemental payments due for the MSPP 2025 state fiscal year. The growth in capital assets was primarily due to progress on strategic growth projects approved during the current and prior fiscal year and right-of-use leased buildings and equipment, and subscription agreements related to Subscription-Based Information Technology Arrangements (SBITA) executed during the year.

Deferred outflows of resources at October 31, 2024 decreased by \$2.5 million, or 2.4%, from the prior reporting period due to \$3.1 million amortization of excess consideration provided for acquisitions and a \$1.3 million reduction of deferred outflows related to pension and post-employment benefit plans, partially offset by the deferral of a \$2.0 million unamortized call premium on the early extinguishment of the Hospital Revenue Bonds, 2010 Series A (the 2010 Series A Revenue Bonds).

Total liabilities at October 31, 2024 increased by \$113.2 million, or 8.0%, as compared to the balance at September 30, 2023, due primarily to the issuance of \$143.9 million of Hospital Revenue Bonds, 2024 Series A net of \$42.0 million of proceeds used to retire the 2010 Series A Revenue Bonds.

Deferred inflows of resources decreased \$4.8 million, or 14.9%, from September 30, 2023 to October 31, 2024 primarily related to the \$4.1 million decrease of deferred inflows of resources attributable to the System's post-employment benefit plan.

Net position increased by \$443.1 million from September 30, 2023 to October 31, 2024, attributable to positive operating income of \$247.8 million and non-operating income of \$197.4 million, partially offset by a \$2.2 million distribution to holders of a minority interest in Paramount Surgery Center, LLC.

Capital Assets

The System's investment in net capital assets was \$1,681.7 million at October 31, 2024, representing a \$99.9 million net increase over net capital assets of \$1,581.9 million at September 30, 2023. During the 13-month period ended October 1, 2024, the System made capital expenditures for land, construction-in-progress, buildings and improvements, and equipment of \$229.7 million (partially offset by the net book value of assets disposed of) and recorded additional right-of-use assets for lease obligations and subscription liabilities of approximately \$48.9 million. These increases in net capital assets were partially offset by \$176.9 million of depreciation and amortization of capital assets recorded during the period. The composition of net capital assets is more fully described in Note 6 to the consolidated financial statements.

The Converted System expects to make total capital expenditures of \$264.1 million during the 11-month period ending September 30, 2025. These capital expenditures are primarily for strategic growth projects, facility upgrades, information systems, and patient care equipment. These capital purchases will be funded directly from operations.

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

Long-Term Finance Obligations Outstanding

As of October 31, 2024 and September 30, 2023, the System owed \$1,117.7 million and \$1,044.7 million, respectively, under long-term finance obligations (revenue bonds, loans and notes payable, operating lease obligations, and subscription liabilities). These respective totals are inclusive of short-term and long-term obligations outstanding. At October 31, 2024 and September 30, 2023, 79% and 94% of the System's total revenue bonds, loans, and notes payable, respectively, incur interest at fixed rates. The System's long-term obligations are described in more detail in Notes 9 through 13 to the consolidated financial statements.

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

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

| | 13-Month Period Ended October 31, 2024 | Year Ended September 30, 2023 |
|--|---|-------------------------------------|
| Operating revenues | \$ 3,526,897 | \$ 2,894,580 |
| Operating expenses | 3,279,054 | 2,814,926 |
| Operating Income | 247,843 | 79,654 |
| Other non-operating revenues and expenses, net | 188,029 | 119,867 |
| Federal and state appropriations | 3,480 | 11,711 |
| Contributions and grants | 5,896 | 4,136 |
| Total Non-Operating Income | 197,405 | 135,714 |
| Excess of Revenues and Income Over Expenses | 445,248 | 215,368 |
| Other changes in net position - distributions to minority interest holders | (2,195) | (3,590) |
| Increase in Net Position | \$ 443,053 | \$ 211,778 |

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

| | October 31, 2024 (%) | September 30, 2023 (%) | Change 2023-2024 (%) |
|--|-------------------------|---------------------------|-------------------------|
| Salaries, wages, and benefits | 51.7 | 55.3 | (6.5) |
| Supplies and other services | 25.8 | 25.5 | 1.2 |
| Purchased services | 10.4 | 11.5 | (9.6) |
| Capital costs (depreciation, amortization, and interest expense) | 6.3 | 6.2 | 1.6 |

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

Operating Revenues

Total operating revenues for the 13-month period ended October 31, 2024 increased by \$632.3 million, or 21.8%, as compared to operating revenues for the year ended September 30, 2023. Net patient service revenue increased by \$596.5 million, of which approximately \$260.3 million is attributable to the inclusion of operations for an additional month for the 13-month period ended October 31, 2024 as compared to the prior year. The remaining increase in net patient service revenue of \$336.2 million reflects an increase to net revenue per adjusted admission resulting from favorable shifts in payor mix (decreases in Medicaid and Medicaid HMO insurers, which are reimbursed at a lower amounts) and increases in inpatient volume relative to total volume for the System.

Other operating revenue for the 13-month period ended October 31, 2024 increased by \$37.1 million, or 16.0%, compared to the year ended September 30, 2023. Approximately \$21.1 million of the increase is due to the inclusion of operations for an additional month for the 13-month period ended October 31, 2024 as compared to the prior year. The main driver of the remaining \$16.0 million increase in other operating revenue is the continued growth of the System's retail pharmacy business.

Operating Expenses

Total operating expenses increased during the 13-month period ended October 31, 2024 by \$464.1 million, or 16.5%, of which \$250.3 million is attributable to the inclusion of operations for an additional month for the 13-month period ended October 31, 2024 as compared to the prior year.

Salaries, wages, and benefits increased by approximately \$221.0 million, or 13.8%, primarily due to increased volume as evidenced by a 21.4% increase in adjusted patient days, offset partially by a 6.5% reduction in average length of stay (ALOS). The System also increased personnel related to its continued expansion in ambulatory services and other programs aimed at improving community health and patient access. Benefit costs increased by \$22.5 million, or 10.8%, over the prior year and decreased as a percent of salaries and wages to 12.6%. Salaries, wages, and benefits, as a percent of total operating revenues, decreased from 55.3% to 51.7% in 2024, due primarily to the reduced need for contract labor as strategic initiatives to hire additional nursing staff across the organization were successful. Supplies and other services expenses increased in 2024 by \$172.3 million, or 23.4%, due mostly to a 1.3% increase in supply costs per adjusted admission, as costs for supplies were impacted by global inflationary pressures experienced across health care and many other industries. Additionally, supplies and other services expenses increased commensurate with the 21.4% increase in patient volumes. Purchased services increased by \$32.9 million, or 9.9%, due primarily to increased expenses for physician locum tenens and support contracts, contract services pertaining to new technology initiatives, and specialty pharmacy and laboratory services.

Depreciation and amortization expense increased by \$37.9 million over the prior year to \$181.3 million during the 13-month period ended October 31, 2024, due primarily to the System's continued investments in capital assets for purposes of expansion, renovation, and upgrades in technology.

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

Non-Operating Revenues and Expenses

The System reported non-operating income of \$197.4 million during the 13-month period ended October 31, 2024 compared to the \$135.7 million non-operating income reported for the year ended September 30, 2023, a change of \$61.7 million primarily attributable to an \$88.3 million increase in net investment income, including realized and unrealized gains and losses on investments, as compared to the prior period. The increase in investment income was partially offset because the System recognized non-recurring \$25.5 million non-operating revenue in the prior period related to the sale of the System's Medicaid health plan's Provider Service Network membership to Simply Healthcare Plans.

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

| | 2023 Moody's Median (%) | 13-Month Period Ended October 31, 2024 (%) | Year Ended September 30, 2023 (%) |
|---------------------------------|----------------------------|---|---|
| Profitability Ratios | | | |
| Operating margin ⁽¹⁾ | 0.5 | 5.9 | 1.5 |
| Excess margin ⁽²⁾ | 2.7 | 11.8 | 7.0 |
| EBITDA margin ⁽³⁾ | 5.5 | 12.2 | 7.7 |
| Liquidity Ratios | | | |
| Day's cash on hand | 188.4 | 214.9 | 198.5 |
| Cushion ratio | 24.2 | 19.1 | 9.6 |
| Cash-to-debt | 164.5 | 160.8 | 146.7 |
| Capitalization Ratios | | | |
| Debt to capitalization | 31.1 | 27.8 | 30.3 |
| Annual debt service coverage | 4.5 | 5.3 | 2.7 |
| Debt-to-cash flow | 3.6 | 2.2 | 3.4 |

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

⁽²⁾ Excess margin is calculated as the excess of revenues and income over expenses divided by the sum of operating revenues, non-operating income or loss, and interest expense.

⁽³⁾ EBITDA margin is calculated as the sum of operating income plus depreciation and amortization, all divided by total operating revenues.

Annually, the Board establishes targets for these key ratios and then monitors these ratios each month to ensure that the System remains an A-rated organization. The cushion and cash-to-debt ratios fall below the Moody's 2023 Medians.

Consolidated Statements of Cash Flows

Unrestricted and restricted cash and cash equivalents increased \$62.2 million during the 13-month period ended October 31, 2024.

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

Net cash provided by operating activities was \$284.6 million for the 13-month period ended October 31, 2024, or \$171.2 million higher than the prior reporting period. Increases in cash received from patient care services and other operations of \$568.6 million were partially offset by \$397.4 million of additional payments to employees and suppliers, as compared to the prior year.

Net cash provided by noncapital financing activities during the 13-month period ended October 31, 2024 was \$23.6 million, compared to \$40.5 million provided by noncapital financing activities in the prior year. The decrease is primarily related to the prior year gain on the System's sale of a Provider Service Network (PSN) contract with the Florida Agency for Health Care Administration (AHCA) and Florida Medicaid to Simply Healthcare Plans (Simply) on November 1, 2022.

Net cash used in capital and related financing activities was \$263.6 million for the 13-month period ended October 31, 2024 and \$302.7 million for the fiscal year ended September 30, 2023. Compared to the prior reporting period, the System received \$93.9 million more in borrowing proceeds but paid higher amounts for interest on finance obligations and purchases of capital assets.

Net cash provided by investing activities was \$17.6 million for the 13-month period ended October 31, 2024, compared to \$46.4 million for the prior period. The decrease is due to additional investments in joint ventures made during the 13-month period ended October 31, 2024 (see Note 7 to the basic consolidated financial statements).

Community Benefit

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

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

The analysis of the community benefit reveals that the System's financial benefit of its tax-exempt status was approximately \$152.6 million for the 13-month period ended October 31, 2024 and \$94.2 million for the year ended September 30, 2023. This financial benefit includes the savings derived from not having to pay certain state and federal taxes, real estate taxes, sales, and intangible taxes, as well as lower malpractice costs due to sovereign immunity as a governmental entity, and lower cost of capital due to the use of tax-exempt financing.

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

Lee Memorial Health System

Management's Discussion and Analysis (unaudited)

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

| | 13-Month Period Ended October 31, 2024 | Year Ended September 30, 2023 |
|---|---|-------------------------------------|
| Cost of charity care for low-income patients | \$ 165,717 | \$ 112,942 |
| Cost of community outreach and educational programs and one-of-a-kind medical services | 77,424 | 71,270 |
| Cost of unpaid Medicaid services | 95,898 | 88,784 |
| Cost of unpaid Medicare and other government programs | 663,419 | 479,643 |
| Benefit of Services Provided to the Community | \$ 1,002,458 | \$ 752,639 |

The increase in the benefit of services provided to the community for the 13-month period ended October 31, 2024 as compared to the prior year is primarily related to the inclusion of an additional month of benefit provided, the increase in the discount provided to qualified low-income uninsured patients under the System's charity policy, and the increase in unpaid Medicaid services due to the expiration of COVID waivers for Medicaid in the current reporting period. Many patients no longer qualified for Medicaid following the expiration or did not complete the reenrollment process.

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

Forward-Looking Considerations

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

Medicaid and Medicare Revenues

As reflected in the following table, the System is dependent on the state and federal government programs for the majority of its revenues, with 62.3% of the System's revenue being derived from the Medicare and Medicaid programs. Over the past several years, Medicare rate increases have not kept pace with overall medical expense increases. Management expects these trends to continue, placing continued pressure on operating margins and necessitating efforts to further enhance operating efficiencies. The System has created a department with highly trained Lean Management personnel to implement process standardization and waste elimination using Lean Management methodologies.

Lee Memorial Health System
Management's Discussion and Analysis (unaudited)

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

| | 13-Month Period Ended October 31, 2024 (%) | Year Ended September 30, 2023 (%) |
|------------|---|--|
| Medicare | 51.9 | 51.8 |
| Medicaid | 10.4 | 12.8 |
| Commercial | 26.2 | 24.6 |
| Other | 11.5 | 10.8 |
| | 100.0 | 100.0 |

Lee Memorial Health System
Consolidated Statement of Net Position
(in thousands)

October 31, 2024

Assets

Current Assets

| | | |
|---|----|-----------|
| Cash and cash equivalents | \$ | 91,527 |
| Restricted cash and cash equivalents | | 14,871 |
| Investments | | 1,606,589 |
| Assets whose use is restricted required to meet current obligations | | 48,195 |
| Patient accounts receivable, net of allowance for estimated uncollectible accounts of \$435,678 at October 31, 2024 | | 435,679 |
| Inventories | | 56,049 |
| Estimated third-party settlements, net | | 163,902 |
| Other assets | | 77,030 |

Total Current Assets 2,493,842

Non-Current Assets

| | | |
|---|--|-----------|
| Assets whose use is restricted, net of amounts required to meet current obligations | | 18,835 |
| Capital assets, net | | 1,681,737 |
| Other assets | | 90,067 |

Total Assets \$ 4,284,481

Deferred Outflows of Resources

| | | |
|---|----|--------|
| Deferred outflows related to losses and call premiums on debt refunding | \$ | 2,017 |
| Deferred outflows related to pension and post-employment benefit plans | | 5,516 |
| Excess consideration provided for acquisitions | | 93,831 |

Total Deferred Outflows of Resources \$ 101,364

Liabilities

Current Liabilities

| | | |
|---|----|---------|
| Accounts payable | \$ | 112,084 |
| Accrued expenses | | 184,048 |
| Current installments of long-term finance obligations | | 65,718 |

Total Current Liabilities 361,850

Non-Current Liabilities

| | |
|---|-----------|
| Long-term finance obligations, excluding current installments | 1,051,946 |
| Pension and post-employment benefit plan liabilities | 54,956 |
| Other liabilities | 68,326 |

Total Liabilities \$ 1,537,078

Lee Memorial Health System
Consolidated Statement of Net Position
(in thousands)

October 31, 2024

Deferred Inflows of Resources

| | | |
|---|----|--------|
| Deferred gain on debt refunding | \$ | 2,356 |
| Deferred inflows related to pension and post-employment benefit plans | | 14,726 |
| Deferred inflows related to leases | | 10,533 |

Total Deferred Inflows of Resources **\$ 27,615**

Net Position

| | | |
|----------------------------------|----|-----------|
| Restricted for: | | |
| Nonexpendable | \$ | 13,691 |
| Expendable | | 60,198 |
| Net investment in capital assets | | 564,075 |
| Unrestricted | | 2,183,188 |

Total Net Position **\$ 2,821,152**

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

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

13-month period ended October 31, 2024

| | |
|--|---------------------|
| Operating Revenues | |
| Net patient service revenue, net of provision for uncollectible accounts of \$350,927 | \$ 3,258,098 |
| Other revenue | 268,799 |
| Total Operating Revenues | 3,526,897 |
| Operating Expenses | |
| Salaries, wages, and benefits | 1,822,405 |
| Supplies and other services | 909,393 |
| Purchased services | 365,944 |
| Depreciation and amortization | 181,312 |
| Total Operating Expenses | 3,279,054 |
| Operating Income | 247,843 |
| Non-Operating Income and Expenses | |
| Interest expense | (39,434) |
| Net investment income, including realized and unrealized gains and losses on investments | 219,745 |
| Contributions and grants | 5,896 |
| Investment activity on restricted nonexpendable investments | 2,335 |
| Net loss on disposal of capital assets | (6,389) |
| Federal and state appropriations | 3,480 |
| Other, net | 11,772 |
| Total Non-Operating Income | 197,405 |
| Excess of Revenues and Income Over Expenses | 445,248 |
| Other Changes in Net Position | |
| Distributions to minority interests in joint ventures | (2,195) |
| Increase in Net Position | 443,053 |
| Net Position, beginning of period | 2,378,099 |
| Net Position, end of period | \$ 2,821,152 |

See accompanying notes to consolidated financial statements.

Lee Memorial Health System
Consolidated Statement of Cash Flows
(in thousands)

13-month period ended October 31, 2024

| | |
|--|-------------------|
| Cash Flows from Operating Activities | |
| Received from patient care services | \$ 3,071,375 |
| Salaries and benefits paid to employees | (1,792,679) |
| Payments to suppliers | (1,266,680) |
| Other receipts from operations | 272,620 |
| Net Cash Provided by Operating Activities | 284,636 |
| Cash Flows from Noncapital Financing Activities | |
| Restricted gifts received (noncapital related) | 5,753 |
| Assets donated via Lee Memorial Health System Foundation, Inc. | 5,896 |
| Federal and state appropriations | 3,480 |
| Miscellaneous non-operating items | 8,439 |
| Net Cash Provided by Noncapital Financing Activities | 23,568 |
| Cash Flows from Capital and Related Financing Activities | |
| Purchases of capital assets | (215,496) |
| Proceeds from sale of capital assets | 6,666 |
| Proceeds from long-term borrowings | 143,945 |
| Repayment of long-term finance obligations | (144,016) |
| Interest payments | (54,720) |
| Net Cash Used in Capital and Related Financing Activities | (263,621) |
| Cash Flows from Investing Activities | |
| Purchases of investments and assets whose use is limited | (95,832) |
| Proceeds from sales of investments and assets whose use is limited | 143,271 |
| Investment income received | 3,084 |
| Investment manager fees paid | (6,508) |
| Distributions to minority interests | (2,195) |
| Investments in joint ventures and cash consideration for acquisitions | (24,182) |
| Net Cash Provided by Investing Activities | 17,638 |
| Net Change in Cash and Cash Equivalents | 62,221 |
| Cash and Cash Equivalents, beginning of period | 44,177 |
| Cash and Cash Equivalents, end of period | \$ 106,398 |
| Unrestricted cash and cash equivalents | \$ 91,527 |
| Restricted cash and cash equivalents | 14,871 |
| Total Cash and Cash Equivalents | \$ 106,398 |
| Supplemental Disclosures of Cash Flow Information | |
| Right-of-use assets acquired through lease obligations | \$ 48,008 |
| Right-of-use subscription assets acquired through subscription liabilities | 28,513 |

Lee Memorial Health System
Consolidated Statement of Cash Flows
(in thousands)

13-month period ended October 31, 2024

| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
|---|-------------------|
| Operating income | \$ 247,843 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation and amortization | 181,312 |
| Provision for uncollectible accounts | 350,927 |
| Changes in: | |
| Patient accounts receivable | (416,075) |
| Inventories | (5,851) |
| Other assets | 1,135 |
| Accounts payable | 24,676 |
| Accrued expenses | 21,424 |
| Estimated third-party payor settlements | (123,453) |
| Pension and post-employment benefit plan liabilities | 2,114 |
| Other liabilities | 584 |
| Net Cash Provided by Operating Activities | \$ 284,636 |

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

Statement of Net Position - Pension Trust Fund (in thousands)

October 31, 2024

Assets

| | | |
|-------------------------------------|----|--------|
| Cash and cash equivalents | \$ | 192 |
| Investments, measured at fair value | | 26,131 |
| Accrued investment income | | 16 |

| | | |
|---------------------|-----------|---------------|
| Total Assets | \$ | 26,339 |
|---------------------|-----------|---------------|

Net Position

| | | |
|--|----|--------|
| Restricted for employees' pension benefits | \$ | 26,339 |
|--|----|--------|

See accompanying notes to consolidated financial statements.

Lee Memorial Health System

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

13-month period ended October 31, 2024

| | |
|---|------------------|
| Additions | |
| Pension contributions | \$ 1,425 |
| Investment income, net | 4,354 |
| Total Additions, net of investment income | 5,779 |
| Deductions | |
| Pension benefit payments | 4,222 |
| Other expenses | 502 |
| Total Deductions | 4,724 |
| Net Increase in Net Position | 1,055 |
| Net Position - Restricted for Employees' Pension Benefits, beginning of period | 25,284 |
| Net Position - Restricted for Employees' Pension Benefits, end of period | \$ 26,339 |

See accompanying notes to consolidated financial statements.

Lee Memorial Health System
Notes to Consolidated Financial Statements
(in thousands)

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

Description of Reporting Entity

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

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

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

Conversion to a Not-for-Profit Health System on November 1, 2024

In the Spring of 2023, the Florida Legislature passed House Bill 227 that became a Special Act of the Florida Legislature, Chapter 2023-326, Laws of Florida, Special Acts, 2023 (the Amendment to the Enabling Act). The Amendment to the Enabling Act authorized LMHS (i) to conduct an evaluation of the benefits to the residents of Lee County of converting LMHS to a non-governmental Florida not-for-profit entity, and (ii) if LMHS determined that converting to a non-governmental Florida not-for-profit entity was in the best interests of Lee County residents, to convert LMHS to a non-governmental Florida nonprofit entity (a Nonprofit Operator), subject to and in accordance with the terms of an agreement to be approved by LMHS and the Lee County Board of County Commissioners.

On June 13, 2024, LMHS determined that a conversion to a non-governmental Florida nonprofit entity would be in the best financial interests of the System and of the residents of Lee County. Lee Health System, Inc. (LHS), a Florida not-for-profit corporation exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code, was formed as the Nonprofit 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

Lee Memorial Health System

Notes to Consolidated Financial Statements (in thousands)

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 Cape Coral Hospital entered into a Contribution and Conveyance Agreement effective November 1, 2024 (the Conveyance Agreement) pursuant to which (a) LMHS and Cape Coral Hospital each, respectively, gifted and transferred certain real estate assets and other liabilities (including certain debt obligations and related contracts and agreements) of LMHS and Cape Coral Hospital directly to LHS (the Direct Asset Transfer); (b) to the extent not gifted and transferred directly to LHS by LMHS, LMHS contributed all of its remaining assets and liabilities to Lee MergeCo, LLC (Lee MergeCo), a single-member Florida limited liability company, the sole member of which was LMHS (the LMHS Contribution); and (c) to the extent not gifted and transferred directly to LHS by Cape Coral Hospital, Cape Coral Hospital contributed all of its remaining assets and liabilities to Cape MergeCo, LLC (Cape MergeCo), a single-member Florida limited liability company, the sole member of which was Cape Coral Hospital (the Cape Coral Contribution and, together with LMHS Contribution, the Contributions). Immediately after the Direct Asset Transfer and the Contributions, Lee MergeCo merged with and into LHS, with LHS resulting as the surviving entity, and Cape MergeCo merged with and into LHS, with LHS resulting as the surviving entity (collectively, these mergers together with the Direct Asset Transfer and the Contributions, the Conveyance).

In connection with the Conversion and Conveyance, (i) Lee County Trauma Services District (the Trauma District) transferred all of its operations, assets, and liabilities to LMHS immediately prior to the closing of the Conveyance, and (ii) the other blended component units and discrete component units of LMHS became affiliates 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'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.

The Conversion and Conveyance were completed and effective on November 1, 2024. In accordance with the Amendment to the Special Act, LMHS notified the Florida Department of Commerce on November 1, 2024 of the completion of the Conversion and Conveyance. Upon receipt of such notice by the Florida Department of Commerce on November 1, 2024, LMHS and the Trauma District were dissolved as a matter of law and ceased to exist as of such date.

The System's fiscal year remains September 30. However, in anticipation of the Conversion Transaction on November 1, 2024, management elected to present the consolidated financial statements for the 13-month period ended October 31, 2024, so as to include the final month of the System's operations prior to the Conversion Transaction and LMHS's dissolution. Due to the inclusion of an additional month's activity, the accompanying consolidated financial statements are presented for a single period due to the lack of comparability of reporting periods.

Basis of Consolidation

The System's accompanying consolidated financial statements present LMHS and its component units. Blended component units are, in substance, part of the System's operations, even though they are legally separate entities. The discrete component unit is both legally and substantively separate from LMHS. The component units discussed below are included in the reporting entity

Lee Memorial Health System

Notes to Consolidated Financial Statements (in thousands)

because of their operational or financial relationships with the System. Except as indicated below, separate financial statements for component units are not publicly available.

Blended Component Units

- Cape Coral Hospital is managed through a not-for-profit organization, Cape Memorial Hospital, Inc. This corporation was created by the System's Board of Directors to receive and hold the assets purchased from Cape Coral Medical Center, Inc. (CCMC). LMHS is the sole owner of Cape Coral Hospital, and ten members of LMHS's Board of Directors comprise its Board of Directors. See Note 16 for presentation of Cape Coral Hospital's condensed statement of net position; revenue, expenses, and changes in fund net position; and cash flows.
- HealthPark Care Center, Inc. (HPCC) is a not-for-profit corporation, which owns and operates the System's skilled nursing facility. LMHS is the sole owner of HPCC and HPCC's Board of Directors consists of the ten members of LMHS's Board of Directors.
- Lee Memorial Home Health, Inc. (LMHH) is a not-for-profit corporation, which owns and operates the System's home health agency. LMHS is the sole owner and LMHH's Board of Directors consists of the ten members of LMHS's Board of Directors. LMHH is the sole owner of Access Medical South, LC, which provides durable medical equipment, oxygen, and respiratory services, and the sole member of Access Infusion Partners, LLP, which provides infusion services in Lee County.
- Bonita Community Health Center (BCHC) is a Florida not-for-profit corporation whose sole member is LMHS. BCHC's Board of Directors consists of the ten members of LMHS's Board of Directors. BCHC holds title to real property in Estero, Florida consisting of an approximately 97,000-square-foot health care facility operated by LMHS.
- Lee Memorial Health System Foundation, Inc. (the Foundation) is a not-for-profit corporation created by LMHS's Board of Directors and community leaders to serve as a fund-raising organization in support of the System. Its Board of Directors consists of persons prominent in the community and interested in serving the community and the System's needs. Two Board positions are also reserved on an ex-officio basis for the Chairman of the Board of Directors of LMHS or members of such Board designated by the Chairman and the Chief Executive Officer or their designee. The Foundation's separately issued financial reports may be obtained on the System's website at www.leehealth.org.
- The Trauma District is a not-for-profit organization located in Fort Myers, Florida. The Trauma District is a special-purpose unit of local government created by a special act of the 2003 Florida Legislature, Chapter 63-1552, Laws of Florida, Special Acts, 1963 as recodified by Chapter 2003-357, Laws of Florida, Special Acts, 2003. The Trauma District is classified as an independent special district under the laws of Florida. The Trauma District serves as an integral member of the continuum of care offered by the System. Per an Interlocal Agreement pursuant to the provisions of Section 163.01, Florida Statutes, LMHS is obligated to provide monetary support to the Trauma District so there is no financial loss (or gain) to the Trauma District. The Trauma District's separately issued financial reports may be obtained on the System's website at www.leehealth.org. See Note 1 for further information regarding the November 1, 2024 dissolution of the Trauma District in connection with the Conversion Transaction.
- The System provides vital patient care services through various access points. To promote access to comprehensive preventive and primary health services for medically underserved

Lee Memorial Health System

Notes to Consolidated Financial Statements (in thousands)

residents members of the community regardless of their ability to pay for such services, the System sought and received, from the Health Resources and Services Administration (HRSA) of the United States of America (U.S.) Department of Health and Human Services (HHS), the designation of certain System clinic locations as public-entity model federally qualified health center look-alikes (FQHC-LA), known as public health centers. Lee Community Healthcare, Inc. (LCH) is a separate tax-exempt Florida not-for-profit corporation with a Board of Directors that meets independent governance (community board) standards and retains reserve powers relative to FQHC-LA operations. The System and LCH entered into a co-applicant arrangement to comply with the federal law requirements related to independent Board of Directors oversight of the designated centers. As the public entity, the System is responsible for the operation of the centers, which are located in Cape Coral; North Fort Myers; East Fort Myers; South Fort Myers; Port Charlotte; and Lehigh Acres. LCH serves as an integral member of the continuum of care offered by the System. As of October 20, 2024, the System converted all FQHC-LA locations to outpatient departments of Lee Memorial Hospital.

- The System has population health services (Center for Care Transformation) aimed at furthering the System's mission to be a trusted partner empowering healthier lives through care and compassion. LMHS is the sole member or owner of the following entities that support population health:
 - Best Care Assurance, LLC (d/b/a Vivida Health) (Vivida Health) previously operated a provider-sponsored health plan that administered Medicaid benefits under a Provider Service Network (PSN) contract with the Florida Agency for Health Care Administration (AHCA) and Florida Medicaid. Effective November 1, 2022, Vivida Health sold its PSN contract and membership under a purchase agreement with Simply Healthcare Plans (Simply), a subsidiary of Elevance Health, Inc. After that date, Vivida Health's operations are limited to final settlements with AHCA and the administration and payment of member claims with dates of service prior to November 1, 2022.
 - Best Care Collaborative, LLC holds the Medicare Shared Savings Plan Accountable Care Organization (ACO) contract with the Centers for Medicare and Medicaid Services (CMS) and also manages the Best Care Alliance Clinically Integrated Network of providers (CIN).
 - Best Care Partners, Inc. previously operated the Innovatus Health network of providers, as well as a Medicare Advantage health insurance plan.
- Effective May 1, 2017, LMHS acquired 100% membership in Florida Radiology Leasing, LLC, which operates freestanding multi-diagnostic outpatient radiology centers in various leased locations.
- LMHS is the sole member of CB Medical North, LLC, which owns the land and building housing the Lee Memorial Regional Cancer Center at the Sanctuary, and CB Medical South, LLC, which owns the land and building housing the Outpatient Center at the Sanctuary.
- On October 21, 2019, LMHS's Board of Directors approved the creation of an entity to participate in investments and advantageous business relationships. LMHS is the sole member of Community Healthcare Innovations, LLC (CHI) and CHI is the sole member of the following entities:
 - Lee Healthcare Holdings, LLC (LHH) was formed on November 7, 2019 as a wholly owned subsidiary of CHI. LHH was created to participate in joint ventures and future investment ventures.

Lee Memorial Health System

Notes to Consolidated Financial Statements (in thousands)

- Lee Healthcare Investments, LLC (LHI) was formed on November 7, 2019 as a wholly owned subsidiary of CHI. LHI was created to house all of the System's wholly owned ambulatory surgery centers (ASCs).

Discrete Component Units

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

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

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

Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting, and Consolidated Financial Statement Presentation

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

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

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

Lee Memorial Health System
Notes to Consolidated Financial Statements
(in thousands)

Use of Estimates

The preparation of consolidated financial statements in conformity with 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

The System places its cash and cash equivalents with what management believes to be high-credit-quality financial institutions. Included in cash and cash equivalents are bank deposits that may be in excess of the federal insured amount of \$250,000. However, the System is a Qualified Public Depositor with the state of Florida. As such, deposits at Qualified Public Depositories are insured at the full amount on deposit. Management does not anticipate nonperformance risk by the financial institutions.

Restricted Cash and Cash Equivalents

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

Inventories

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

Investments and Investment Income

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

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

| <i>October 31, 2024</i> | <i>(%)</i> |
|---|-------------------|
| SEI Core Property Fund, LP (Core Property Fund) | 4.70 |
| SEI Special Situations Fund, Ltd. (Special Situations Fund) | 7.79 |
| SEI Core Property Fund, LP (held by the Foundation) | 0.07 |
| SEI Vista Fund, Ltd. (held by the Foundation) | 0.21 |

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Assets Whose Use Is Restricted

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

Capital Assets, Net

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

Property, plant, and equipment are capitalized when the cost of the individual item exceeds \$1,000 and are recorded at historical cost or acquisition value at date of purchase or donation, respectively. Routine maintenance and repairs are expensed when incurred. Expenditures that materially increase the value, change the capacity, or extend the useful life of an asset are capitalized.

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

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

Estimated useful lives by major asset classification were as follows:

| <u>Asset Category</u> | <u>Estimated Useful Lives (Years)</u> |
|----------------------------|---------------------------------------|
| Buildings and improvements | 10-80 |
| Equipment | 2-20 |

Impairment of Long-Lived Assets

Long-lived assets are evaluated for recoverability whenever adverse events or changes in business climate indicate a decline in service utility of the capital asset. For the 13-month period ended October 31, 2024, the System does not believe there were any adverse events or changes in business that would indicate that an impairment reserve is required.

Leases

Lessor

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

At the commencement of the lease, the System measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments receivable. The deferred inflow of resources is

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initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

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

Lessee

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

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

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

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

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

Subscription-Based Information Technology Arrangements (SBITA)

The System is party to multiple SBITAs. The System recognizes a subscription liability and an intangible right-of-use subscription asset (subscription asset) in the consolidated financial statements. The System reports SBITA current expenditures in the consolidated statement of revenues, expenditures, and changes in fund net position. The System recognizes subscription

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liabilities for all SBITAs with an initial term greater than 12 months and annual payments exceeding \$12,000. At October 31, 2024, remaining subscription terms range from one to five years with fixed payments due monthly, quarterly, or annually. For SBITAs with a maximum possible term of 12 months or less at commencement, the System recognizes expenses/expenditures as purchased services based on the provisions of the arrangement.

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

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

The System monitors changes in circumstances that would require a remeasurement of a SBITA and will re-measure the subscription asset and subscription liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

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

Excess Consideration Provided for Acquisition

Excess consideration provided for acquisition represents the consideration paid by the System for various acquisitions in excess of the estimated fair value of net position acquired. This deferred outflow is being attributed to future periods (i.e., amortized) in a systematic and rational manner over the periods presented in the table below. The System recognized approximately \$3.9 million in amortization expense for the 13-month period ended October 31, 2024, with such amounts being included as a component of depreciation and amortization in the consolidated statement of revenues, expenses, and changes in fund net position.

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

October 31, 2024

| | Carrying Value | Annual Amortization | Weighted-Average Amortization Period (Years) |
|---------------------------|------------------|---------------------|--|
| Gulf Coast Medical Center | \$ 73,995 | \$ 2,691 | 39.7 |
| Lee Memorial Hospital | 14,590 | 660 | 27.3 |
| Cape Coral Hospital | 5,246 | 530 | 20 |
| Total | \$ 93,831 | \$ 3,881 | 36.4 |

During the 13-month period ended October 31, 2024, the System acquired an interest in a physician group as part of the System's strategic plan to deliver convenient and seamless care. Cash consideration of \$0.8 million paid by the System was fully attributable to the excess of consideration provided for the acquisition and was recorded as a deferred outflow of resources to be amortized over a period of 20 years.

Bond and Note Issuance Costs

Bond issuance costs are expensed at time of issuance.

Bond Premiums and Discounts

Bond premiums and discounts are amortized over the period the bonds are outstanding using the straight-line method.

Compensated Absences

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

Paid-Time-Off Plan

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

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

Liability Calculation

The liability for accumulated annual leave, holiday leave, and PTO leave for each employee at October 31, 2024 equals the leave carried forward at September 30, 2023, plus the leave earned

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and less the leave taken during the 13-month period ended October 31, 2024. The liability is equal to the accumulated hours multiplied by the employee's current hourly rate. The PTO liability is included in accrued expenses and other liabilities in the accompanying consolidated statement of net position, classified as current or non-current based on historical trends of PTO activity.

Self-Insurance Programs

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

Deferred Outflows and Inflows of Resources

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

Net Position

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

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

Net Patient Service Revenue and Patient Accounts Receivable

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

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

| <i>October 31, 2024</i> | (%) |
|-------------------------|-----|
| Medicare | 29 |
| Medicaid | 11 |
| Managed care | 20 |
| Commercial insurance | 19 |
| Self-pay and other | 21 |
| | 100 |

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

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of these amounts, charity care is not reported as net patient service revenue. The level of direct charity care provided during the 13-month period ended October 31, 2024 consisted of foregone revenues of approximately \$535.0 million.

Other Revenue

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

Non-Operating Revenues and Expenses

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

During the 13-month period ended October 31, 2024, the System received \$3.5 million in Federal Emergency Management Assistance (FEMA) reimbursement related to losses from the impact of

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Hurricane Ian in September 2022, in addition to \$11.7 million in FEMA reimbursement received in the prior reporting period. The System is currently working with a third-party consultant to complete the business interruption insurance claim, property insurance claims, and remaining FEMA claims. As of October 31, 2024, the System is not able to estimate the amount or probability of collection of additional recoveries and has not recorded a receivable related to the potential claims.

Income Taxes

The System is a special-purpose unit of local government created by the Enabling Act. Certain of the System's controlled subsidiaries have been recognized by the Internal Revenue Service as tax-exempt organizations described in Section 501(c)(3) of the Code. Income earned in furtherance of the System's tax-exempt or governmental purpose is exempt from federal and state income taxes. The Code provides for taxation of unrelated business income under certain circumstances. The System has no significant unrelated business income; however, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities.

Recently Adopted Accounting Standards

In April 2022, the GASB issued GASB Statement No. 99, *Omnibus 2022* (GASB 99), which addressed comparability in accounting and financial reporting for a number of practice issues. In prior years, the System adopted the GASB 99 practice issues that were effective upon issuance. Effective October 1, 2024, the System adopted the remaining practice issues related to (1) the determination of a lease term and classification of leases as short-term in accordance with GASB 87, (2) clarification of provisions of GASB 96 relating to subscription-based information technology arrangements (SBITAs), including classification as a short-term SBITA and recognition and measurement of a subscription liability, and (3) clarification that a government extending an exchange or exchange-like financial guarantee should recognize a liability and expense/expenditure related to the guarantee when qualitative factors and historical data indicate that it is more likely than not a government will be required to make a payment related to the guarantee. The adoption of these GASB 99 practice issues did not have a material impact on the System's consolidated financial statements for the 13-month period ended October 31, 2024.

Effective October 1, 2024, the System adopted GASB Statement 100, *Accounting Changes and Error Corrections* (GASB 100), which prescribed the accounting and financial reporting for (1) each type of accounting change and (2) error corrections and requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The adoption of GASB 100 practice issues did not have a material impact on the System's consolidated financial statements for the 13-month period ended October 31, 2024.

2. Third-Party Payors

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

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Medicare

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

The System is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare fiscal intermediary. The System's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2018. Retroactive adjustments for cost report settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

Medicaid

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

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 October 31, 2024, Florida has nine supplemental payment programs, including Low Income Pool, Disproportionate Share Hospital, Graduate Medical Education, Physician Supplemental Payment, Multi-Visceral Transplant Program, Florida Cancer Hospital Program, Public Emergency Medical Transportation, Indirect Medical Education, and the Directed Payment Program. Funds available under the 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). Generally, but not always, the supplemental payment programs are settled and reconciled by June 30 of each year. The System recognizes MSPP revenue ratably over each state fiscal year based on its qualifications and budgeted or final approved distribution funding models.

Other Payors

The System has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these arrangements includes prospectively determined rates per discharge,

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discounts from established charges, and prospectively determined per-diem rates. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

3. Net Patient Service Revenue

Net patient service revenue, including subagency service revenue for the 13-month period ended October 31, 2024 consists of the following:

| | | |
|---|-----------|------------------|
| Gross patient service revenue | \$ | 15,969,293 |
| Third-party payor and other contractual adjustments | | (12,360,268) |
| Provision for uncollectible accounts | | (350,927) |
| Net Patient Service Revenue | \$ | 3,258,098 |

4. Assets Whose Use Is Restricted

Assets whose use is restricted, which are required to meet current obligations of the System, are reported in current assets. The fair market value of assets whose use is restricted as of October 31, 2024 are as follows:

| | | |
|--|-----------|---------------|
| Restricted by donors for specific purposes | \$ | 62,059 |
| Held by trustee under bond indenture agreements | | 6 |
| Held in trust for other uses | | 4,422 |
| Held by Board of Directors for future use | | 543 |
| Total Assets Whose Use Is Restricted | | 67,030 |
| Less: amounts required to meet current obligations | | (48,195) |
| Assets Whose Use Is Restricted, net of amounts required to meet current obligations | \$ | 18,835 |

5. Investments and Assets Whose Use Is Restricted

The System primarily invests its resources in domestic and international equity and fixed-income mutual funds and securities, alternative investment funds, 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. The System's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the System's investment horizon within the System's risk tolerance and cash requirements.

The System's mutual fund and fixed-income securities investments are carried at fair value as determined through the use of quoted market prices (market approach). As the System's investments in alternative investment funds do not have readily determinable fair values, the System has established the fair value of these investments by using each investment's net asset value per share.

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

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

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

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

The recurring fair value measurement of investments and assets whose use is restricted at October 31, 2024 is as follows:

| | Fair Value | Level 1 | Level 2 | Level 3 |
|--|---------------------|---------------------|------------------|-------------|
| Investments and Assets Whose Use Is Restricted, in the fair value hierarchy | | | | |
| Mutual funds: | | | | |
| Domestic equity | \$ 305,077 | \$ 305,077 | \$ - | \$ - |
| International equity | 375,250 | 375,250 | - | - |
| Domestic fixed income | 513,624 | 513,624 | - | - |
| Total Mutual Funds | 1,193,951 | 1,193,951 | - | - |
| Fixed-income securities: | | | | |
| U.S. government and agency obligations | 77,865 | - | 77,865 | - |
| Corporate bonds | 7,502 | - | 7,502 | - |
| Municipal bonds | 6,609 | - | 6,609 | - |
| Asset-backed securities | 3,407 | - | 3,407 | - |
| Non-agency commercial mortgage-backed securities (CMBS) | 272 | - | 272 | - |
| Total Fixed-Income Securities | 95,655 | - | 95,655 | - |
| Total Investments and Assets Whose Use Is Restricted, in the fair value hierarchy | 1,289,606 | \$ 1,193,951 | \$ 95,655 | \$ - |
| Investments and Assets Whose Use is Restricted, measured at net asset value | | | | |
| SEI Core Property Fund, LP | 98,644 | | | |
| SEI Special Situations Fund, Ltd. | 79,099 | | | |
| SEI Vista Fund, Ltd | 678 | | | |
| Total Investments and Assets Whose Use Is Restricted, measured at net asset value | 178,421 | | | |
| Other | | | | |
| Commercial paper and money market funds | 205,592 | | | |
| Total Investments and Assets Whose Use Is Restricted | \$ 1,673,619 | | | |

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The System has an investment management agreement with SEI Investments Company (SEI) to manage approximately 96.8% of their investments. Approximately 3.0% of investments are monitored and managed through the Foundation on a quarterly basis, with the remainder residing in money markets, which are monitored daily.

The System's mutual fund investments can be liquidated within the trade date plus one business day and the fixed-income securities at the trade date plus two business days. SEI requires a 30-day notice for termination and full liquidation of public market funds held in the portfolio. The SEI Core Property Fund, LP can liquidate 90% of holding supports quarterly based on market conditions and at the discretion of the advisor with a 105-day notice. The SEI Special Situations Fund, Ltd. can liquidate 90% of holdings semi-annually with a 95-day notice and may be subject to a gate of 20% by the Fund Board. The SEI Vista Fund, Ltd. can liquidate 25% quarterly, with a 95-day notice. SEI holds 10% of total redemptions until completion of the funds' audits.

As of October 31, 2024, these alternative investment funds made up approximately 10.7% of total investments and assets whose use is restricted in the accompanying consolidated statement of net position.

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

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

As of October 31, 2024, the System's deposits were not exposed to custodial credit risk since the full amount of deposit was insured or registered, and securities held by the System or its agent are in the System's name.

- *Concentration of Credit Risk* - This is the risk of loss attributed to the magnitude of the System's investment in a single issuer. Pursuant to the Enabling Act, the System may not invest more than 5% of its assets in the common stock or capital stock of any single issuing company, nor shall the aggregate investment in any single issuing company exceed 5% of the outstanding capital stock of the company or the aggregate of its investments exceed 50% of a fund's assets. Disclosure is required for investments in any one issuer that represents 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, alternative investment funds, and other pooled investments are excluded from this requirement.

As of October 31, 2024, the System's investments were not exposed to concentration of credit risk since 98.9% of the portfolio was invested within U.S. government obligations, mutual funds, or alternative funds that are excluded.

- *Credit Risk* - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy follows guidelines set forth in Section 218.415 of the Florida Statutes with its highest priority being the safety of principal and liquidity of funds. The policy provides for the utilization of varying styles of managers

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through the investment of mutual funds, alternative funds, and U.S. government obligations so that portfolio diversification is maximized, while complying with risk tolerance of the Board of Directors.

As of October 31, 2024, 98.9% of the System's portfolio was invested in U.S. government obligations, mutual funds, or alternative funds. U.S. government obligations are not considered to have credit risk and do not require disclosure of credit quality. Due to the nature of mutual or alternative funds, credit risk rating is not consistent with the credit risk ratings of individual stocks that are measured by Moody's Investors Services and Standard & Poor's. These rating agencies do not provide credit risk rating of mutual or alternative funds.

- *Interest Rate Risk* - This is the risk that an investment's value will be adversely affected due to a change in the level of interest rates. The System's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the System's investment horizon within the System's risk tolerance and cash requirements. The portfolio is structured in a manner that most efficiently matches the funds' investment risk and return characteristics with their long-term purposes and objectives. The System's investment portfolio shall provide sufficient liquidity to pay obligations as they come due and, to the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements. Short-term volatility and uncertainty of investment results are recognized as real, but not overriding, risks, and will be managed appropriately through specific asset allocation strategies and diversification based upon the portfolios' investment time horizon and the fiduciaries stated risk limits. The portfolio will be evaluated on a total return measured against risk taken by the computation of a Sharpe ratio. The Duration and Sharpe ratio are benchmarked and monitored by the Board semi-annually. At October 31, 2024, the weighted-average life of U.S. government and agency obligations, corporate and municipal bonds, and asset-backed or similar securities was 8.3 years.

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At October 31, 2024, the distribution of the System's investments and assets whose use is restricted by maturity is as follows:

| | Fair Value | Less Than One Year | 13 to 24 Months | 25 to 60 Months | Greater Than 60 Months | N/A |
|--|------------------|-----------------------|--------------------|--------------------|---------------------------|------------------|
| Mutual Funds | | | | | | |
| Domestic equity | \$ 305,077 | \$ - | \$ - | \$ - | \$ - | \$ 305,077 |
| International equity | 375,250 | - | - | - | - | 375,250 |
| Domestic fixed income | 513,624 | - | - | - | - | 513,624 |
| Total Mutual Funds | 1,193,951 | - | - | - | - | 1,193,951 |
| Fixed-Income Securities | | | | | | |
| U.S. government and agency obligations | 77,865 | 48,407 | - | 477 | 27,935 | 1,046 |
| Corporate bonds | 7,502 | - | 868 | 3,098 | 3,536 | - |
| Municipal bonds | 6,609 | 620 | 474 | 4,237 | 1,278 | - |
| Asset-backed securities | 3,407 | - | - | 74 | 3,333 | - |
| Non-agency CMBS | 272 | - | - | - | 272 | - |
| Total Fixed-Income Securities | 95,655 | 49,027 | 1,342 | 7,886 | 36,354 | 1,046 |
| Investments and Assets Whose Use Is Restricted, measured at net asset value | | | | | | |
| | 178,421 | - | - | - | - | 178,421 |
| Other | | | | | | |
| Commercial paper and money market funds | 205,592 | 4,533 | - | - | - | 201,059 |
| | \$ 1,673,619 | \$ 53,560 | \$ 1,342 | \$ 7,886 | \$ 36,354 | \$ 1,574,477 |

During the 13-month period ended October 31, 2024, the System recorded net realized gains of approximately \$14.9 million from the sale or redemption of investments and assets whose use is restricted. The calculations of realized gains and losses are independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments and assets whose use is restricted that have been held for more than one fiscal year and sold in the current year may have unrealized gains and losses recognized in the prior year due to a change in the fair value of the investments.

The System recognized net unrealized gains on the change in the fair value of investments and assets whose use is restricted of \$136.9 million for the 13-month period ended October 31, 2024. These amounts take into account all changes in fair value (including purchases and sales) that occurred during the year. Unrealized gains or losses on investments resulting from fair value fluctuations are recorded in the accompanying consolidated statement of revenues, expenses, and changes in fund net position in the period such fluctuations occur.

Net unrealized gains of approximately \$161.8 million were included in recorded fair values of investments and assets whose use is restricted as of October 31, 2024.

Lee Memorial Health System

Notes to Consolidated Financial Statements (in thousands)

6. Capital Assets, Net

Capital asset additions, retirements, and balances for the 13-month period ended October 31, 2024 were as follows:

| | Balance, October 1, 2023 | Additions and Transfers | Retirements and Transfers | Balance, October 31, 2024 |
|--|--------------------------------|----------------------------|------------------------------|---------------------------------|
| Land | \$ 176,770 | \$ 12,288 | \$ (4,800) | \$ 184,258 |
| Construction-in-progress | 127,266 | 188,226 | (203,984) | 111,508 |
| Total Capital Assets Not Depreciated | 304,036 | 200,514 | (208,784) | 295,766 |
| Buildings and improvements | 1,183,217 | 49,890 | (228) | 1,232,879 |
| Equipment | 1,250,286 | 167,431 | (11,913) | 1,405,804 |
| Right-of-use leased buildings | 147,485 | 43,336 | (4,649) | 186,172 |
| Right-of-use leased equipment | 33,216 | 4,672 | - | 37,888 |
| Right-of-use subscription assets | 70,624 | 28,513 | - | 99,137 |
| Total Capital Assets Being Depreciated | 2,684,828 | 293,842 | (16,790) | 2,961,880 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (474,772) | (36,681) | 72 | (511,381) |
| Equipment | (847,397) | (94,245) | 7,445 | (934,197) |
| Right-of-use leased buildings | (44,376) | (12,093) | 1,447 | (55,022) |
| Right-of-use leased equipment | (15,178) | (6,314) | (429) | (21,921) |
| Right-of-use subscription assets | (25,290) | (28,098) | - | (53,388) |
| Total Accumulated Depreciation | (1,407,013) | (177,431) | 8,535 | (1,575,909) |
| Total Capital Assets Being Depreciated, Net | 1,277,815 | 116,411 | (8,255) | 1,385,971 |
| Total Capital Assets, Net | \$ 1,581,851 | \$ 316,925 | \$ (217,039) | \$ 1,681,737 |

Construction-in-progress as of October 31, 2024 consists primarily of expenditures for computer equipment, surgical equipment, and building renovations and improvements. The numerous projects underway as of October 31, 2024 are funded through operations and by assets designated by the System's Board of Directors for the replacement of plant and equipment.

Depreciation and amortization expense related to capital assets was approximately \$177.4 million for the 13-month period ended October 31, 2024.

7. Other Non-Current Assets

Other non-current assets at October 31, 2024 consist of the following:

| | |
|-------------------------------|------------------|
| Deposits and other | \$ 7,450 |
| Long-term lease receivable | 9,278 |
| Investments in joint ventures | 73,339 |
| Other Assets | \$ 90,067 |

On May 23, 2022, the System, through LHH, acquired a 49.0% membership interest in Encompass Health Rehabilitation Hospital of Cape Coral, LLC (Encompass Health CC) for cash consideration of \$16.3 million and accounts for such interest under the equity method. Encompass Health CC owns

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Notes to Consolidated Financial Statements (in thousands)

and operates a 40-bed rehabilitation facility in Cape Coral, Florida. The System's interest in Encompass Health CC's equity was approximately \$15.9 million as of October 31, 2024. The System reported its interest in Encompass Health CC's net earnings of \$2.7 million as non-operating gain for the 13-month period ended October 31, 2024. On March 7, 2024, the System, through LHH, acquired a 49.0% membership interest in Encompass Health Rehabilitation Hospital of Fort Myers, LLC (Encompass Health FM) for cash consideration of \$19.9 million and accounts for such interest under the equity method. Encompass Health FM will own and operate this 60-bed rehabilitation facility in Fort Myers, Florida starting in May 2025. The System's interest in Encompass Health FM's equity was approximately \$19.9 million as of October 31, 2024.

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

The System has a 44.45% membership interest in a not-for-profit organization, LeeSar, Inc. (LeeSar), and accounts for such interest under the equity method. The System, along with the two other member health systems, developed LeeSar to meet the participating health systems' materials services and distribution needs. The System's interest in the equity of LeeSar was approximately \$27.9 million as of October 31, 2024, and is included in other non-current assets. The System's interest in LeeSar's excess of revenues over expenses was approximately \$0.7 million for the 13-month period ended October 31, 2024. Separate financial statements of LeeSar are not publicly available.

LeeSar provides supplies, storage and distribution services, meal preparation services, and medical equipment sterilization services to the System. Total payments to LeeSar for such services were \$185.5 million for the 13-month period ended October 31, 2024. As of October 31, 2024, amounts due to LeeSar of approximately \$6.0 million are included in accounts payable and amounts due from LeeSar of approximately \$7.6 million are included in other current assets in the consolidated statement of net position.

At October 31, 2024, the System held interests in the following limited liability companies through LHH and accounts for such interests under the equity method:

- \$3.0 million investment for a 50% interest in Bimini Square, LLC (Bimini Square), a Florida limited liability company that will develop a mixed residential and medical office building in Cape Coral, Florida.
- \$0.1 million investment for a 5.88% interest in Orthopedic Surgery Building, LLC (OSSWF). OSSWF owns and operates a medical office building in Fort Myers, Florida.
- \$6.6 million investment for a 50% interest in Proton Fusion, LLC, which will own and operate a proton therapy center in Fort Myers, Florida.

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8. Accrued Expenses

Accrued expenses at October 31, 2024 consist of the following:

| | | |
|-------------------------|-----------|----------------|
| Employee compensation | \$ | 111,753 |
| Interest | | 2,346 |
| Other | | 69,949 |
| Accrued Expenses | \$ | 184,048 |

9. Revenue Bonds

Revenue bonds consist of the following outstanding principal balances at October 31, 2024. Payment descriptions refer to principal payments only.

Revenue Bonds

| | | |
|---|-----------|----------------|
| 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 \$40,430 | | 423,210 |
| 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 | | 617,470 |
| Less: current installments | | (19,595) |
| Revenue Bonds, excluding current installments | \$ | 597,875 |

2024 Series A Bonds

In October 2024, the System issued Hospital Revenue Bonds, 2024 Series A, in the amount of \$143.9 million. The proceeds of the bonds were used to finance capital improvements to the health care facilities of the System, as well as refund the 2010 Series A Bonds. The 2024 Series A Bonds were issued in an index rate mode based on the Daily SOFR Index plus 85 basis points. The reset date will be each day during the index rate period, which ends January 27, 2025. The index rate may not exceed the maximum rate specified in the indenture. Interest is paid monthly with principal payments paid annually beginning April 2030 and set to mature in April of 2054. 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, and the loan agreement were disclosed on the Electronic Municipal Market Access (EMMA) website.

2019 Series A Bonds

In April 2019, the System issued Hospital Revenue Bonds, 2019 Series A, in the amount of \$421.4 million. The proceeds of the bonds were used to finance capital improvements to the health care facilities of the System, as well as refund certain revenue bonds and loans and notes payable. Costs of bond issuance were covered through proceeds of the bond. The 2019 Series A Bonds were issued in two interest rate modes: (1) 2019 Series A-1 as fixed rate and (2) 2019 Series A-2 as term

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rate. Both modes pay interest semi-annually on April 1 and October 1 each year with the term rate of 5.0%. The issuance of the 2019 Series A Bonds resulted in a premium of \$60.9 million to be amortized over the life of the bonds and bond issuance costs of \$3.0 million.

2019 Series B Bonds

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

2010 Series A Bonds

In May 2010, the System issued the 2010 Series A Revenue Bonds (Build America Bonds - Direct Payment) (the 2010 Series A Revenue Bonds), in the amount of \$42.0 million. The proceeds of the 2010 Series A Bonds were used to finance a portion of the costs of acquisition, equipping, and construction of the System's health care facilities. The 2010 Series A Bonds were issued as fixed-rate bonds with interest payable semi-annually on April 1 and October 1 of each year at 7.281%, with a 33.005% interest paid rebate from the Internal Revenue Service, which becomes an effective rate of 4.878%. In October 2024, System used a portion of the proceeds from the issuance of the 2024 Series A Bonds to retire all outstanding principal and interest obligations under the 2010 Series A Bonds. The System incurred and paid a call premium of approximately \$2.0 million related to the defeasance of the 2010 Series A Bonds, which is reported as deferred outflows of resources and will be amortized over the remaining original maturity of the bonds (through April 2027).

Master Trust Indenture

The System's outstanding revenue bonds are secured by the MTI formed by certain component units of the System (the Obligated Group). Certain component units, including the Trauma District; LMHH; HPCC; the Foundation; LCH; Vivida Health; Best Care Collaborative, LLC; Best Care Partners, Inc.; BCHC; LHH; and Paramount, are not included in the Obligated Group. The MTI is available on the EMMA website for full disclosure.

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

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

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

The MTI and certain loans, notes payable, and direct borrowing agreements require the System and/or Obligated Group 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 13-month period ended October 31, 2024.

10. Loans and Notes Payable

Loans and notes payable consist of the following outstanding principal balances at October 31, 2024. Payment descriptions refer to principal payments only.

| Loans and Notes Payable | |
|--|-------------------|
| 2022 TD Bank Loan, payable in variable annual installments beginning April 2023 through April 2052 | \$ 71,545 |
| 2022 JP Morgan Chase Loan, payable in variable annual installments beginning April 2023 through April 2052 | 71,545 |
| 2020 TD Bank Loan, payable in variable annual installments beginning April 2021 through April 2050 | 91,660 |
| 2020 JP Morgan Chase Loan, payable in fixed annual installments beginning April 2021 through April 2032 | 34,667 |
| Other direct borrowings | 43,308 |
| Total Loans and Notes Payable | 312,725 |
| Less: current installments | (13,597) |
| Loans and Notes Payable, excluding current installments | \$ 299,128 |

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.

2022 TD Bank Loan

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

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event of default. Obligation No. 34 and the loan agreement are located on the EMMA website for full disclosure. Issuance costs were paid with internal funds.

2022 JP Morgan Chase Loan

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

2020 TD Bank Loan

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

2020 JP Morgan Chase Loan

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

2015 BAPCC Loan

On August 27, 2015, the System's Board of Directors approved the issuance of new debt with the Banc of America Public Capital Corp (BAPCC) in the amount of \$50 million to reimburse the System for prior capital expenditures through a lease under a master lease agreement. The 2015 BAPCC Loan held a fixed-interest rate of 1.97% paid monthly and was scheduled to mature in September 2025. The System fully repaid all outstanding principal and interest under the 2015 BAPCC Loan during the 13-month period ended October 31, 2024.

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2015 Bank of America Loan

On June 25, 2015, the System's Board of Directors approved the refunding and refinancing of certain revenue bonds with a direct bank loan of \$50.85 million. Principal payments of the 2015 Bank of America Loan are paid annually in April while the interest payments are paid semi-annually in October and April at a fixed rate of 2.79%. The System fully repaid all outstanding principal and interest under the 2015 Bank of America Loan during the 13-month period ended October 31, 2024.

Other Direct Borrowings

In September 2005, the System entered into a ground lease with CB Medical South, LLC and a ground lease with CB Medical North, LLC (collectively, the Lessors), whereby the Lessors purchased the land and medical office buildings from the System and leased the medical office buildings back to the System. Since the System had continuing involvement with the assets, in accordance with accounting guidance for sale-leaseback transactions involving real estate, the System was unable to remove the assets and related debt from its consolidated statements of net position after construction and sale of the assets was completed. On October 1, 2010, the System acquired 100% ownership interests in the Lessors and assumed the titles to and mortgages of the land and medical office buildings. As of October 31, 2024, approximately \$42.6 million is included in net capital assets related to the land and buildings and the cumulative outstanding mortgage balance of \$43.3 million is included long-term finance obligations.

In February 2020, the System entered into a promissory note with Lee Healthcare Resources in the amount of \$12.2 million for the purchase of land and medical offices that the System had been previously leasing. The Pine Island/Bass Road Note was payable in equal payments of \$3.2 million each over four years beginning February 20, 2021, including interest accruing at a fixed rate of 1.75% per annum. This promissory note matured February 2024 and the System repaid all outstanding interest and principal at that time.

11. Right-of-Use Lease Obligations

Right-of-use lease obligations at October 31, 2024 are as follows:

| | | |
|--|-----------|----------------|
| Right-of-use lease obligations | \$ | 151,712 |
| Less: current installments | | (15,791) |
| Right-of-Use Lease Obligations, less current installments | \$ | 135,921 |

During the 13-month period ended October 31, 2024, interest expense of approximately \$7.7 million was incurred related to the lease obligations with interest rates ranging from 0.22% to 15.5%. During the 13-month period ended October 31, 2024, the System incurred and reported approximately \$4.9 million in short-term and variable lease-related expense within supplies and other services expense in the accompanying consolidated statement of revenues, expenses, and changes in fund net position.

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12. Subscription Liabilities

Subscription liabilities as of October 31, 2024 are as follows:

| | | |
|--|-----------|---------------|
| Subscription liabilities | \$ | 35,757 |
| Less: current installments | | (16,735) |
| Subscription Liabilities, less current installments | \$ | 19,022 |

During the 13-month period ended October 31, 2024, interest expense of approximately \$1.4 million was incurred related to the subscription liabilities with interest rates ranging from 0.54% to 4.2%.

13. Long-Term Finance Obligations

Long-term finance obligations are comprised of revenue bonds and related bond premiums, loans and notes payable, lease obligations, and subscription liabilities. Activity related to long-term finance obligations for the 13-month period ended October 31, 2024 is as follows:

| | Balance, October 1, 2023 | Increases | Decreases | Balance, October 31, 2024 | Due Within 12 Months of October 31, 2024 |
|---------------------------------------|--------------------------------|-------------------|---------------------|---------------------------------|---|
| Revenue Bonds | | | | | |
| 2024 Series A Bonds | \$ - | \$ 143,945 | \$ - | \$ 143,945 | \$ - |
| 2019 Series A Bonds | 432,640 | - | (9,430) | 423,210 | 19,595 |
| 2019 Series B Bonds | 50,315 | - | - | 50,315 | - |
| 2010 Series A Bonds | 42,000 | - | (42,000) | - | - |
| Total Revenue Bonds | 524,955 | 143,945 | (51,430) | 617,470 | 19,595 |
| Loans and Notes Payable | | | | | |
| 2022 TD Bank loan | 73,300 | - | (1,755) | 71,545 | 1,785 |
| 2022 JP Morgan Chase Loan | 73,300 | - | (1,755) | 71,545 | 1,785 |
| 2020 TD Bank Loan | 94,900 | - | (3,240) | 91,660 | 2,579 |
| 2020 JP Morgan Chase Loan | 39,000 | - | (4,333) | 34,667 | 4,333 |
| 2015 BAPCC Loan | 10,801 | - | (10,801) | - | - |
| 2015 Bank of America Loan | 14,965 | - | (14,965) | - | - |
| Other direct borrowings | 49,449 | - | (6,141) | 43,308 | 3,115 |
| Total Loans and Notes Payable | 355,715 | - | (42,990) | 312,725 | 13,597 |
| Right-of-Use Lease Obligations | 123,671 | 47,909 | (19,868) | 151,712 | 15,791 |
| Subscription Liabilities | 40,404 | 26,967 | (31,614) | 35,757 | 16,735 |
| Total | \$ 1,044,745 | \$ 218,821 | \$ (145,902) | \$ 1,117,664 | \$ 65,718 |

Long-term obligations due within one year in the above table represent principal payments due for the 12-month period following October 31, 2024. The following table of maturities represents principal and interest payments due for the System's subsequent reporting periods as described below. Principal payments due within one year of \$65.7 million per the above table are higher than the principal payments for the 11-month period ended September 30, 2025 of \$60.4 million per the below table, due to the inclusion of payments due for the month ended October 31, 2025.

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As of October 31, 2024, maturities of long-term obligations and corresponding interest over the 11-month period ended September 30, 2025, each of the following four years ending September 30, and each of the five-year periods ending September 30 thereafter, are as follows:

| | Revenue Bonds | | Loans and Notes Payable | | Right-of-Use Lease Obligations | | Subscription Liabilities | |
|------------------------|---------------|------------|----------------------------|-----------|-----------------------------------|-----------|-----------------------------|----------|
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2025 | \$ 19,595 | \$ 27,409 | \$ 13,324 | \$ 5,739 | \$ 14,165 | \$ 6,482 | \$ 13,307 | \$ 955 |
| 2026 | 3,265 | 27,747 | 14,001 | 7,985 | 15,012 | 6,509 | 12,934 | 684 |
| 2027 | 4,235 | 26,514 | 14,568 | 7,547 | 12,559 | 4,981 | 6,987 | 276 |
| 2028 | 24,080 | 26,325 | 15,142 | 7,090 | 9,206 | 4,175 | 2,470 | 51 |
| 2029 | 25,035 | 25,098 | 15,676 | 6,586 | 7,074 | 4,037 | 59 | 2 |
| 2030-2034 | 149,630 | 107,407 | 73,805 | 24,571 | 28,107 | 19,967 | - | - |
| 2035-2039 | 145,600 | 67,561 | 41,197 | 16,431 | 22,519 | 19,436 | - | - |
| 2040-2044 | 94,690 | 39,725 | 46,698 | 11,669 | 13,675 | 9,256 | - | - |
| 2045-2049 | 76,280 | 18,952 | 53,006 | 6,257 | 12,853 | 8,579 | - | - |
| 2050-2054 | 34,630 | 5,379 | 25,308 | 996 | 11,526 | 7,191 | - | - |
| 2055-2059 | - | - | - | - | 5,016 | 340 | - | - |
| | 577,040 | 372,117 | 312,725 | 94,871 | 151,712 | 90,953 | 35,757 | 1,968 |
| Unamortized premium | 40,430 | - | - | - | - | - | - | - |
| | \$ 617,470 | \$ 372,117 | \$ 312,725 | \$ 94,871 | \$ 151,712 | \$ 90,953 | \$ 35,757 | \$ 1,968 |

14. Retirement Plans

Tax Sheltered Annuity Plan

The System provides a single-employer tax-deferred annuity program for all eligible employees who elect to participate in the program. The annuity program is administered by the System. The Lee Memorial Hospital Tax Sheltered Annuity Plan (the Annuity Plan) purchases annuity contracts for participating employees through salary reduction, thereby deferring taxability of these amounts. For employees with one year or more of eligible service, the System participates in the Annuity Plan by matching approximately 5% of the participating employees' salaries. The Board of Directors of the System has the sole discretion to amend the Annuity Plan and change the contribution amount. Contribution expense incurred by the System in connection with the Annuity Plan was \$34.7 million for the 13-month period ended October 31, 2024.

Retiree Health Insurance Plan

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

Plan Description

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

The contribution requirements of the RHI Plan members and the System are established and may be amended by the System's Board of Directors. Current retiree RHI Plan members who are receiving benefits do not contribute to the RHI Plan as the System covered their health insurance based on

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current Medicare regulations, which made the RHI Plan the secondary payor with Medicare paying as the primary payor.

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

Benefits Provided

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

Contributions

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

Employees Covered by Benefit Terms

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

| | |
|----------------|-------|
| Retirees | 613 |
| Fully eligible | 151 |
| Other | 1,903 |
| | 2,667 |

Net OPEB Liability

The System’s OPEB service cost and total OPEB liability were measured as of December 31, 2023, the measurement date, based on participant data as of the census date.

The total OPEB liability in the October 31, 2024 actuarial valuation was projected from the measurement date using standard methodology, adjusting for benefit payments, expected growth in benefit obligations, changes in key assumptions and plan provisions, and any significant changes in plan demographics that occurred during the year. Assumptions and methods used in the estimate are as follows:

| | |
|-------------------------------------|--|
| Current health care cost trend rate | 7.00% |
| Investment rate of return | 0.0%, due to unfunded nature of the RHI Plan |
| Salary increases | 3.0% |

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

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

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

The discount rate used to measure the total OPEB liability was 3.77%. The individual EAN Cost Method is used in completing the actuarial valuation. Under this method, the normal cost is the level percentage of pay contribution that would have been required from age on the valuation date coincident with or next following the date the employee is hired in order to fund the employed participant's OPEB benefits if the current plan provisions regarding accrual of benefits had always been in effect. The total OPEB liability is the excess of the present value of future benefits over the present value of future service costs for employed participants. The service cost and total OPEB liability for the RHI Plan are the sums of the individually computed service costs and OPEB liabilities for all plan participants.

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

Changes in the net OPEB liability for the 13-month period ended October 31, 2024 are summarized in the following table:

| | | |
|---|-----------|---------------|
| Net OPEB Liability, October 1, 2023 | \$ | 49,147 |
| Changes for the year: | | |
| Service cost | | 396 |
| Interest cost | | 2,103 |
| Changes of assumptions | | 1,727 |
| Benefit payments | | (2,469) |
| Net Change | | 1,757 |
| Net OPEB Liability, October 31, 2024 | \$ | 50,904 |

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Notes to Consolidated Financial Statements (in thousands)

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

The following table presents, as of October 31, 2024, the System's net OPEB liability calculated using the discount rate of 3.77%, as well as the net OPEB liability using a discount rate that is 1% lower (2.77%) or 1% higher (4.77%):

| | 1% Decrease (2.77%) | Current Discount Rate (3.77%) | 1% Increase (4.77%) |
|---------------------------|------------------------|----------------------------------|------------------------|
| Net OPEB Liability | \$ 57,301 | \$ 50,904 | \$ 45,368 |

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

The following presents, as of October 31, 2024, the System's net OPEB liability calculated using the health care cost trend rate of 7.0%, as well as the net OPEB liability using a rate that is 1% lower (6.0%) or 1% higher (8.0%):

| | 1% Decrease (6.0%) | Current Health Care Cost Trend Rate (7.0%) | 1% Increase (8.0%) |
|---------------------------|-----------------------|---|-----------------------|
| Net OPEB Liability | \$ 50,057 | \$ 50,904 | \$ 51,685 |

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

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

| | |
|---|---|
| Discount rate on 20-year general obligation municipal bonds | 3.77% as of the last business day preceding the measurement date |
| Rates of increase in compensation | 3.0% based on the System's budgetary salary increase for the fiscal year 2024 budget year |

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

The System recognized OPEB expense of approximately \$2.5 million for the 13-month period ended October 31, 2024. At October 31, 2024, the System reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 664 | \$ 4,947 |
| Changes of assumptions | 3,537 | 9,779 |
| Total | \$ 4,201 | \$ 14,726 |

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at October 31, 2024 will be recognized in OPEB expense, as follows:

| | | |
|---|----|---------|
| 11-month period ending September 30, 2025 | \$ | (1,833) |
| Year ending September 30, 2026 | | (2,445) |
| Year ending September 30, 2027 | | (3,356) |
| Year ending September 30, 2028 | | (3,132) |
| Year ending September 30, 2029 | | 253 |
| Thereafter | | (12) |

Payable to the OPEB Plan

As of October 31, 2024, there are no payables to the RHI Plan.

Defined Benefit Pension Plan

Plan Description

The System sponsors a frozen, noncontributory, single-employer, defined-benefit retirement plan (the CCMC Plan), administered by a committee appointed by the System. Under the provisions of the CCMC Plan, the System has the authority to make amendments. There have been no new members of the CCMC Plan since the date the CCMC Plan was frozen. The CCMC Plan provides life-only annuity benefits to plan members and beneficiaries. An actuarial report is prepared each year effective June 30 and is available from the System. The funding policy of the System is to contribute an amount at least equal to the Annual Required Contribution (ARC) prescribed by GASB and determined by the actuary. For the 13-month period ended October 31, 2024, the ARC was \$1,146.

Benefits Provided

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

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

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Employees Covered by Benefit Terms

At July 1, 2024, the measurement date for the pension liability, the following participants were covered by the benefit terms:

| | |
|-------------------|-----|
| Active | 38 |
| Terminated vested | 269 |
| Retired | 577 |
| | 884 |

Contributions

The System's funding policy is to make contributions to meet the minimum funding requirements of the Code Sections 412(a) and 430 as determined by an independent actuary. Additionally, the CCMC Plan Sponsor may contribute an amount above the required contribution. For the 13-month period ended October 31, 2024, the CCMC Plan Sponsor's contributions of approximately \$1.2 met the minimum funding requirements.

Net Pension Liability

The System's net pension liability was measured as of July 1, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 31, 2024. The net pension liability of \$4.1 million is included in pension and post-employment benefit plan liabilities in the accompanying consolidated statement of net position as of October 31, 2024.

The total pension liability in the October 31, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

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

* Net of pension plan investment expense, including inflation.

As of October 31, 2024, the assumption for mortality amounts weighted rates from the Pri-2012 mortality study projected generationally from 2012 with Scale MP-2021.

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

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The best estimates of geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of October 31, 2024 are summarized as follows:

| Asset Class | Target Allocation (%) | Real Rate of Return (%) |
|-------------------------|--------------------------|----------------------------|
| Domestic equity | 31.7 | 4.4 |
| Emerging markets equity | 6.0 | 4.4 |
| International equity | 13.8 | 4.4 |
| Corporate fixed income | 32.2 | 2.3 |
| Government fixed income | 8.1 | 3.6 |
| Cash | 3.3 | 1.6 |
| Private real estate | 4.9 | 3.4 |
| Total | 100.0 | |

The discount rate used to measure the total pension liability was 6.4% for the 13-month period ended October 31, 2024. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in amounts equal to the actuarially determined contributions. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. For the 13-month period ended October 31, 2024, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.53%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Changes in the net pension liability for the 13-month period ended October 31, 2024 are summarized as follows:

| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
|--|----------------------------|--------------------------------|--------------------------|
| Beginning Balance, October 1, 2023 | \$ 31,035 | \$ 26,019 | \$ 5,016 |
| Interest | 1,900 | - | 1,900 |
| Differences between expected and actual experience | 834 | - | 834 |
| Changes of assumptions | (118) | - | (118) |
| Net investment income | - | 2,547 | (2,547) |
| Benefit payments | (2,264) | (2,264) | - |
| Contributions from the System | - | 1,158 | (1,158) |
| Administrative expense | - | (125) | 125 |
| Net Change | 352 | 1,316 | (964) |
| Ending Balance, October 31, 2024 | \$ 31,387 | \$ 27,335 | \$ 4,052 |
| Plan Fiduciary Net Position, as a percentage of the total pension liability | 89% | | |

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

The following presents, as of October 31, 2024, the System's net pension liability calculated using the discount rate of 6.4%, as well as the net pension liability using a discount rate that is 1% lower (5.4%) or 1% higher (7.4%):

| | 1% Decrease (5.4%) | Current Discount Rate (6.4%) | 1% Increase (7.4%) |
|------------------------------|-----------------------|---------------------------------|-----------------------|
| Net Pension Liability | \$ 5,834 | \$ 4,052 | \$ 1,124 |

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

The System recognized a \$1 million decrease of total pension liability as a reduction of pension benefit expense for the 13-month period ended October 31, 2024.

The System reported deferred outflows of resources and deferred inflows of resources related to defined benefit pension from the following sources as of October 31, 2024:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 521 | \$ - |
| Contributions made after measurement date | 794 | - |
| Total | \$ 1,315 | \$ - |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the defined benefit pension at October 31, 2024 will be recognized in pension expense, as follows:

| | | |
|---|----|-------|
| 11-month period ending September 30, 2025 | \$ | 87 |
| Year ending September 30, 2026 | | 682 |
| Year ending September 30, 2027 | | (408) |
| Year ending September 30, 2028 | | (278) |
| Year ending September 30, 2029 | | (83) |

Payable to the Defined Benefit Pension Plan

As of October 31, 2024, there are no payables to the CCMC Plan.

15. Commitments and Contingencies

Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. A combination of commercial insurance and self-administered, self-funded programs provide coverage for claims

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arising from such matters. Settled claims have not exceeded the commercial coverage in the current or preceding year.

Professional Liability Insurance

The System is subject to various medical malpractice claims arising in the normal course of its business activities. The System is self-insured for professional liability claims and is relying on a limitation of its liability established by the Waiver of Sovereign Immunity Act of the State of Florida (the Act). The Act limits the amount of damages the System would be required to pay up to \$100,000 per claimant or \$200,000 per incident. Effective October 1, 2011, the sovereign immunity limits in Florida were increased to \$200,000 per claimant or \$300,000 per incident. In 1986, the Florida Supreme Court affirmed the constitutionality of the Act and its applicability to public hospitals. Various suits and claims arising in the ordinary course of business are pending against the System. Management is of the opinion that future potential uninsured losses from incidents occurring prior to October 31, 2024, if any, will not be materially different from the amounts recorded in the accompanying consolidated financial statements.

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

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

Professional liability losses that are subject to the deductible provisions have been estimated and accrued in the accompanying consolidated financial statements. The System has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such losses. Management of the System has established a liability that provides for estimated malpractice claims identified under the System's risk management program based on several factors, including the nature of each claim, past experience, advice from legal counsel, and actuarial studies, which reflect liabilities discounted at 4% for the 13-month period ended October 31, 2024. Management believes the established reserves are adequately stated as of October 31, 2024.

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The estimated claims incurred, payments on claims, and the balance of the reserve for professional liability claims, excluding the amounts payable pursuant to the claims bill process described above, were as follows for the 13-month period ended October 31, 2024:

| | | |
|--|-----------|---------------|
| Amount of Claims Liabilities, October 1, 2023 | \$ | 18,960 |
| Incurring claims | | 5,506 |
| Payments on claims attributable to events of both the current fiscal year and prior fiscal years | | (3,689) |
| Amount of Claims Liabilities, October 31, 2024 | \$ | 20,777 |

Malpractice liabilities are classified as current or non-current according to the timing of expected future payments and reported within accrued expenses and other liabilities in the accompanying consolidated statement of net position. Malpractice liabilities estimated to be due within one year were \$5.4 million as of October 31, 2024.

Health Insurance

The System is self-insured for group health insurance. Group health expense including pharmacy, net of employee contributions, under this program amounted to approximately \$86.0 million for the 13-month period ended October 31, 2024. Group health insurance claims payable, including an estimate for incurred but not reported claims, are reported within accrued expenses in the accompanying consolidated statement of net position. Although actual future results may differ from estimates of incurred but not reported claims, management believes the estimated accrual is adequately stated as of October 31, 2024.

The estimated claims incurred, payments on claims, and the balance of reserves for group health insurance claims were as follows for the 13-month period ended October 31, 2024:

| | | |
|--|-----------|---------------|
| Amount of Claims Liabilities, October 1, 2023 | \$ | 21,212 |
| Incurring claims | | 56,000 |
| Payments on claims attributable to events of both the current fiscal year and prior fiscal years | | (61,000) |
| Amount of Claims Liabilities, October 31, 2024 | \$ | 16,212 |

Workers' Compensation Insurance

The System is self-insured for workers' compensation insurance. Management of the System has established a liability for these types of claims based on actuarial evaluations in 2024. The reserve for workers' compensation claims included in the consolidated financial statements was discounted at a rate of 4% for the 13-month period ended October 31, 2024.

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The estimated claims incurred, payments on claims, and the balance of the reserve for workers' compensation claims were as follows for the 13-month period ended October 31, 2024:

| | | |
|--|----|---------|
| Amount of Claims Liabilities, October 1, 2023 | \$ | 15,383 |
| Included claims | | 7,658 |
| Payments on claims attributable to events of both the current fiscal year and prior fiscal years | | (6,589) |
| Amount of Claims Liabilities, October 31, 2024 | \$ | 16,452 |

Workers' compensation liabilities are classified as current or non-current according to the timing of expected future payments and reported within accrued expenses and other liabilities in the accompanying consolidated statement of net position. Workers' compensation liabilities estimated to be due within one year were \$5,779 million as of October 31, 2024.

Accrued Employee PTO

The activity related to accrued employee PTO liabilities was as follows for the 13-month period ended October 31, 2024:

| | | |
|--|----|-----------|
| Amount of PTO Liabilities, October 1, 2023 | \$ | 53,017 |
| Earned PTO | | 104,702 |
| PTO used, forfeit, or paid | | (102,223) |
| Amount of PTO Liabilities, October 31, 2024 | \$ | 55,496 |

Employee PTO liabilities are classified as current or non-current according to the timing of expected utilization based on historical experience and are reported as accrued expense and other liabilities in the accompanying consolidated statement of net position. Employee PTO liabilities estimated to be due within one year were \$25.0 million as of October 31, 2024.

Other Industry Risks

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

From time to time, the System receives requests for certain information from governmental agencies, and, with the assistance of legal counsel, submits the required information. Management believes that the System is in compliance with current laws and regulations. To the extent that issues with noncompliance are identified, the System's management takes the appropriate steps to

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correct such matters. Management of the System believes that the exposure from any such matters would not have a material effect on the consolidated financial statements of the System.

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

Litigation

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

16. Component Unit Information

Cape Coral Hospital is the System's only major blended component unit. Paramount is the System's only discrete component unit. The condensed statement of net position as of October 31, 2024, adjusted for intercompany receivables and payables, is as follows:

| | System and Other Blended Components | Cape Coral Hospital | Paramount Surgery Center, LLC | Total |
|---|---|------------------------|-------------------------------------|---------------------|
| Assets | | | | |
| Current and other assets | \$ 1,878,365 | \$ 720,123 | \$ 4,256 | \$ 2,602,744 |
| Capital assets | 1,534,093 | 122,256 | 25,388 | 1,681,737 |
| Total Assets | \$ 3,412,458 | \$ 842,379 | \$ 29,644 | \$ 4,284,481 |
| Total Deferred Outflows of Resources | \$ 95,502 | \$ 5,862 | \$ - | \$ 101,364 |
| Liabilities | | | | |
| Current liabilities | \$ 331,475 | \$ 27,386 | \$ 2,989 | \$ 361,850 |
| Long-term liabilities | 1,131,669 | 19,886 | 23,673 | 1,175,228 |
| Total Liabilities | \$ 1,463,144 | \$ 47,272 | \$ 26,662 | \$ 1,537,078 |
| Total Deferred Inflows of Resources | \$ 25,989 | \$ 1,626 | \$ - | \$ 27,615 |
| Net Position | | | | |
| Restricted | \$ 72,428 | \$ - | \$ 1,461 | \$ 73,889 |
| Net investment in capital assets | 451,411 | 112,816 | (152) | 564,075 |
| Unrestricted | 1,494,988 | 686,527 | 1,673 | 2,183,188 |
| Total Net Position | \$ 2,018,827 | \$ 799,343 | \$ 2,982 | \$ 2,821,152 |

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The condensed statement of revenues, expenses, and changes in fund net position for the 13-month period ended October 31, 2024 is as follows:

| | System and Other Blended Components | Cape Coral Hospital | Paramount Surgery Center, LLC | Total |
|--|---|------------------------|-------------------------------------|-------------------|
| Operating revenues | \$ 3,028,489 | \$ 477,065 | \$ 21,343 | \$ 3,526,897 |
| Operating expenses | 2,885,006 | 378,440 | 15,608 | 3,279,054 |
| Operating Income | 143,483 | 98,625 | 5,735 | 247,843 |
| Non-operating income (expense), net | 189,834 | (1,655) | (150) | 188,029 |
| Federal and state appropriations | 3,480 | - | - | 3,480 |
| Contributions and grants | 5,896 | - | - | 5,896 |
| Total Non-Operating Income (Loss) | 199,210 | (1,655) | (150) | 197,405 |
| Excess of Revenues and Income Over Expenses | 342,693 | 96,970 | 5,585 | 445,248 |
| Other Changes in Net Position | | | | |
| Distributions to minority interest in joint ventures | 2,285 | - | (4,480) | (2,195) |
| Increase in Net Position | \$ 344,978 | \$ 96,970 | \$ 1,105 | \$ 443,053 |

The condensed statement of cash flows for the 13-month period ended October 31, 2024 is as follows:

| | System and Other Blended Components | Cape Coral Hospital | Paramount Surgery Center, LLC | Total |
|---|---|------------------------|-------------------------------------|-------------------|
| Net cash provided by (used in): | | | | |
| Operating activities | \$ 225,309 | \$ 53,464 | \$ 5,863 | \$ 284,636 |
| Noncapital financing activities | 23,568 | - | - | 23,568 |
| Capital and related financing activities | (209,763) | (53,509) | (349) | (263,621) |
| Investment activities | 22,073 | 45 | (4,480) | 17,638 |
| Net Change in Cash and Cash Equivalents* | 61,187 | - | 1,034 | 62,221 |
| Cash and Cash Equivalents*, October 1, 2023 | 43,695 | - | 482 | 44,177 |
| Cash and Cash Equivalents*, October 31, 2024 | \$ 104,882 | \$ - | \$ 1,516 | \$ 106,398 |

* Unrestricted and restricted cash and cash equivalents

17. Subsequent Events

The System has assessed the impact of subsequent events through March 4, 2025, the date the audited consolidated financial statements were available to be issued, and has concluded there are no items that require disclosure in the consolidated financial statements, other than the Conversion Transaction effective on November 1, 2024. See Note 1 for further discussion.

Required Supplementary Information

Lee Memorial Health System

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

| | 13-Month Period Ended October 31, | | Year Ended September 30, | | | | | | | | | |
|--|---|-----------------|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------|
| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015* | 2014* | |
| Total Pension Liability | | | | | | | | | | | | |
| Service cost | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest | 1,900 | 1,801 | 1,830 | 1,790 | 1,922 | 1,999 | 2,072 | 2,018 | 1,992 | 1,955 | - | |
| Changes of benefit terms | - | - | - | - | - | - | - | - | - | - | - | |
| Differences between expected and actual experience | 834 | 295 | (289) | 61 | 314 | 240 | (108) | 292 | 415 | 45 | - | |
| Changes of assumptions | (118) | (1,647) | 230 | (1,218) | 2,560 | 2,306 | 617 | 130 | (402) | - | - | |
| Benefit payments | (2,264) | (2,013) | (1,976) | (1,946) | (1,870) | (1,810) | (1,747) | (1,718) | (1,586) | (1,458) | - | |
| Net Change in Total Pension Liability | 352 | (1,564) | (205) | (1,313) | 2,926 | 2,735 | 834 | 722 | 419 | 542 | - | |
| Total Pension Liability, beginning of period | 31,035 | 32,599 | 32,804 | 34,117 | 31,191 | 28,456 | 27,622 | 26,900 | 26,481 | 25,939 | - | |
| Total Pension Liability, end of period | 31,387 | 31,035 | 32,599 | 32,804 | 34,117 | 31,191 | 28,456 | 27,622 | 26,900 | 26,481 | 25,939 | |
| Plan Fiduciary Net Position | | | | | | | | | | | | |
| Employer contributions | 1,158 | 597 | 1,786 | 1,595 | 1,073 | 502 | 687 | 774 | 903 | 977 | - | |
| Net investment income | 2,547 | 2,034 | (4,262) | 5,149 | 850 | 1,686 | 1,720 | 2,561 | 260 | 463 | - | |
| Benefit payments | (2,264) | (2,013) | (1,976) | (1,946) | (1,870) | (1,810) | (1,747) | (1,718) | (1,586) | (1,458) | - | |
| Administrative expense | (125) | (120) | (137) | (127) | (114) | (108) | (140) | (108) | (105) | (108) | - | |
| Net Change in Plan Fiduciary Net Position | 1,316 | 498 | (4,589) | 4,671 | (61) | 270 | 520 | 1,509 | (528) | (126) | - | |
| Plan Fiduciary Net Position, beginning of period | 26,019 | 25,521 | 30,110 | 25,439 | 25,500 | 25,230 | 24,710 | 23,201 | 23,729 | 23,855 | - | |
| Plan Fiduciary Net Position, end of period | 27,335 | 26,019 | 25,521 | 30,110 | 25,439 | 25,500 | 25,230 | 24,710 | 23,201 | 23,729 | 23,855 | |
| Net Pension Liability, end of period | \$ 4,052 | \$ 5,016 | \$ 7,078 | \$ 2,694 | \$ 8,678 | \$ 5,691 | \$ 3,226 | \$ 2,912 | \$ 3,699 | \$ 2,752 | \$ 2,084 | |
| Plan Fiduciary Net Position, as a percentage of total pension liability (%) | 89.4 | 83.84 | 78.29 | 91.79 | 74.57 | 81.76 | 88.66 | 89.46 | 86.25 | 89.61 | 91.97 | |

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

See accompanying notes to required supplementary information - CCMC Plan.

Lee Memorial Health System
Schedule of Employer Contributions - CCMC Plan
(unaudited)
(in thousands)

| | 13-Month Period Ended October 31, | Year Ended September 30, | | | | | | | | | |
|---|---|--------------------------|-----------------|---------------|---------------|---------------|----------------|-------------|-------------|----------------|-------------|
| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Actuarially determined contribution | \$ 1,122 | \$ 1,161 | \$ 1,198 | \$ 1,724 | \$ 1,208 | \$ 669 | \$ 658 | \$ 774 | \$ 903 | \$ 949 | \$ 1,062 |
| Contributions in relation to the actuarially determined contribution | 1,158 | 597 | 1,786 | 1,595 | 1,073 | 502 | 687 | 774 | 903 | 977 | 1,062 |
| Contribution Deficiency (Excess) | \$ (36) | \$ 564 | \$ (588) | \$ 129 | \$ 135 | \$ 167 | \$ (29) | \$ - | \$ - | \$ (28) | \$ - |

See accompanying notes to required supplementary information - CCMC Plan.

Lee Memorial Health System
Schedule of Investment Returns - CCMC Plan
(unaudited)

| | 13-Month Period Ended October 31, | Year Ended September 30, | | | | | | | | |
|--|---|--------------------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 2024 (%) | 2023 (%) | 2022 (%) | 2021 (%) | 2020 (%) | 2019 (%) | 2018 (%) | 2017 (%) | 2016 (%) | 2015 (%) |
| Annual Money-Weighted Rate of Return* , net of investment expense | 11.53 | 8.2 | (14.1) | 20.5 | 3.4 | 6.9 | 7.1 | 11.3 | 1.1 | 2.0 |

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

See accompanying notes to required supplementary information - CCMC Plan.

Lee Memorial Health System

Notes to Required Supplementary Information - CCMC Plan

1. Lee Memorial Health System's (the System) fiscal year remains September 30. In anticipation of the Conversion Transaction effective November 1, 2024 (refer to Note 1 to the System's consolidated financial statements), management elected to present information for the 13-month period ended October 31, 2024, so as to include the final month of the System's operations prior to the Conversion Transaction.
2. Covered payroll information is not provided as the CCMC Plan is frozen and contributions are not determined by current payroll as benefit accruals ceased September 30, 1995.
3. The information presented was determined as part of the actuarial valuation as of October 31, 2024. Additional information as of the latest actuarial valuation presented is as follows:

| | |
|--|---|
| Actuarial cost method | Entry Age Normal Cost Method |
| Asset valuation method | Five-year smoothing |
| Investment rate of return | 6.40% net of pension plan investment expense, including inflation |
| Discount rate | 6.40% |
| Inflation | 2.30% |
| Salary increases | Not applicable due to plan freeze |
| Internal Revenue Service Limit increases | 2.50% |
| Retirement age | 65 |

4. Changes with respect to actuarial assumptions in the current and prior periods are as follows:
 - a. From 2023 to 2024, the discount rate changed from 6.35% to 6.40% and the mortality improvement projection scale remained Scale MP-2021 in both years.
 - b. From 2022 to 2023, the discount rate changed from 5.70% to 6.35% and the mortality improvement projection scale was updated from Scale MP-2020 to MP-2021.
 - c. From 2021 to 2022, the discount rate changed from 5.75% to 5.70% and the mortality improvement projection scale was updated from Scale MP-2020 to Scale MP-2021.
 - d. From 2020 to 2021, the discount rate changed from 5.40% to 5.75% and the mortality improvement projection scale was updated from Scale MP-2019 to Scale MP-2020.
 - e. From 2019 to 2020, the discount rate changed from 6.35% to 5.40%. Mortality assumptions were updated from RP-2006 fully generational projected using Scale MP-2018 to weighted rates from the Pri-2012 mortality study projected generationally from 2012 with Scale MP-2019.
 - f. From 2018 to 2019, the discount rate changed from 7.25% to 6.35%. The mortality projection scale was updated from MP-2017 to MP-2018.
 - g. From 2017 to 2018, the discount rate was changed from 7.50% to 7.25%.
 - h. From 2016 to 2017, the expected return on assets and discount rate changed from 7.75% to 7.5%. The mortality projection scale was updated from MP-2015 to MP-2017.

Lee Memorial Health System

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

| | 13-Month Period Ended October 31, | Year Ended September 30, | | | | | |
|---|--|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
| Total OPEB Liability | | | | | | | |
| Service cost | \$ 396 | \$ 979 | \$ 1,445 | \$ 777 | \$ 640 | \$ 673 | \$ 683 |
| Interest | 2,103 | 1,164 | 1,354 | 1,674 | 1,994 | 1,870 | 1,728 |
| Changes of benefit terms | - | - | - | (15) | - | - | - |
| Differences between expected and actual experience | - | (7,253) | (402) | 2,395 | (450) | 2,114 | - |
| Changes of assumptions | 1,727 | (15,116) | 1,753 | 3,078 | 6,947 | (2,552) | - |
| Benefit payments | (2,469) | (1,866) | (1,746) | (1,792) | (1,376) | (1,207) | (1,104) |
| Net Change in Total OPEB Liability | 1,757 | (22,092) | 2,404 | 6,117 | 7,755 | 898 | 1,307 |
| Total OPEB Liability, beginning of period | 49,147 | 71,239 | 68,835 | 62,718 | 54,963 | 54,065 | 52,758 |
| Total OPEB Liability, end of period | 50,904 | 49,147 | 71,239 | 68,835 | 62,718 | 54,963 | 54,065 |
| Plan Fiduciary Net Position | | | | | | | |
| Employer contributions | - | - | - | - | - | - | - |
| Net investment income | - | - | - | - | - | - | - |
| Benefit payments | - | - | - | - | - | - | - |
| Administrative expense | - | - | - | - | - | - | - |
| Net Change in Plan Fiduciary Net Position | - | - | - | - | - | - | - |
| Plan Fiduciary Net Position, beginning of period | - | - | - | - | - | - | - |
| Plan Fiduciary Net Position, end of period | - | - | - | - | - | - | - |
| Net OPEB Liability, end of period | \$ 50,904 | \$ 49,147 | \$ 71,239 | \$ 68,835 | \$ 62,718 | \$ 54,963 | \$ 54,065 |
| Plan Fiduciary Net Position, as a percentage of total OPEB liability | - | - | - | - | - | - | - |
| Covered Employee Payroll | \$ 170,584 | \$ 170,584 | \$ 243,673 | \$ 243,673 | \$ 255,827 | \$ 255,827 | \$ 268,355 |
| Net OPEB Liability, as a percentage of covered employee payroll (%) | 29.84 | 28.81 | 29.2 | 28.2 | 23.9 | 21.5 | 20.1 |

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

Lee Memorial Health System

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

| | 13-Month Period Ended October 31, | Year Ended September 30, | | | | | |
|--|--|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
| Actuarially determined contribution | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Contributions in relation to the actuarially determined contribution | - | - | - | - | - | - | - |
| Contribution Deficiency | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered-Employee Payroll | \$ 170,584 | \$ 170,584 | \$ 243,673 | \$ 243,673 | \$ 255,827 | \$ 255,827 | \$ 268,355 |
| Contributions, as a percentage of covered-employee payroll (%) | - | - | - | - | - | - | - |

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

Lee Memorial Health System

Notes to Required Supplementary Information - Other Post-Employment Benefits (OPEB)

1. The accompanying schedules are intended to display information for ten years. Disclosure requirements were effective October 1, 2018. Additional years will be displayed as they become available.
2. Lee Memorial Health System's (the System) fiscal year remains September 30. In anticipation of the Conversion Transaction effective November 1, 2024 (refer to Note 1 to the System's consolidated financial statements), management elected to present information for the 13-month period ended October 31, 2024, so as to include the final month of the System's operations prior to the Conversion Transaction.
3. The System funds the Other Post-Employment Benefits (OPEB) obligation on a pay-as-you-go basis, so no assets have been segregated and/or restricted to provide the post-employment benefits.
4. Methods and assumptions used for the most recent year include:

| | |
|-------------------------------|--|
| Valuation date | Actuarially determined contribution rates are calculated as of December 31, 2023, December 31, 2022, December 31, 2021, December 31, 2020, and December 31, 2019 for the 13-month period ended October 31, 2024 and the fiscal years ended September 30, 2023, 2022, 2021, and 2020, respectively. |
| Actuarial cost method | Entry Age |
| Amortization method | Average remaining service life of all participants |
| Asset valuation method | None, no plan assets |
| Rate of compensation increase | 3.0% |
| Health care cost trend rates | 7.0% (2024), 7.5% (2023), 6.25% (2022), 6.00% (2021), and 6.25% (2020), initial, decreasing 0.50% in 2024 and 0.25% per year thereafter to an ultimate rate of 5.00% |
| Salary increases | 3.0%, average, including inflation |
| Investment rate of return | 0.0%, no plan assets |
| Retirement age | <i>Sunset Employees</i> - Employees who had 30 or more years of full-time (or equivalent) service as of September 30, 2009. These employees are entitled to retiree health plan coverage starting when they retire on or after age 55 or the \$2,500 subsidy on or after retiring at age 65. <i>Non-Sunset Employees</i> - Employees hired prior to July 1, 2008 who had not attained 30 or more years of full-time (or equivalent) service as of September 30, 2009. These employees are only entitled to receive the \$2,500 subsidy benefit when they retire on or after age 65. |
| Mortality | <i>2024: Healthy Mortality Rates</i> - MP-2021 Mortality Improvement Scale for males and females. Base table - Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants: separate rates for annuitants and non-annuitants (based on employees table), blending of retirees and contingent annuitants: combined non-disabled annuitant mortality. <i>2024: Disabled Mortality Rates</i> - MP-2021 Base mortality table for males and females, base mortality table year: 2012, no collar, disabled, table weighting: headcount. <i>2023: Healthy Mortality Rates</i> - MP-2022 Mortality Improvement Scale for males and females. Base table - Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants: separate rates for annuitants and non-annuitants (based on employees table), blending of retirees and contingent annuitants: combined non-disabled annuitant mortality. <i>2023: Disabled Mortality Rates</i> - MP-2012 Base mortality table for males and females, base mortality table year: 2012, no collar, disabled, table weighting: headcount. <i>2022: Healthy Mortality Rates</i> - MP-2021 Mortality Improvement Scale for males and females. Base table: Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants (based on employee table), separate rates for annuitants and non-annuitants (based on Employees table), blending of retirees, and contingent annuitants: combined non-disabled annuitant mortality. <i>2022: Disabled Mortality Rates</i> - MP-2021 Mortality Improvement Scale for males and females. Base table: Pri-2012, base mortality table year: 2012, table type: no collar, healthy or disabled: disabled, table weighting: headcount. |

Lee Memorial Health System

Notes to Required Supplementary Information - Other Post-Employment Benefits (OPEB)

Mortality (continued)

2021: Healthy Mortality Rates - MP-2020 Mortality Improvement Scale for males and females. Base table: Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants (based on employee table), separate rates for annuitants and non-annuitants (based on Employees table), blending of retirees, and contingent annuitants: combined non-disabled annuitant mortality.

2021: Disabled Mortality Rates - MP-2020 Mortality Improvement Scale for males and females. Base table: Pri-2012, Base mortality table year: 2012, table type: no collar, healthy or disabled: disabled, table weighting: headcount.

2020: Healthy Mortality Rates - MP-2019 Mortality Improvement Scale for males and females. Base table: Pri-2012, no collar, healthy, table weighting: headcount, blending of annuitants and non-annuitants (based on employee table), separate rates for annuitants and non-annuitants (based on Employees table), blending of retirees and contingent annuitants: combined non-disabled annuitant mortality.

2020: Disabled Mortality Rates - MP-2019 Mortality Improvement Scale for males and females. Base table: Pri-2012; base mortality table year: 2012, table type: no collar, healthy or disabled: disabled, table weighting: headcount.

2018 and 2019: Healthy Mortality Rates - RP-2014 Employee and Annuitant Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward to 2006 using generational projection Scale MP-2018 for males and females.

2018 and 2019: Disabled Mortality Rates - RP-2014 Disabled Mortality Tables for males and females with Scale MP-2014 backed out to 2006 and then projected forward to 2006 using generational Scale MP-2017 for males and females.

5. Changes with respect to actuarial methods and assumptions used in the current and prior periods are as follows:
- a. From 2023 to 2024, the discount rate decreased from 4.05% to 3.77%. Assumed per-capita costs increased for all retirees based on the most recent claims experience and to reflect changes in distribution of enrollment by plan options. The trend rate for retiree contributions was the same as claims costs trend rate as participant contributions are intended to remain a fixed percentage of total plan costs. The generational mortality projection scale was updated from MP-2021 to Pri-2012 to better reflect assumed future mortality improvements. The retirement and termination assumptions were updated to reflect the results of an experience study and the unusually high experience during the 12-month period following the valuation date.
 - b. From 2022 to 2023, the discount rate increased from 1.84% to 4.05%. Assumed per-capita costs increased for all retirees based on the most recent claims experience and to reflect changes in distribution of enrollment by plan options. The trend rate for retiree contributions was the same as claims costs trend rate as participant contributions are intended to remain a fixed percentage of total plan costs. The generational mortality projection scale was updated from MP-2020 to MP-21 to better reflect assumed future mortality improvements. The retirement and termination assumptions were updated to reflect the results of an experience study and the unusually high experience during the 12-month period following the valuation date.
 - c. From 2021 to 2022, the discount rate decreased from 2.00% to 1.84%. Assumed per-capita costs decreased for post-65 retirees and increased for pre-65 retirees based on the most recent claims experience and to reflect changes in distribution of enrollment by plan options. The trend rate for retiree contributions was the same as claims costs trend rate as participant contributions are intended to remain a fixed percentage of total plan costs. The generational mortality projection scale was updated from MP-2019 to MP-20 to better reflect assumed future mortality improvements. The retirement and termination assumptions were

Lee Memorial Health System

Notes to Required Supplementary Information - Other Post-Employment Benefits (OPEB)

updated to reflect the results of an experience study and the unusually high experience during the 12-month period following the valuation date.

- d. From 2020 to 2021, the discount rate decreased from 2.75% to 2.00%. Assumed per-capita costs decreased for post-65 retirees and increased for pre-65 retirees based on the most recent claims experience and to reflect changes in distribution of enrollment by plan options. The trend rate for retiree contributions was set at 0% based on the System's intentions to not increase the retiree's portion of the cost in future years. The generational mortality projection scale was updated from MP-2019 to MP-20 to better reflect assumed future mortality improvements. The retirement and termination assumptions were updated to reflect the results of an experience study and the unusually high experience during the 12-month period following the valuation date.
- e. From 2019 to 2020, the discount rate decreased from 3.71% to 2.75%. Assumed per-capita claims costs were decreased for post-65 retirees based on most recent claims experience and to reflect changes in distribution of enrollment by plan options. The health and disabled base table mortality assumptions were updated from RP-2014 to Pri-2012 to better reflect assumed future mortality. The generational mortality projection scale was updated from MP-2018 to MP-2019 to better reflect assumed future mortality improvements.
- f. From 2018 to 2019, the discount rate increased from 3.31% to 3.71%. Assumptions related to the decrement timing were updated to reflect changes in the System's valuation software. Assumed per-capita claims costs were decreased for post-65 and increased for pre-65 retirees based on most recent claims experience and to reflect changes in distribution of enrollment by plan options. Retiree contributions were updated to reflect the actual 2018 retiree contributions. The trend assumption was updated to better reflect anticipated market conditions. The healthy and disabled mortality projection scale assumptions were updated to better reflect adjustments to assumed future mortality improvements.
- g. From 2017 to 2018, the discount rate was updated from 4.00% to 3.31%. A salary assumption was added since the prior valuation, which is needed for the Entry Age Normal actuarial cost method.

Other Supplementary Information

Lee Memorial Health System
Consolidating Schedule of Net Position
(in thousands)

October 31, 2024

| | Total Lee Memorial Hospital | Cape Memorial Hospital, Inc. | Gulf Coast Medical Center | Lee County Trauma Services District | Lee Memorial Home Health, Inc. | Health Park Care Center, Inc. | Total FQHC-LA Operations | Lee Memorial Health System Foundation, Inc. | Total Population Health | Paramount Surgery Center, LLC | Eliminations | Total |
|---|-----------------------------|------------------------------|---------------------------|-------------------------------------|--------------------------------|-------------------------------|--------------------------|---|-------------------------|-------------------------------|-----------------------|---------------------|
| Assets | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 86,035 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,067 | \$ 2,909 | \$ 1,516 | \$ - | \$ 91,527 |
| Restricted cash and cash equivalents | 4,775 | - | - | 19 | - | - | - | 8,580 | 1,497 | - | - | 14,871 |
| Investments | 1,601,296 | - | - | - | - | - | - | 5,293 | - | - | - | 1,606,589 |
| Assets whose use is restricted | 4,537 | - | 6 | - | - | - | - | 43,652 | - | - | - | 48,195 |
| Patient accounts receivable, net | 220,091 | 63,867 | 141,083 | 638 | 783 | 3,517 | 3,222 | - | - | 2,478 | - | 435,679 |
| Inventories | 34,955 | 4,830 | 16,010 | - | - | 11 | - | - | - | 243 | - | 56,049 |
| Estimated third-party payor settlements | 172,518 | (17,511) | 9,629 | - | (216) | (301) | (217) | - | - | - | - | 163,902 |
| Other current assets | 66,535 | 1,126 | 3,121 | 157 | 9 | - | 2,424 | 3,078 | 561 | 19 | - | 77,030 |
| Total Current Assets | 2,190,742 | 52,312 | 169,849 | 814 | 576 | 3,227 | 5,429 | 61,670 | 4,967 | 4,256 | - | 2,493,842 |
| Non-Current Assets | | | | | | | | | | | | |
| Assets whose use is restricted | 319 | - | - | - | - | 8 | - | 18,508 | - | - | - | 18,835 |
| Capital assets, net | 1,079,409 | 122,255 | 445,863 | 1,396 | 2,174 | 4,762 | (133) | 36 | 587 | 25,388 | - | 1,681,737 |
| Due from subsidiaries | 1,888,958 | 668,733 | 245,117 | - | - | - | - | - | 19,728 | - | (2,822,536) | - |
| Other assets | 84,453 | - | - | - | - | - | - | 7,135 | - | - | (1,521) | 90,067 |
| Total Assets | \$ 5,243,881 | \$ 843,300 | \$ 860,829 | \$ 2,210 | \$ 2,750 | \$ 7,997 | \$ 5,296 | \$ 87,349 | \$ 25,282 | \$ 29,644 | \$ (2,824,057) | \$ 4,284,481 |
| Deferred Outflows of Resources | | | | | | | | | | | | |
| Deferred outflows related to losses and call premiums on debt refunding | \$ - | \$ - | \$ 2,017 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,017 |
| Deferred outflows related to pension and post-employment benefit plans | 3,404 | 616 | 1,112 | 11 | 44 | 69 | 232 | 9 | 19 | - | - | 5,516 |
| Excess consideration provided for acquisitions | 13,313 | 5,246 | 73,995 | - | 1,277 | - | - | - | - | - | - | 93,831 |
| Total Deferred Outflows of Resources | \$ 16,717 | \$ 5,862 | \$ 77,124 | \$ 11 | \$ 1,321 | \$ 69 | \$ 232 | \$ 9 | \$ 19 | \$ - | \$ - | \$ 101,364 |
| Liabilities | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | |
| Accounts payable | \$ 93,632 | \$ 5,824 | \$ 9,507 | \$ 164 | \$ 24 | \$ 139 | \$ 2,492 | \$ 36 | \$ - | \$ 266 | \$ - | \$ 112,084 |
| Accrued expenses | 95,414 | 19,993 | 55,970 | 407 | 1,589 | 1,652 | 4,680 | 260 | 3,226 | 857 | - | 184,048 |
| Current installments of long-term finance obligations | 43,641 | 2,532 | 17,486 | - | 159 | 33 | - | - | - | 1,867 | - | 65,718 |
| Total Current Liabilities | 232,687 | 28,349 | 82,963 | 571 | 1,772 | 1,824 | 7,172 | 296 | 3,226 | 2,990 | - | 361,850 |
| Non-Current Liabilities | | | | | | | | | | | | |
| Long-term finance obligations, excluding current installments | 604,530 | 6,907 | 414,747 | - | 2,005 | 84 | - | - | - | 23,673 | - | 1,051,946 |
| Due to subsidiaries | 2,650,000 | - | - | 1,340 | 61,469 | 58,120 | 45,176 | 6,431 | - | - | (2,822,536) | - |
| Pension and post-employment benefit plan liabilities | 33,585 | 6,230 | 11,253 | 107 | 449 | 703 | 2,350 | 89 | 190 | - | - | 54,956 |
| Other liabilities | 47,114 | 6,706 | 11,920 | 174 | 594 | 528 | 1,116 | 131 | 43 | - | - | 68,326 |
| Total Liabilities | \$ 3,567,916 | \$ 48,192 | \$ 520,883 | \$ 2,192 | \$ 66,289 | \$ 61,259 | \$ 55,814 | \$ 6,947 | \$ 3,459 | \$ 26,663 | \$ (2,822,536) | \$ 1,537,078 |
| Deferred Inflows of Resources | | | | | | | | | | | | |
| Deferred gain on debt refunding | \$ (1,146) | \$ (14) | \$ 3,516 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,356 |
| Deferred inflows related to pension and post-employment benefit plans | 9,098 | 1,640 | 2,959 | 29 | 118 | 185 | 623 | 23 | 51 | - | - | 14,726 |
| Deferred inflows related to leases | 10,533 | - | - | - | - | - | - | - | - | - | - | 10,533 |
| Total Deferred Inflows of Resources | \$ 18,485 | \$ 1,626 | \$ 6,475 | \$ 29 | \$ 118 | \$ 185 | \$ 623 | \$ 23 | \$ 51 | \$ - | \$ - | \$ 27,615 |
| Net Position | | | | | | | | | | | | |
| Restricted for: | | | | | | | | | | | | |
| Nonexpendable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,230 | \$ - | \$ 1,461 | \$ - | \$ 13,691 |
| Expendable | - | - | - | - | - | - | - | 60,198 | - | - | - | 60,198 |
| Net investment in capital assets | 431,237 | 112,816 | 13,630 | 1,396 | 10 | 4,646 | (132) | 37 | 587 | (152) | - | 564,075 |
| Unrestricted | 1,242,960 | 686,528 | 396,965 | (1,396) | (62,346) | (58,024) | (50,777) | 7,923 | 21,204 | 1,672 | (1,521) | 2,183,188 |
| Total Net Position | \$ 1,674,197 | \$ 799,344 | \$ 410,595 | \$ - | \$ (62,336) | \$ (53,378) | \$ (50,909) | \$ 80,388 | \$ 21,791 | \$ 2,981 | \$ (1,521) | \$ 2,821,152 |

See accompanying note to consolidating schedules.

Lee Memorial Health System

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

13-month period ended October 31, 2024

| | Lee Memorial Hospital | Physicians | Others | Total Lee Memorial Hospital | Cape Memorial Hospital, Inc. | Gulf Coast Medical Center | Lee County Trauma Services District | Lee Memorial Home Health, Inc. | Health Park Care Center, Inc. | Total FQHC-LA Operations | Lee Memorial Health System Foundation, Inc. | Total Population Health | Paramount Surgery Center, LLC | Eliminations | Total |
|---|-----------------------------|---------------------|-------------------|--------------------------------------|---------------------------------------|---------------------------------|--|--|-------------------------------------|--------------------------------|--|-------------------------------|-------------------------------------|-------------------|---------------------|
| Operating Revenues | | | | | | | | | | | | | | | |
| Net patient service revenue | \$ 1,578,024 | \$ 201,081 | \$ 2 | \$ 1,779,107 | \$ 471,306 | \$ 886,937 | \$ 2,144 | \$ 19,518 | \$ 17,383 | \$ 60,364 | \$ - | \$ - | \$ 21,339 | \$ - | \$ 3,258,098 |
| Other revenue | 123,093 | 1,109 | 29,660 | 153,862 | 5,759 | 7,487 | 770 | 128 | (18) | 95,919 | 5,200 | 2,538 | 3 | (2,849) | 268,799 |
| Total Operating Revenues | 1,701,117 | 202,190 | 29,662 | 1,932,969 | 477,065 | 894,424 | 2,914 | 19,646 | 17,365 | 156,283 | 5,200 | 2,538 | 21,342 | (2,849) | 3,526,897 |
| Operating Expenses | | | | | | | | | | | | | | | |
| Salaries, wages, and benefits | 729,963 | 324,651 | 7,019 | 1,061,633 | 207,360 | 419,553 | 7,966 | 13,605 | 17,924 | 81,883 | 3,397 | 5,474 | 3,610 | - | 1,822,405 |
| Supplies and other services | 503,435 | 29,779 | 4,702 | 537,916 | 92,606 | 208,214 | 381 | 7,289 | 3,394 | 49,292 | 1,057 | 775 | 8,469 | - | 909,393 |
| Purchased services | 134,009 | 22,057 | 333 | 156,399 | 56,708 | 101,562 | (5,581) | 1,388 | 1,980 | 46,081 | 499 | 3,915 | 2,993 | - | 365,944 |
| Depreciation and amortization | 90,032 | 15,941 | 308 | 106,281 | 21,765 | 48,176 | 143 | 871 | 956 | 2,205 | 119 | 260 | 536 | - | 181,312 |
| Total Operating Expenses | 1,457,439 | 392,428 | 12,362 | 1,862,229 | 378,439 | 777,505 | 2,909 | 23,153 | 24,254 | 179,461 | 5,072 | 10,424 | 15,608 | - | 3,279,054 |
| Operating Income (Loss) | 243,678 | (190,238) | 17,300 | 70,740 | 98,626 | 116,919 | 5 | (3,507) | (6,889) | (23,178) | 128 | (7,886) | 5,734 | (2,849) | 247,843 |
| Non-Operating Income and Expenses | | | | | | | | | | | | | | | |
| Interest expense | (13,069) | (3,025) | (83) | (16,177) | (1,649) | (20,538) | (5) | (119) | (76) | (705) | (15) | - | (150) | - | (39,434) |
| Investment income, including realized and unrealized gains on investments | 514 | - | 216,428 | 216,942 | 45 | 155 | - | - | - | - | 2,589 | 14 | - | - | 219,745 |
| Contributions and grants | (1) | - | (4) | (5) | - | - | - | - | - | - | 5,901 | - | - | - | 5,896 |
| Investment activity on restricted nonexpendable investments | - | - | - | - | - | - | - | - | - | - | 2,335 | - | - | - | 2,335 |
| Net gain (loss) on sale of capital assets | (184) | (3) | 118 | (69) | (51) | (3,729) | - | - | (3) | (20) | 400 | (2,917) | - | - | (6,389) |
| Transfer to Population Health | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Federal and state appropriations | - | - | 3,480 | 3,480 | - | - | - | - | - | - | - | - | - | - | 3,480 |
| Other, net | 435 | - | 11,988 | 12,423 | - | - | - | - | - | - | (651) | - | - | - | 11,772 |
| Total Non-Operating Income (Loss) | (12,305) | (3,028) | 231,927 | 216,594 | (1,655) | (24,112) | (5) | (119) | (79) | (725) | 10,559 | (2,903) | (150) | - | 197,405 |
| Excess (Deficit) of Revenues and Income Over Expenses | 231,373 | (193,266) | 249,227 | 287,334 | 96,971 | 92,807 | - | (3,626) | (6,968) | (23,903) | 10,687 | (10,789) | 5,584 | (2,849) | 445,248 |
| Other Changes in Net Position | | | | | | | | | | | | | | | |
| Distributions to minority interests in joint ventures | - | - | - | - | - | - | - | - | - | - | - | - | (4,480) | 2,285 | (2,195) |
| Increase (Decrease) in Net Position | \$ 231,373 | \$ (193,266) | \$ 249,227 | 287,334 | 96,971 | 92,807 | - | (3,626) | (6,968) | (23,903) | 10,687 | (10,789) | 1,104 | (564) | 443,053 |
| Net Position, beginning of year | | | | 1,386,863 | 702,373 | 317,788 | - | (58,710) | (46,410) | (27,006) | 69,701 | 32,580 | 1,877 | (957) | 2,378,099 |
| Net Position, end of year | | | | \$ 1,674,197 | \$ 799,344 | \$ 410,595 | \$ - | \$ (62,336) | \$ (53,378) | \$ (50,909) | \$ 80,388 | \$ 21,791 | \$ 2,981 | \$ (1,521) | \$ 2,821,152 |

See accompanying notes to consolidating schedules.

Lee Memorial Health System

Note to Consolidating Schedules

1. Basis of Consolidation

The accompanying consolidating information presents the financial position and results of operations of each of the significant component operating units and affiliates of Lee Memorial Health System (LMHS) (collectively, the System) as of October 31, 2024 and for the 13-month period then ended, in conformity with accounting principles generally accepted in the United States of America, including applicable Government Accounting Standards Board (GASB) statements, on the accrual basis of accounting. The accompanying consolidating information presents adjustments necessary to eliminate significant intercompany accounts and transactions. The accompanying consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual components and is not a required part of the basic consolidated financial statements.

2. Presentation of Consolidating Schedules

The System's fiscal year remains September 30. In anticipation of the Conversion Transaction effective November 1, 2024 (refer to Note 1 to the System's basic consolidated financial statements), management elected to present information for the 13-month period ended October 31, 2024, so as to include the final month of the System's operations prior to the Conversion Transaction and LMHS's dissolution.

Internal Control and Compliance Matters



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

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

We have audited, in accordance with 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 Memorial Health System and its component units and the pension trust fund (collectively, the System), which comprise the consolidated statement of net position as of October 31, 2024, and the related consolidated statements of revenues, expenses, and changes in fund net position and of cash flows for the 13-month period then ended, and the related notes to the consolidated financial statements, which collectively comprise the System's basic consolidated financial statements, and have issued our report thereon dated March 4, 2025. The financial statements of Lee Memorial Health System Foundation, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Lee Memorial Health System Foundation, Inc.

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 financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, P.C.

March 4, 2025



Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.550, Rules of the State of Florida Auditor General

The Board of Directors
Lee Memorial Health System
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 Memorial Health System and its subsidiaries and the pension trust fund’s (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 13 months ended October 31, 2024. 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 13 months ended October 31, 2024.

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 10.550, Rules of the State of Florida Auditor General (Chapter 10.550). Our responsibilities under those standards and the Uniform Guidance and Chapter 10.550 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 10.550 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*, and the Uniform Guidance and Chapter 10.550, 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 10.550, 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.

Report on Internal Control Over Compliance

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.



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.

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the internal control over compliance findings identified in our 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 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 10.550. Accordingly, this report is not suitable for any other purpose.

BDO USA, P.C.

July 30, 2025

Lee Memorial Health System

Schedule of Expenditures of Federal Awards and State Financial Assistance

13-month period ended October 31, 2024

| 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 | \$ - | \$ 836,662 |
| Maternal and Child Health Block Grant passed through the Healthy Start Coalition of Southwest Florida, Inc.: Care Coordination | 93.994 | N/A | - | 67,594 |
| Maternal, Infant and Early Childhood Home Visiting Grant Program passed through the Healthy Start Coalition of Southwest Florida, Inc. | 93.870 | N/A | - | 213,542 |
| State and National Tobacco Cessation Support Systems passed through the Healthy Start Coalition of Southwest Florida, Inc. | 93.699 | N/A | - | 242,495 |
| Children's Health Insurance Program passed through the University of South Florida Board of Trustees: Florida Health Kids Corp (FHKC) Connecting Kids to Coverage Outreach and Enrollment Coop Agreements | 93.767 | 6414-1078-00-C | - | 25,000 |
| | 93.767 | N/A | - | 53,908 |
| Total Children's Health Insurance Program Passed Through the University of South Florida Board of Trustees | | | - | 78,908 |
| Health Center Program Cluster: Grants for New and Expanded Services under the Health Center Program | 93.527 | N/A | - | 2,046,330 |
| Total U.S. Department of Health and Human Services | | | - | 3,485,531 |
| Federal Emergency Management Agency | | | | |
| Disaster Grants - Public Assistance passed through Florida Division of Emergency Management | 97.036 | N/A | - | 3,989,665 |
| Financial Assistance for Targeted Violence and Terrorism Prevention | 97.132 | N/A | - | 110,000 |
| Total Federal Emergency Management Agency | | | - | 4,099,665 |
| Total Federal Expenditures | | | \$ - | \$ 7,585,196 |

Lee Memorial Health System

Schedule of Expenditures of Federal Awards and State Financial Assistance

13-month period ended October 31, 2024

| 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 | \$ - | \$ 783,033 |
| State of Florida Department of Health Community Health Promotion - Contracted Services Florida Mobile Health Clinic | 64.157 | COHEV | - | 1,027,121 |
| Trauma Center Financial Support | 64.075 | TRA-10 | - | 757,384 |
| Total State of Florida Department of Health Funds | | | - | 1,784,505 |
| State of Florida Department of Emergency State Hurricane Recovery Grant Program Emergency Wells Grant | 31.081 | D1497 | - | 43,854 |
| State of Florida Department of Education Pathway to Career Opportunities Grant | 48.190 | 85E-90310-4Q001 | - | 100,000 |
| Early Learning Coalition of Southwest Florida Grant Payment Child Development | 84.412 | N/A | - | 160,000 |
| Total Expenditures of State Financial Assistance | | | - | 2,871,392 |
| Total Expenditures | | | \$ - | \$ 10,580,297 |

The accompanying notes are an integral part of this schedule.

Lee Memorial Health System

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance 13-Month Period Ended October 31, 2024

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 period ended October 31, 2024. 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 10.550, *Rules of the State of Florida Auditor General* (Chapter 10.550). 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 10.550, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

Lee Memorial Health System has elected not to use the 10% 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 \$3,989,665 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 October 31, 2024 through March 4, 2025, except for our report on the Schedule, for which the subsequent events date is July 30, 2025, 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 Memorial Health System

Schedule of Findings and Questioned Costs 13-Month Period Ended October 31, 2024

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? yes X 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)?

 yes X no

Identification of major federal programs:

Assistance Listing Numbers

Name of Federal Program or Cluster

97.036
93.778

Disaster Grants - Public Assistance
Medicaid Cluster - Medical Assistance
Program

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

\$750,000

Auditee qualified as low-risk auditee?

 X yes no

Lee Memorial Health System

Schedule of Findings and Questioned Costs 13-Month Period Ended October 31, 2024

State Projects

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 state projects: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.550? yes X no

Identification of major state projects:

| <u>CSFA Number</u> | <u>State Project</u> |
|--------------------|--|
| 65.002 | Alzheimer Interventions, Memory Disorder Clinics, Brain Banks and Alzheimer Special Projects |
| 64.157 | Community Health Promotion - Contracted Services Florida Mobile Health Clinic |

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Section II. Consolidated Financial Statement Findings

There were no findings related to the consolidated financial statements that are required to be reported in accordance with generally accepted government auditing standards.

Section III. Federal Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in 2 CFR 200.516(a)) that are required to be reported.

Section IV. State Award Findings and Questioned Costs

There were no findings and questioned costs for federal awards (as defined in Chapter 10.550) that are required to be reported.

Summary Schedule of Prior Audit Findings

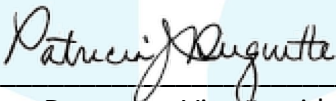
2023-001 – Identification of Subscription-Based Information Technology Arrangements

Prior Year Finding:

In accordance with accounting principles generally accepted in the United States of America, specifically, Government Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96), subscription-based information technology arrangements (SBITAs) meeting certain criteria result in a right-of-use subscription asset, to be amortized over the term of the arrangement, and a corresponding subscription liability. The System's SBITA accounting and reporting process did not include sufficient controls to ensure the completeness of identified arrangements meeting GASB 96 criteria and therefore, the consolidated financial statements were not properly stated, resulting in corrected misstatements of financial position and results of operations, which constituted a significant deficiency in internal controls over financial reporting.

Current Year Status:

The finding has been corrected in the current year.



Patty Duquette, Vice President of Finance



Independent Auditor's Report on Compliance

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

We have examined Lee Memorial Health System's (the System) compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the 13-month period ended October 31, 2024. Management of the System is responsible for the System's compliance with the specified requirements. Our responsibility is to express an opinion on the System's compliance with the specified requirements based on our examination.

In our opinion, the System complied, in all material respects, with Section 218.415, Florida Statutes, regarding the investment of public funds during the 13-month period ended October 31, 2024.

Compliance

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the System complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether the System complied, in all material respects, with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the System's compliance with specified requirements.

Purpose of this Report

This report is intended solely for the information and use of The Board of Directors of the System and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, P.C.

March 4, 2025