NCH Healthcare System, Inc.

Consolidated Financial Statements
September 30, 2009 and 2008

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Report of Independent Certified Public Accountants

To the Board of Trustees of
NCH Healthcare System, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets, and of cash flows present fairly, in all material respects, the financial position of NCH Healthcare System, Inc. (the "System") at September 30, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the System adopted the authoritative guidance for fair value measurements on October 1, 2008.

PricewaterhouseCoopers LLP

January 15, 2010

NCH Healthcare System, Inc.
Consolidated Balance Sheets
September 30, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 42,333,169	$ 52,428,452
Investments	54,178,929	44,971,931
Due from patients and others, net of allowance for estimated uncollectibles of approximately $29,620,000 in 2009 and $22,578,000 in 2008	52,343,809	55,218,355
Assets limited as to use	15,563,050	16,693,448
Inventories	8,366,268	8,095,794
Other current assets	6,792,116	9,726,054
Total current assets	179,577,341	187,134,034
Assets limited as to use		
Self-insurance fund	13,126,612	16,929,091
Board-designated assets	91,446,890	66,383,910
Assets held by trustee under bond indentures	11,187,504	11,050,406
	115,761,006	94,363,407
Less: Assets limited as to use that are required for current liabilities	(15,563,050)	(16,693,448)
	100,197,956	77,669,959
Investments in partnerships	983,321	2,229,257
Property and equipment, net of accumulated depreciation	243,499,969	252,461,100
Long-term investments	8,636,174	8,888,029
Bond issue costs	1,943,162	2,111,108
Other assets	11,761,570	6,722,105
Total assets	$546,599,493	$537,215,592

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

NCH Healthcare System, Inc.
Consolidated Balance Sheets, continued
September 30, 2009 and 2008

	2009	2008
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 8,617,145	$ 8,243,239
Current portion of estimated self-insurance liabilities	4,375,546	5,643,042
Accounts payable	18,719,676	15,867,711
Accrued expenses	28,955,591	26,596,349
Accrued interest	2,608,657	2,762,409
Estimated third-party payor settlements	8,570,190	6,930,190
Total current liabilities	71,846,805	66,042,940
Long-term debt, excluding current portion	106,609,935	115,135,092
Estimated self-insurance liabilities, excluding current portion	8,751,066	11,286,049
Other liabilities	6,011,244	4,695,467
Total liabilities	193,219,050	197,159,548
Commitments and contingencies		
Net assets		
Unrestricted	334,631,841	322,477,864
Temporarily restricted	7,847,139	6,414,353
Permanently restricted	10,901,463	11,163,827
Total net assets	353,380,443	340,056,044
Total liabilities and net assets	$ 546,599,493	$ 537,215,592

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

NCH Healthcare System, Inc.
Consolidated Statements of Operations
Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted revenues		
Net patient service revenue	$ 441,247,460	$ 441,708,161
Other revenue	15,062,111	14,697,983
Total revenues	456,309,571	456,406,144
Expenses		
Salaries and wages	170,945,691	176,790,445
Employee benefits	35,037,815	35,578,517
Supplies and other expenses	136,084,796	141,287,985
Purchased services	30,995,876	34,830,518
Depreciation and amortization	27,407,999	25,664,302
Interest expense	5,951,781	6,353,078
Provision for bad debts	49,728,161	49,450,030
Total expenses	456,152,119	469,954,875
Operating income (loss)	157,452	(13,548,731)
Other income		
Investment income	3,561,773	5,680,940
Unrestricted charitable contributions	3,218,676	7,671,201
Disposition of assets, net	(314,874)	24,005,666
Excess of revenues over expenses	6,623,027	23,809,076
Change in net unrealized gains on other than trading securities	3,079,206	(3,604,007)
Net assets released from restrictions	2,451,744	5,234,307
Increase in unrestricted net assets	$ 12,153,977	$ 25,439,376

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

NCH Healthcare System, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2007	$ 297,038,488	$ 9,313,391	$ 12,826,573	$ 319,178,452
Excess of revenues over expenses	23,809,076	-	-	23,809,076
Change in net unrealized gains on other than trading securities	(3,604,007)	-	(2,648,730)	(6,252,737)
Restricted gifts and bequests	-	2,849,135	(504,685)	2,344,450
Income from restricted investments	-	-	976,803	976,803
Net assets released from restrictions	5,234,307	(5,748,173)	513,866	-
Change in net assets	25,439,376	(2,899,038)	(1,662,746)	20,877,592
Net assets at September 30, 2008	322,477,864	6,414,353	11,163,827	340,056,044
Excess of revenues over expenses	6,623,027	-	-	6,623,027
Change in net unrealized losses on other than trading securities	3,079,206	-	113,422	3,192,628
Restricted gifts and bequests	-	3,724,530	(10,509)	3,714,021
Loss from restricted investments	-	-	(205,277)	(205,277)
Net assets released from restrictions	2,451,744	(2,291,744)	(160,000)	-
Change in net assets	12,153,977	1,432,786	(262,364)	13,324,399
Net assets at September 30, 2009	$ 334,631,841	$ 7,847,139	$ 10,901,463	$ 353,380,443

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

NCH Healthcare System, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	$ 13,324,399	$ 20,877,592
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Restricted gifts and bequests	(3,714,021)	(2,344,450)
Change in net unrealized gains on other than trading securities	(3,192,628)	6,252,737
Income (Loss) from restricted investments	205,277	(976,803)
Depreciation and amortization	27,407,999	25,664,302
Provision for bad debts	49,728,161	49,450,030
Loss (gain) on disposal of property and equipment	314,874	(20,992,550)
Changes in assets and liabilities		
Increase in due from patients and others	(46,853,615)	(49,846,993)
Increase in inventories	(270,474)	(527,582)
Decrease in other current assets	2,933,938	201,905
Increase (decrease) in accounts payable	2,851,965	(5,652,011)
Increase (decrease) in accrued expenses	2,359,242	(27,935,308)
Decrease in accrued interest	(153,752)	(113,881)
(Decrease) increase in estimated self-insurance liabilities	(3,802,479)	3,440,513
Increase (decrease) in estimated third-party payor settlements	1,640,000	(797,501)
Increase (decrease) in other liabilities	1,315,777	(481,869)
Net cash provided by (used in) operating activities	44,094,663	(3,781,869)
Cash flows from investing activities		
Purchases of property and equipment	(18,490,043)	(21,586,593)
Proceeds from the sales of property and equipment	23,775	19,842,973
(Purchases) proceeds of investments, net	(5,762,515)	2,158,655
(Increase) decrease in other assets	(5,075,005)	3,166,902
(Increase) decrease in assets limited as to use	(21,397,599)	13,021,467
Decrease in investment in partnerships	1,245,936	2,145,278
Net cash (used in) provided by investing activities	(49,455,451)	18,748,682
Cash flows from financing activities		
Restricted gifts and bequests	3,714,021	2,344,450
Income from restricted investments	(205,277)	976,803
Repayment of long-term debt	(8,243,239)	(7,888,748)
Net cash used in financing activities	(4,734,495)	(4,567,495)
(Decrease) increase in cash and cash equivalents	(10,095,283)	10,399,318
Cash and cash equivalents		
Beginning of year	52,428,452	42,029,134
End of year	$ 42,333,169	$ 52,428,452
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 6,105,533	$ 6,499,662
Noncash write-off of property and equipment	2,520,773	-

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

1. Summary of Significant Accounting Policies

Organization

The NCH Healthcare System, Inc. (the "System") was incorporated as a 501(c)(3) not-for-profit parent holding corporation in 1983 under a plan of reorganization to better serve the community's health care needs and to provide management with greater flexibility in providing services.

The System maintains the legal right to select trustees of its not-for-profit subsidiaries for approval by the subsidiaries' respective corporate memberships and to elect all the directors of its proprietary subsidiaries. In addition, the System maintains the right to approve (1) the operating and capital budgets, (2) all amendments to the bylaws and articles of incorporation, and (3) all long-term debt obligations and requests for certificates of need for all of the subsidiaries. The System owns 100% of the outstanding stock of its proprietary enterprise subsidiaries.

The System's companies and the consolidated financial statements consist of the following entities:

Naples Community Hospital, Inc. (the "Hospital"), a not-for-profit corporation located in Collier County, Florida, consists of two hospitals with 681 beds. The Downtown Naples Hospital Campus is a 420-bed acute care facility and North Naples Hospital Campus is a 261-bed acute care facility. The Hospital also has a blood center and various other outpatient centers located throughout the community. The Hospital is a wholly owned subsidiary of the NCH Healthcare System, Inc. (the “System”), a not-for-profit corporation. The majority of the System’s Board of Trustees also serve on the Board of Trustees of the Hospital.

Marco Island Hospital, Inc. d/b/a Marco Healthcare Center ("MIH"), a not-for-profit corporation, operates an urgent care center and medical office building on Marco Island, Florida.

Community Home Services, Inc., a not-for-profit corporation, operated Lifeline emergency response services and provided durable medical equipment. The durable medical equipment business was sold in March 2007 and Lifeline was sold in September 2008.

Collier Health Care, Inc. (CHCI), a not-for-profit corporation, owns and leases healthcare facilities in Naples and Immokalee, Florida. CHCI also operates Children's Medical Services, a program serving chronically ill and special needs children under Title V and the Florida KidCare Program through Title XXI.

NCHMD, Inc. d/b/a S.W. Florida Hematology and Oncology Specialists, a not-for-profit corporation, provided services to patients with cancer and blood disorders. NCHMD, Inc. d/b/a S.W. Florida Hematology and Oncology Specialists was closed January 2008.

Health Resources Corporation ("HRC"), a for-profit holding company which consists of the following proprietary subsidiaries: (i) Community Imaging, Inc. ("CII") was formed to operate as a partner in the operation of diagnostic imaging centers. CII's 50% partnership interest in Naples Diagnostic Imaging Center, Ltd. ("NDIC") is accounted for using the equity method of accounting. In conjunction with the issuance of long-term debt for the construction and equipping of NDIC facilities, the System has provided an unconditional guarantee to pay 50% of the obligations related to this debt should NDIC default. As of September 30, 2009 and 2008, total long-term debt outstanding at NDIC was $3,340,518 and $4,111,187, respectively. (ii) Ambulatory Surgical Care Center, Inc. ("ASCC") owns a 15% interest in Naples Day Surgery ("NDS"), a non-affiliated limited liability company which operates two ambulatory surgery centers in Collier County, Florida. (iii) Community Home Care, Inc. owns a 49% interest in Kokua Healing Arts, Inc., an established private duty home health agency headquartered in Naples, Florida. (iv) Counseling and Employee Assistance Program, Inc. ("CEAP") provided employee assistance services, such as individual and family counseling, to NCH affiliates and other local companies. CEAP was closed December 31, 2008.

The System also owns a 50% interest in Bonita Community Health Center ("BCHC"), a not-for-profit organization. BCHC operates an urgent care center, an ambulatory surgical care center, a diagnostic imaging center and an outpatient rehabilitation center in Estero, Florida. Additionally, BCHC leases office space to physicians and other healthcare providers. The investment in BCHC is accounted for using the equity method. In conjunction with the issuance of long-term debt for the construction and equipping of the BCHC facility, the System has provided an unconditional guarantee to pay 50% of the obligations related to this debt should BCHC default. As of September 30, 2009 and 2008, total long-term debt outstanding at BCHC was $25,951,094 and $26,540,918, respectively.

The System also owns a 50% interest in Naples Physician Hospital Organization d/b/a Community Health Partners ("CHP"), a not-for-profit taxable entity under the laws of the State of Florida. CHP contracts with various employers and other third-party payors for the provision of healthcare services by CHP members. The investment in CHP is accounted for using the equity method.

Basis of Presentation
These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the System as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions into three classes of net assets - permanently restricted, temporarily restricted or unrestricted as follows:

Permanently restricted net assets
Net assets subject to donor-imposed stipulations that they be maintained permanently by the System. Generally, the donor of these assets permits the System to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets
Net assets subject to donor-imposed stipulations that will eventually be met by actions of the System and/or the passage of time.

Unrestricted net assets
Net assets generated from operations, unrestricted donations, and the satisfaction or lapse of temporary restrictions. These are not subject to donor-imposed stipulations.

Principles of Consolidation
The consolidated financial statements include the accounts of the System. All significant intercompany amounts and transactions have been eliminated in consolidation.

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

Cash and Cash Equivalents
Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less at date of purchase but exclude amounts whose use is limited by self-insurance programs, board designation or arrangements under trust agreements.

Investments and Investment Income
Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in investment income unless income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities. All of the System's investments are classified as available for sale securities.

Inventories
Inventories consist of operating supplies and are stated at the lower of cost or market, on a first-in, first-out basis.

Assets Limited as to Use
Assets limited as to use primarily include assets required by state insurance laws to fund claims in the System's self-insurance programs, assets set aside by the Board of Trustees primarily for capital replacement, and assets held by trustee under bond indenture agreements. Amounts required to meet current liabilities of the System have been classified as current assets. Assets limited as to use are carried on the consolidated balance sheets at fair value based upon quoted market prices.

Donor Receivables
Donations to be received in the future that are held in irrevocable trusts are reported at net present value. Pledges to make future donations are reported at net present value, net of an allowance for estimated uncollectible pledges. Donor receivables are classified as other assets in the consolidated balance sheets. Gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Property and Equipment
Property and equipment are recorded at cost or if donated, at fair market value at date of donation. Property and equipment donated for operations are recorded as additions to unrestricted net assets. Major asset classifications and useful lives are generally in accordance with those recommended by the American Hospital Association. Depreciation is provided over the estimated useful life of each class of depreciable assets, which range from 3 to 40 years, and is computed on the straight-line method. Upon sale or retirement of depreciable assets, the related cost and accumulated depreciation are removed and any resulting gain or loss is included in other revenue.

Bond Issue Costs
Bond issue costs are amortized over the life of the related bonds using the straight-line method, which approximates the effective interest method.

Estimated Self-Insurance Liabilities
The provision for estimated self-insured medical malpractice claims, workers' compensation claims and health and dental claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Health and dental claim provisions are included with accrued expenses. The provisions for medical malpractice claims and workers' compensation claims have been actuarially determined.

Excess of Revenues Over Expenses
The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and assets released from donor restrictions in accordance with stipulations of the gift.

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

Charity Care
The System provides care without charge or at amounts less than its established rates to patients who meet specific criteria under the State's charity care guidelines. Because the System does not pursue collection of accounts determined to qualify as charity care, these amounts are not reported as revenue.

Income Taxes
The System and all of its not-for-profit subsidiaries are exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the "Code") as organizations described in Section 501(c)(3) of the Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The System and all of its not-for-profit subsidiaries do not have 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. The System's for-profit subsidiaries are subject to income tax.

Accounting for Derivative Instruments
The System uses derivative financial instruments for the purpose of managing their exposure to adverse fluctuations in interest rates. While these instruments are subject to fluctuations in value, such fluctuations are generally offset by the change in value of the underlying exposures being hedged. The System does not enter into any derivative financial instruments for trading purposes.

The System records all of their derivative instruments in the consolidated balance sheets at fair value. Although these derivative instruments are used for risk management purposes, the System does not meet the criteria to qualify for hedge accounting and, therefore, the changes in fair value are recorded in the consolidated statements of operations as interest expense.

Fair Value Measurements
Effective October 1, 2008, the first day of the System's fiscal year 2009, the System adopted the authoritative guidance for fair value measurements and the fair value option for financial assets and financial liabilities. The System did not record an adjustment to net assets as a result of the adoption of the guidance for fair value measurements, and the adoption did not have a material effect on the System's results of operations. The guidance for the fair value option for financial assets and financial liabilities provides companies the irrevocable option to measure many financial assets and liabilities at fair value with changes in fair value recognized in earnings. The System has not elected to measure any financial assets or liabilities at fair value that were not previously required to be measured at fair value.

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the System. Unobservable inputs are inputs that reflect the System's assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

- Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets. Level 1 assets consist of money market funds, equity mutual and exchange-traded funds, equity securities and U.S. Treasury securities as they are traded in an active market with sufficient volume and frequency of transactions. Level 1 liability is associated with the System's deferred compensation plan.

- Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with sufficient volume or infrequent transactions (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and pre-payment rates. Level 2 assets and liabilities consist of certain marketable debt instruments and derivative contracts whose values are determined using inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Marketable debt instruments in this category include government-related securities, corporate bonds and notes, and preferred securities.

- Level 3 includes financial instruments for which fair value is derived from valuation techniques including pricing models and discounted cash flow models in which one or more significant inputs are unobservable, including the System's own assumptions. The pricing models incorporate transaction details such as contractual terms, maturity and, in certain instances, timing and amount of future cash flows, as well as assumptions related to liquidity and credit valuation adjustments of marketplace participants. Level 3 assets primarily consist of certain marketable debt instruments whose values are determined using inputs that are both unobservable and significant to the values of the instruments being measured, including marketable debt instruments that are priced using indicative prices that the System is unable to corroborate with observable market quotes. The System does not have any level 3 financial instruments as of September 30, 2009.

The following table presents the System's fair value hierarchy for assets and liabilities measured at fair value on September 30, 2009:

	Level 1	Level 2	Level 3	Total
Assets				
Cash	$ 10,389,893	$ 31,943,276	$ -	$ 42,333,169
Current investments	48,179,895	5,999,034	-	54,178,929
Assets limited as to use	58,003,421	57,757,585	-	115,761,006
Long-term investments	8,345,493	290,681	-	8,636,174
Other assets (1)	493,033	-	-	493,033
Total assets measured at fair value	$ 125,411,735	$ 95,990,576	$ -	$ 221,402,311
Liabilities				
Other liabilities (1)	$ 493,033	$ -	$ -	$ 493,033
Total liabilities measured at fair value	$ 493,033	$ -	$ -	$ 493,033

(1) Comprised of the System's deferred compensation plan assets and related liabilities which are invested in equity mutual funds.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements of the prior period in order to conform to the current period presentation. These reclassifications had no effect on excess of revenues over expenses, changes in net assets, or net assets.

2. Third-Party Payors

The System has agreements with third-party payors that provide for payment to the System at amounts different from its established rates. A summary of the basis of payments from the System's primary third-party payors follows:

Medicare
Most inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Psychiatric services are currently paid on a prospective basis. During 2008, psychiatric services were paid based on a blended prospective and cost based methodology. Some outpatient services continue to be paid based upon a cost reimbursement methodology. The System is reimbursed for cost reimbursable items at a tentative interim rate with final settlement determined after submission of annual cost reports by the System which are subsequently audited by the Medicare fiscal intermediary.

The System's Medicare cost reports have been filed for all years through September 30, 2008 and have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2007. 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.

The System has recorded a reserve for potential claim adjustments due to the Medicare Recovery Audit Contractor ("RAC") Demonstration project and permanent RAC program. The three-year demonstration project contract ended March 30, 2008. The permanent RAC program began in 2009 and includes claims paid beginning October 1, 2007.

During 2009, the System recognized an additional $4.5 million in patient service revenue for the 2008 disproportionate share ("DSH") add-on payments from Medicare. No Medicare DSH add-on payments were recognized for 2009 based upon historical accounting practices. This is consistent with the System's policy to recognize DSH revenue where there is certainty that the System will meet the eligibility to receive DSH payments.

Medicaid
Inpatient and outpatient services (except for laboratory and pathology services paid by fee schedule) rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. Reimbursable cost is determined in accordance with the principles of reimbursement established by the Florida Title XIX Hospital Reimbursement Plan, supplemented by the Medicare Principles of Reimbursement. The interim rates are tentatively established for each hospital, subject to cost ceilings with exceptions. The System is reimbursed at a tentative interim rate with final settlement determined after the intermediary audit of the combined Medicare and Medicaid cost report. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis in the period when final settlements are determined. The System's Medicaid interim rates are based on the Medicare/Medicaid unaudited cost reports for the year ended September 30, 2008.

Laws and regulations governing the Medicare and Medicaid Programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to audits, claims, inquiries and investigations from government authorities and agencies that occur in the ordinary course of business. Current audits, claims, inquiries, and investigations and their ultimate resolutions, individually or in the aggregate, are not expected to have a material adverse effect on the System's business, financial condition, results of operations, or cash flows. The System's classification of patients and the appropriateness of their care are subject to review by the fiscal intermediaries administering the Medicare and Medicaid programs.

Other

The System has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these arrangements includes prospectively determined rates per discharge, per diem, per capita (capitation), discounts from established charges, and prospectively determined rates per procedure for outpatient services. 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 was the following for the years ended September 30, 2009 and 2008:

		2009	2008
Gross patient service revenue		$ 1,333,238,770	$ 1,278,109,750
Less:	Medicare and Medicaid allowances	(713,868,618)	(639,870,371)
	Other discounts and allowances	(178,122,692)	(196,531,218)
		(891,991,310)	(836,401,589)
Net patient service revenue		$ 441,247,460	$ 441,708,161

4. Uncompensated Care

Uncompensated care represents either charges foregone or charges in excess of payment received for services provided to patients who are not covered under contracts with third-party payors. The major components of uncompensated care are categorized as charity, welfare, and bad debts.

Charity care represents services and supplies furnished at no charge to patients who have qualified under the income criteria promulgated by the State of Florida. Patients who would otherwise be deemed as charity care can sometimes qualify under the Collier County Welfare Program. Payments under the County Welfare Program are limited by the amount appropriated by the County.

During the year ended September 30, 2008, the System participated in the Trailblazers Section 1011 Federal Program that compensates healthcare providers for emergency services rendered to undocumented illegal aliens who have no other means to pay their bills. Patients were pre-screened to determine if they meet criteria for the program that only reimburses for initial emergency and stabilization treatment. Payments were received on a quarterly basis and the System was reimbursed a percentage of Medicare rates for inpatients and outpatients. The Trailblazers program was considered welfare and the difference between charges and the expected payment was included in net patient service revenue in the consolidated statements of operations. The funds for this program were exhausted as of September 30, 2008.

Finally, bad debts represent charges deemed uncollectible due to either (a) a patient's inability to qualify as charity, welfare, or Medicaid, yet clear financial indications exist that demonstrate an inability to pay, or (b) a patient's refusal to pay for services provided and the System's decision to cease further collection efforts.

Uncompensated care for the years ended September 30, 2009 and 2008 was as follows:

	2009	2008
Charity care - charges foregone, based on established rates	$ 47,174,266	$ 45,969,917
Welfare - difference between established rates and reimbursement received	1,322,927	12,627,712
Total charity care and welfare	48,497,193	58,597,629
Bad debts - charges deemed uncollectible	49,728,161	49,450,030
Total uncompensated care	$ 98,225,354	$ 108,047,659
Estimated cost of providing uncompensated care	$ 28,829,141	$ 34,305,133

The System applied the adjusted expenses as a percent of revenues to the charity, welfare and bad debt charges written off to determine an estimated cost of uncompensated care.

5. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2009 and 2008:

	2009	2008
Health care services		
Building construction and purchase of equipment	$ 7,442,856	$ 6,086,377
Indigent care and education	404,283	327,976
	$ 7,847,139	$ 6,414,353

Permanently restricted net assets at September 30, 2009 and 2008 are restricted to:

	2009	2008
Investments to be held in perpetuity, the income from which is expendable to support health care services	$ 10,901,463	$ 11,163,827

6. Due from Patients and Others

Amounts due from patients and others is net of uncollectible accounts for bad debts and contractual allowances under third-party payor arrangements. Medicare and Medicaid represent approximately 54% and 53% of amounts due from patients and others as of September 30, 2009 and 2008, respectively. The credit risk for other receivables is limited due to the large number of insurance and managed care companies and other payors that provide payments for services. These receivables are reported net of an estimated allowance for uncollectible accounts in the accompanying consolidated financial statements.

7. Assets Limited as to Use and Investments

The composition of assets limited as to use and investments are stated at fair value at September 30, 2009 and 2008, and are set forth in the following table:

	2009	2008
Assets limited as to use		
Self-insurance fund		
Cash and cash equivalents	$ 6,731,833	$ 6,127,911
U.S. government and agency securities	3,380,204	4,449,453
Corporate bonds	3,014,575	6,351,727
	13,126,612	16,929,091
Board-designated assets		
Cash and cash equivalents	58,012,414	39,506,799
U.S. government and agency securities	10,281,892	3,358,766
Corporate bonds	16,807,530	17,521,851
Common stock	6,345,054	5,996,494
	91,446,890	66,383,910
Assets held by trustee under bond indentures		
U.S. government and agency securities	11,187,504	11,046,726
Interest receivable	-	3,680
	11,187,504	11,050,406
Total assets limited as to use	$ 115,761,006	$ 94,363,407

	2009	2008
Investments		
Cash and cash equivalents	$ 7,585,290	$ 5,367,769
U.S. government and agency securities	26,541,063	18,379,369
Corporate bonds	22,904,667	24,072,332
Preferred stock	41,060	36,500
Common stock	5,743,023	6,003,990
	62,815,103	53,859,960
Less: Amount included in current assets	(54,178,929)	(44,971,931)
Long-term investments	$ 8,636,174	$ 8,888,029

Investment income and gains (losses) from unrestricted cash, assets limited as to use, and investments are comprised of the following for the years ended September 30, 2009 and 2008:

	2009	2008
Interest income and realized gains and losses on sale of investments	$ 3,561,773	$ 5,680,940
Change in unrealized gains on other than trading securities	$ 3,079,206	$ (3,604,007)

8. Property and Equipment

Property and equipment and accumulated depreciation and amortization consist of the following at September 30, 2009 and 2008:

	2009	2008
Land	$ 15,068,254	$ 15,068,254
Land improvements	6,568,345	6,239,123
Buildings	282,032,551	278,099,520
Fixed equipment	45,466,655	45,172,885
Movable equipment	164,201,745	151,509,977
Rental apartments	857,813	857,813
Leasehold improvements	6,709,484	7,321,148
Plant expansion in progress	5,879,800	9,771,538
	526,784,647	514,040,258
Less: Accumulated depreciation and amortization	(283,284,678)	(261,579,158)
	$ 243,499,969	$ 252,461,100

Depreciation expense was approximately $27,113,000 and $25,262,000 for the years ended September 30, 2009 and 2008, respectively.

The plant expansion in progress at September 30, 2009 included the construction costs of various projects, which management estimates will cost an additional $11,237,000 to complete. It is expected that the majority of these projects will be completed in 2010.

9. Long-Term Debt

The System was obligated under long-term debt as follows at September 30, 2009 and 2008:

	2009	2008
City of Naples, Florida, Hospital Refunding Revenue Bonds, Series 1993 (payable by the Hospital under an agreement with the City of Naples), consisting of $3,830,000 of term bonds due October 1, 2009, interest payable annually at 5.25%; $8,285,000 of term bonds due October 1, 2011, interest payable annually at 5.375%; $11,045,000 of term bonds due October 1, 2014, interest payable annually at 5.25%; $10,700,000 of term bonds due October 1, 2019, interest payable annually at 5.00%; and $0 of serial bonds due from October 1, 1994 to 2007, interest payable annually at rates of 2.70% to 5.10%.	$ 33,860,000	$ 37,505,000
City of Naples, Florida, Hospital Revenue Bonds, Series 1996 (payable by the Hospital under an agreement with the City of Naples), consisting of $1,040,000 of serial bonds with varying interest rates (from 4.00% to 5.125%) maturing through October 1, 2009; $9,085,000 term bonds, interest payable annually at 5.5%, maturing October 1, 2016; and $20,585,000 term bonds interest payable annually at 5.5%, maturing October 1, 2026.	30,710,000	31,700,000
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2002 (payable by the System under an agreement with Collier County) consisting of $9,865,000 serial bonds with interest at rates ranging from 2.60% to 3.97% during the year ended September 30, 2009, maturing November 1, 2022.	9,865,000	10,390,000
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2004 (payable by the Hospital under an agreement with Collier County) consisting of $38,000,000 serial bonds with interest at 4.65% at September 30, 2009, maturing September 30, 2019.	38,000,000	38,000,000
GE Capital Public Finance, Inc. (payable by the Hospital under an agreement with Collier County) consisting of $4,021,794 note with interest at 3.79% at September 30, 2009, maturing January 1, 2011.	4,021,794	7,105,034
Total long-term debt	116,456,794	124,700,034
Less: Unamortized original issue discount	(1,229,714)	(1,321,703)
Less: Current maturities	(8,617,145)	(8,243,239)
	$ 106,609,935	$ 115,135,092

The agreements underlying the bond issues described above contain covenants which provide for, among other things, the maintenance of certain ratios, conditions for additional indebtedness and the transferability of funds. The System was in compliance with all covenants for the years ended September 30, 2009 and 2008. The bonds are collateralized by all revenue, accounts receivable, contract rights and general intangibles of the System and by the money and securities held in the funds and accounts established under the applicable indentures. The Series 2004 Bonds are collateralized by a mortgage on the North Naples Campus. Payment of principal and interest on the Series 1993 and Series 1996 Bonds is guaranteed by municipal bond insurance. The Series 2002 and Series 2004 Bonds are backed by direct pay letters of credit with separate financial institutions which expire on November 15, 2012 and October 15, 2013, respectively.

At September 30, 2009, the System has an $8,000,000 line of credit with a financial institution. There were no draws during 2009 and 2008. Borrowings under the line of credit bear interest at LIBOR plus .55%. The line of credit expires on September 29, 2010.

The approximate aggregate principal maturities and sinking fund requirements on long-term debt in each of the next five years and thereafter are as follows:

Years Ending	
2010	$ 8,617,145
2011	6,524,649
2012	6,000,000
2013	6,320,000
2014	6,640,000
Thereafter	82,355,000
	$ 116,456,794

Long-Term Debt
The fair value of the long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the System for debt of the same remaining maturities.

The carrying amounts and fair values of the System's long-term debt at September 30, 2009 and 2008 are as follows:

	2009		2008	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt	$ 115,227,080	$ 116,132,455	$ 123,378,331	$ 123,271,893

10. Self-Insured Claims

The System's Board of Trustees elected to self-insure its professional liability, workers' compensation, and employee health programs.

For 2009 and 2008 professional liability, the System had a $3,000,000 per claim self-insured retention. To pay claims in excess of the self-insured retention, the System purchased an excess professional liability policy (claims-made basis).

Losses from asserted claims and from unasserted claims identified under the System's incident reporting system are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors and incidents that may have occurred but that have not been identified under the incident reporting system. Total expenses under this program were $3,193,056 and $6,463,861 during the years ended September 30, 2009 and 2008, respectively, and are included in supplies and other expenses in the consolidated statements of operation. As of September 30, 2009 and 2008, the System had accrued $10,210,534 and $14,013,279, respectively, which, in the opinion of management, based on historical experience and current actuarial analyses, is sufficient to cover reported claims and claims incurred but not reported. The accrued professional liability has been discounted at a rate of 5% in 2009 and 2008. The discount on the accrual professional liability was approximately $1,583,000 and $1,864,000 at September 30, 2009 and 2008, respectively.

For 2009 and 2008 workers' compensation, the System had a $500,000 per claim self-insured retention. To pay claims in excess of its self-insured retention, the System purchased an excess liability policy (occurrence-basis). Total expenses under this program were $1,717,283 and $1,711,190 during the years ended September 30, 2009 and 2008, respectively and are included in supplies and other expenses in the consolidated statement of operations. As of September 30, 2009 and 2008, the System had accrued $2,916,078 and $2,915,812, respectively, which, in the opinion of management, based on historical experience and current actuarial analyses, is sufficient to cover reported claims and claims incurred but not reported. The accrued workers' compensation reserve has been discounted at a rate of 5% in 2009 and 2008. The discount on the accrued workers' compensation was approximately $714,000 and $736,000 at September 30, 2009 and 2008, respectively.

For 2009 and 2008 employee health coverage, the System had a $250,000 per claim self-insured retention. The plan calls for a lifetime maximum of $2,000,000 and $1,500,000, respectively, per covered life. As of September 30, 2009 and 2008, the System had accrued $6,786,285 and $6,334,955, respectively, which, in the opinion of management based on historical experience, is sufficient to cover reported claims and claims incurred but not reported. Due to the short-term nature of these claims, the reserve is included in accrued expenses and has not been discounted.

The System is involved in litigation arising from the ordinary course of business. In the opinion of management and counsel, these matters will be resolved without a material adverse effect to the System's financial position, results of operations or cash flows.

11. Defined Contribution Plan

The System has a 401(k) plan (the "Plan") subject to the provisions of ERISA in which the System, at its discretion, contributes 2% of base compensation for each participant. The System makes an additional contribution of 50% of employee contributions up to a maximum System contribution of 2% of base compensation. The System's contributions, net of forfeitures, for the years ended September 30, 2009 and 2008 were approximately $5,943,000 and $6,113,000, respectively.

12. Related Party Transactions

Two members of the Board are employed as Senior Vice-Presidents at financial institutions with which the System conducts business. One physician member of the Board serves as an elected medical staff department chair and medical staff officer and was paid a stipend for serving in these positions. This physician member of the Board also participated in the medical staff ER call rotation and as a result of participating in the ER call rotation was paid a per diem fee for coverage provided in accordance with the established per diem fee schedule. Two physician members of the Board are partners in the ER Physician group that provides physician and medical director services in the NCH System facilities pursuant to an exclusive contract. The ER group is paid a monthly stipend for providing those services. Another physician member of the Board is a partner in the Cardiac Surgical group that has an exclusive contract to provide physician, perfusion and medical director services for the NCH System's Cardiac Surgical program. The Cardiac Surgical group is paid a monthly stipend for providing those services. One member of the Board is employed by the NCH System as a Registered Nurse. One member of the Board is employed by the NCH System in the engineering department. One member of the Board is employed by the NCH System in the IT department. One physician member of the Board serves as chair of the credentials committee and was paid a stipend for serving in that position. One member of the Board is a partner in a law firm that provides services to the NCH Healthcare System.

13. Leases

The System leases buildings and equipment under operating leases. Rent expense for the years ended September 30, 2009 and 2008 approximated $2,977,000 and $3,159,000, respectively. The future minimum lease payments under operating leases at September 30, 2009 are approximately as follows:

Years Ending	
2010	$ 1,907,000
2011	1,118,000
2012	924,000
2013	533,000
2014	-
	$ 4,482,000

14. Concentrations of Credit Risk

Financial instruments which potentially subject the System to concentrations of credit risk consist principally of cash and cash equivalents, investments, and assets limited as to use.

The System places its cash and cash equivalents with what management believes to be high credit quality financial institutions. Included in cash and cash equivalents are bank deposits, certificates of deposit and other short-term investments in the amount of approximately $42,333,000 and $52,428,000 as of September 30, 2009 and 2008, respectively. The System's assets limited as to use and investments include U.S. government and agency securities, corporate bonds, preferred stock and common stock which are subject to market risk. The System limits the amount of credit exposure to any one company or financial institution by diversifying its investments. The fair value of assets limited as to use and other investments is estimated based on quoted market prices for those or similar investments.

15. Disposition of Assets

On April 7, 2008, 21st Century Oncology, Inc., a Florida corporation, entered into an Asset Purchase Agreement with NCH Healthcare System, Inc. to purchase 100% of the assets of NCH's Regional Cancer Institute, an out-patient radiation oncology service. As a part of this sale, the System recorded a gain, net of closing costs, of approximately $20,629,000. The net gain was included in the disposition of assets in the consolidated statements of operations.

16. Subsequent Events

The System has performed a review of subsequent events through January 25, 2010, the date the financial statements were issued, and concluded there were no events or transactions that occurred during this period that required recognition or disclosure.