

Valuing Charitable Health Services

NCH Healthcare System, Inc.

For the Year Ending September 30, 2017

Purpose of this report

Not-for-profit community hospitals serve a charitable purpose for their communities. They receive the benefit of little or no tax responsibilities in return for fulfilling their charitable mission.

In Florida there is no standard method to perform a comparison of the value of the tax exemptions received to the amount of charitable services delivered, but the healthcare industry standard is the “Texas” method. Annually, the State of Texas requires not-for-profit hospitals to prepare a “community benefits” statement. In this statement, they must meet certain thresholds to retain their not-for-profit status. The report that follows uses this methodology.

This report clearly demonstrates that NCH Healthcare System, Inc. has met its obligation as a tax-exempt organization in 2017. As indicated on page 6, the amount of charity, subsidized Medicaid services and community benefit expenditures provided by NCH Healthcare System, Inc. exceeded the value of its tax exemption by **\$36,841,796**.

Community Benefit Activities - 2017

Description of Program Services

In serving the residents and visitors of Collier County and southern Lee County, NCH provides health-enhancing educational programs and resources as a benefit to the community. These programs include:

●Health Seminars

Free health seminars were provided to the public at the NCH Telford Education Center, von Arx Diabetes Center and at various community outreach facilities. *Value of these seminars: \$53,530*

●Community Health Fairs & Testing

Complimentary or reduced-price testing along with educational booths at community health fairs are provided by a number of NCH service lines. Complimentary or reduced price screening tests such as cholesterol testing are provided at many community events. At the **Marco Island Healthcare Center** alone, thousands of complimentary blood pressure checks were performed. *Value of these community fairs and testing: \$194,052*

●RN's

NCH Nurses get involved in educating future patients and easing their mind about their upcoming care. Preoperative seminars are held for those interested in learning more about elective orthopedic procedures. Many of our RN leadership participate in community boards such as the Naples Alliance for Children and Drug Free Collier. *Value of these nursing services: \$34,720*

●Support of the Neighborhood Health Clinic

The vision of a retiring NCH medical staff member and his wife came to fruition in our community several years ago.

Together, they helped rally the community to establish a clinic to provide care to the "working poor" of Collier County. NCH helped the Neighborhood Health Clinic get on its feet by first providing clinic space and laboratory services at no charge, and then providing expertise in the areas of information technology, biomedical technology, pharmacy and many other areas. When the Neighborhood Health Clinic has a patient with clinical needs beyond what they can offer, NCH has provided services to these patients. *Value of these consulting and patient services: \$2,136,403*

●P.L.A.N. – Physician Led Access Network of Collier County

NCH has partnered with physicians in this community initiative to provide medical services to the poor by providing both inpatient and outpatient care. *Value of the services provided: \$1,496,934*

●Heart Programs

A healthy heart is a focus for NCH. The annual **Heart Walk** is an exciting event in which teams and individuals are sponsored to walk through Old Naples to support the cause of fighting heart disease. NCH has been a major supporter of the American Heart Association for many years. *Value of this support: \$54,707*

●Cancer Survival

Another important initiative for NCH is assisting the patient in their cancer survival. NCH is a proud sponsor of Relay for Life and Garden of Hope. *Support of cancer awareness is valued at: \$39,176*

●Support of Patient Families

A medical event can affect the entire family. For families of brain injury and stroke patients, our team provides monthly guidance through support groups free of charge. We support the March of Dimes and also assist patients who can't afford expenses such as transportation, personal items and home care.

Value of these support services: \$265,102

●Dr. John Briggs Wellness Center

A number of fitness services are provided through the Dr. John Briggs Wellness Center at a discount or free of charge. When a financial need exists, community members are provided complimentary memberships.

Value of the Dr. John Briggs Wellness Center services provided: \$64,329

●Sharing Our Space

When space is available, NCH provides space at no cost to needy, not-for-profit organizations. The **Telford Education Center** is available to not-for-profit healthcare related groups such as "Mended Hearts" and those that provide support for stroke and kidney patients. Residents of Marco benefited with the use of our facility for community education and the Hospice support group.

Value of this space: \$25,375

●Clinical Schools

The clinical nursing schools of FGCU and Florida SouthWestern State College are provided here at NCH. NCH works with universities on providing pharmacy and laboratory preceptorships to students. NCH also provides on-site classrooms for clinical education.

Nursing and radiology scholarships are generously funded at both Florida SouthWestern State College, FGCU and other Florida universities.

Value of these support services: \$237,522

●Sharing our expertise

Members of NCH management serve on community boards in various capacities. We also provide expertise to other community issues such as workforce housing and workforce development.

Value of these consulting services: \$152,762

●Caring for the Spirit

NCH has always provided exemplary pastoral care services. A formally accredited program is now in place to educate members of the ministry in the spiritual treatment of the sick in our Clinical Pastoral Education (CPE) program.

Value of this CPE program: \$20,000

●Employing the Community

NCH is growing our own healthcare professionals, and helping others seeking work, to find it. Career days, job shadowing, and lectures at local middle and high schools enlighten students about the many opportunities in the healthcare world.

Value of these education services: \$1,944

●Blue Zones Project

The Blue Zones Project of Southwest Florida sponsored by NCH is a comprehensive well-being improvement initiative designed to help people live longer and better by building strong social networks and encouraging sustainable changes throughout the community that lead to healthier choices. The benefits include lower healthcare costs, improved productivity and a higher quality of life.

Value of Blue Zone initiative: \$2,901,390

●Our Employees Give

The spirit of caring goes beyond our doors. Not only do many NCH employees give to our needy coworker program "Partners in Caring", but NCH employees annually hold a Christmas toy drive in which hundreds of toys are distributed to needy children. In late summer a school

supply drive is conducted to assist children in starting the school year off right. NCH employees are also pacesetters for the United Way in their annual giving campaign.

Value of these caring services: \$unknown

Total Value of Community Benefit Activities 2017: \$4,044,609
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Note: Neighborhood Clinic & PLAN patient charges are excluded, as the dollars are included in charity on page 15.

Texas Law - Charity Care and Community Benefits Standards

The Texas law details three standards to measure the extent to which a healthcare system is meeting its charitable purpose. A not-for-profit healthcare system must meet **one** of these thresholds of charity care and government-sponsored indigent health care (unreimbursed costs of Medicaid) along with charitable programs and services to the community. These standards are:

1. Charity care and unreimbursed costs of Medicaid provided in an amount equal to at least 4% of the healthcare system's net revenue. And combined charity care and unreimbursed cost of Medicaid and community benefits of at least 5% of the healthcare system's net revenue.
2. Charity care and Medicaid provided in an amount equal to at least 100% of the healthcare system's tax-exempt benefits, excluding Federal Income Tax.
3. Assessing if the healthcare system complied with a needs assessment submitted in the prior year. (Not applicable.)

Standard #1: Cost of Charity Care and Medicaid must equal at least 4% of net patient service revenue, and 5% when combined with Community Benefits

		<u>2017</u>	
Net Patient Service Revenue		\$ 543,174,655	4%
			<u>21,726,986</u>
NCH Healthcare System's Charity Care Cost	(see page 14)	(26,913,313)	
Unreimbursed Cost of Medicaid	(see page 15)	(29,830,435)	
Total Charity Care and Medicaid		<u>(56,743,748)</u>	
<i>Excess</i>		<u>\$ (35,016,762)</u>	
Net Patient Service Revenue		\$ 543,174,655	5%
			<u>27,158,732</u>
Total Charity Care and Medicaid (see above)		(56,743,748)	
Community Benefits provided (see page 4)		(4,044,609)	
Total Charity Care, Medicaid & Community Benefits		<u>\$ (60,788,357)</u>	
<i>Excess</i>		<u>\$ (33,629,625)</u>	

Observation: NCH Healthcare System significantly exceeds the Standard #1 requirements under the Texas Law.

Standard #2: Cost of Charity Care and Medicaid must equal at least 100% of Hospital's tax-exempt benefits.

		<u>2017</u>	
Value of NCH Healthcare System's Tax Exemption	(see page 6)	\$ 23,946,561	
Charity Care and Medicaid	(see above)	(56,743,748)	
<i>Excess</i>		<u>\$ (32,797,187)</u>	

Observation: NCH Healthcare System significantly exceeds the Standard #2 requirements under the Texas Law.

**NCH Healthcare System, Inc.
SUMMARY**

Value of Community Benefit Expenditures

2017

Community benefit expenditures from page 4:	4,044,609
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Value of Charity and Subsidized Medicaid Care

2017

Cost of providing charity care - page 14	\$ 26,913,313
Medicaid cost subsidy - page 15	29,830,435
	\$ 56,743,748

Value of Tax-Exempt Status

2017

Foregone Federal income taxes - page 7	\$ 11,278,228
Foregone State income taxes - page 13	1,930,311
Value of sales tax exemption - page 8	1,182,662
Foregone real property taxes - page 9	3,224,007
Foregone tangible property taxes - page 10	776,757
Foregone Federal unemployment tax - page 11	152,208
Value of sales tax exemption on capitalized assets - page 12	1,687,585
Value of tax exempt long-term financing - page 16	3,714,803
	\$ 23,946,561

The Estimated Dollar Savings to the Community

Value of Tax Exemption - Foregone Taxes	\$ 23,946,561
Amounts expended in furtherance of exempt purpose:	
Value of community benefit expenditures - page 4	(4,044,609)
Value of charity and subsidized Medicaid care	(56,743,748)
Net (gain) to the community	\$ (36,841,796)

NCH Healthcare System, Inc.
Estimate of Federal Income Tax Liability
For the year ended September 30, 2017

	<u>2017</u>
Form 990, (Line 22) Change in Net Assets per tax return (Assumption 3)	\$ 59,012,319
Charitable Contributions (Assumption 1)	(13,890,804)
Sales Tax on Supplies - page 8	(1,182,662)
Real Property Taxes - page 9	(3,224,007)
Tangible Property Taxes - page 10	(776,757)
Federal Unemployment Taxes - page 11	(152,208)
Interest Expense on Long Term Debt - page 16	(3,714,803)
Adjusted Income (Loss)	<u>36,071,078</u>
Possible Book/Tax Differences: (Assumption 2)	
Depreciation on Capitalized Sales Tax - page 12	(969,508)
Estimated Taxable Income (Loss)	<u>35,101,570</u>
State of Florida Tax Deduction - page 13	(1,930,311)
Estimated Federal Taxable Income (Loss)	<u>33,171,259</u>
Tax rate 2017	<u>0.34</u>
Estimated Federal Tax Liability	<u><u>\$ 11,278,228</u></u>

Assumptions:

1. Charitable contributions would not be taxable income. All amounts are considered gifts.
2. Book/tax differences for the following have not been calculated since it is assumed the differences are either immaterial or are timing differences which reverse over time: depreciation, accrued PTO, bad-debt allowance and self insured accruals.
3. The amount from the Form 990, line 19 has been increased by \$26,470,445 for net unrealized gains and transfers to related parties for operating expenses.

NCH Healthcare System, Inc.
Sales Tax Exemption
For the year ended September 30, 2017

	<u>2017</u>
Total Supplies Purchased	\$ 116,028,439
Supplies Exempt Under Florida Administrative Code	96,317,411
Supplies Subject to Florida Sales Tax	<u>\$ 19,711,028</u>
Florida Sales Tax Rate	6%
Estimated Sales Tax on Supplies	<u><u>\$ 1,182,662</u></u>

Methodology:

As a non-profit organization, supplies are purchased using a sales tax exemption. Under Florida Administrative Code, some medical supplies are specifically exempt from sales tax. This exemption was applied to the appropriate supplies and subtracted from total supplies purchased, to arrive at those subject to Florida sales tax.

Assumptions:

Sales tax for the State of Florida is 6%.

Conclusion:

If NCH Healthcare System, Inc. were a taxable entity, it is estimated it would have paid sales tax of \$ 1,182,662 to the State of Florida for the purchase of taxable supplies.

NCH Healthcare System, Inc.
Real Property Taxes
For the year ended September 30, 2017

Appraised Value of Land, Land Improvements, and Buildings	<u>2017</u> \$ 302,057,317
Millage Rate	various
Estimated Real Property Taxes	<u>\$ 3,224,007</u>

Methodology:

Due to NCH Healthcare System, Inc.'s tax-exempt status, real property taxes are not paid. In order to reflect NCH as a taxable entity, real property taxes should be imputed on all real property not currently subject to tax.

Assumptions:

Using the assessed value per the appropriate taxable government, Collier County Government or the City of Naples, the appropriate millage rate was multiplied to calculate the estimated tax exemption currently received.

Conclusion:

If NCH Healthcare System, Inc. were a taxable entity, it is estimated it would have paid property taxes in the amount of \$ 3,224,007 .

NCH Healthcare System, Inc.
Tangible Property Taxes
For the year ended September 30, 2017

	<u>2017</u>
Account Balances as of End of Fiscal Year	
Furniture & Fixtures (Rentals)	\$ 28,261
Leasehold Improvements	12,049,825
Fixed Equipment	55,329,046
Movable Equipment	234,205,822
Total Assets Subject to Tangible Property Tax	<u>\$ 301,612,954</u>
Less Accumulated Depreciation:	
Furniture & Fixtures (Rentals)	\$ (28,261)
Leasehold Improvements	(10,013,875)
Fixed Equipment	(45,044,110)
Movable Equipment	(174,405,944)
Total Accumulated Depreciation	<u>\$ (229,492,190)</u>
Net Book Value of Assets Subject to Tangible Property Tax	\$ 72,120,764
Assessed Value Percentage	100%
Value of Assets Subject to Tangible Property Tax	<u>72,120,764</u>
Tangible Property Tax Rate	1.0770%
Estimated Tangible Property Tax Exemption	<u>\$ 776,757</u>

Methodology:

Tangible property tax would be paid by NCH Healthcare System, Inc. if it were a taxable entity.

Assumptions:

Net book value has been used as a proxy for an assessed value that would have been determined by the property appraiser. The appraiser would have used a complex aging schedule and residual values. The tax rate on tangible property in Collier County, Florida would be approximately 10.0770 per \$1,000 in 2017.

Conclusion:

If NCH Healthcare System, Inc. were a taxable entity, it is estimated it would have paid tangible property taxes of \$ 776,757 .

NCH Healthcare System, Inc.
Federal Unemployment Taxes (FUTA)
 For the year ended September 30, 2017

	<u>2017</u>
Average Number of Applicable Employees During the Year	3,624
Times Applicable Wage Threshold Per Employee	x 7,000
Equals Wages Subject to FUTA	\$ 25,368,000
Net FUTA Rate After State Credit Reduction	x 0.6%
Estimated FUTA exemption 75%	\$ 152,208

Methodology:

If NCH Healthcare System, Inc. were a taxable entity, it would be required to pay Federal Unemployment Tax.

Assumptions:

The net Federal Unemployment Tax rate is estimated to be .6% October 1, 2016 through September 30, 2017.

Conclusion:

If NCH Healthcare System, Inc. were a taxable entity, it is estimated it would have paid Federal Unemployment Tax of \$ 152,208 .

NCH Healthcare System, Inc.
Sales Tax on Capitalized Assets
For the year ended September 30, 2017

	2017
Fixed Equipment (Current Year Additions)	5,725,415
Movable Equipment (Current Year Additions)	22,320,994
Automobiles (Current Year Additions)	80,000
Capitalized Assets Subject to Sales Tax	28,126,409
Florida Sales Tax Rate	6%
Estimated Sales Tax Exemption on Capitalized Assets	\$ 1,687,585

Tax Depreciation on Capitalized Sales Tax						
	2013	2014	2015	2016	2017	Total
FY 1993 to 2013	11,197,531					11,197,531
FY 2014	720,179	109,210				829,389
FY 2015	487,264	187,162	91,470			765,896
FY 2016	366,219	133,666	156,759	145,138		801,782
FY 2017	272,209	95,454	111,953	248,736	241,156	969,508
FY 2018	181,085	68,247	79,948	177,640	413,290	920,210
FY 2019	102,247	68,170	57,161	126,856	295,159	649,593
FY 2020	35,569	68,247	57,096	90,699	210,779	462,390
FY 2021		34,084	57,161	90,597	150,701	332,543
FY 2022			28,548	90,699	150,533	269,780
FY 2023				45,299	150,701	196,000
FY 2024					75,266	75,266
Total	\$ 13,362,303	\$ 764,240	\$ 640,096	\$ 1,015,664	\$ 1,687,585	\$ 17,469,888

Methodology:

Due to the non-profit status of NCH Healthcare System, Inc. sales tax is not paid on equipment purchases. Sales taxes that would have been paid would have been capitalized and depreciated over the useful life of the asset.

Assumptions:

Fixed equipment and movable equipment additions made in prior years should have capitalized sales tax paid. A seven year tax life has been used. Florida state sales tax is 6%.

Conclusion:

If NCH Healthcare System, Inc. were a taxable entity it is estimated it would have incurred sales tax expense of \$1,687,585 and had an estimated depreciation deduction of \$969,508 on equipment purchases.

NCH Healthcare System, Inc.
Florida State Income Tax
For the year ended September 30, 2017

	2017
Federal Taxable Income (Loss) - page 7	\$ 35,101,570
State Taxes Deducted in Computing	-
Less Standard State Exemption for Corp.	<u>(5,000)</u>
Florida Net Income (Loss)	<u>35,096,570</u>
Florida Net Income Rate	<u>0.055</u>
Estimated Florida State Income Tax Exemption	<u>\$ 1,930,311</u>

Methodology:

If NCH Healthcare System, Inc. were a taxable entity, it would be required to pay State Income Tax.

Assumptions:

The State of Florida standard exemption is \$5,000.

Conclusion:

If NCH Healthcare System, Inc. were a taxable entity, it is estimated that it would have a Florida State income tax liability of \$1,930,311 in 2017.

NCH Healthcare System, Inc.
Analysis of the Cost of Charity Care
For the year ended September 30, 2017

	<u>2017</u>
Charges Written Off:	
Charity Care	\$ 90,329,483
Welfare	2,646,910
Total Charity Care	<u>\$ 92,976,393</u>
Total Revenues	<u>\$ 2,153,606,520</u>
Total Expenses (excluding provision for bad debts)	\$ 545,881,624
Bad Debts	63,115,629
Less: Other Operating Revenue	14,394,185
Adjusted Expenses	<u>\$ 623,391,438</u>
<i>Adjusted Expenses as a Percentage of Revenues</i>	<i>28.9464%</i>
Estimated Cost of Providing Charity Care:	
Charity Care	26,147,128
Welfare	766,185
Total Charity Care	<u>\$ 26,913,313</u>

Methodology:

By applying the adjusted expenses as a percent of revenues to the charity and welfare charges written off, an estimate of the uncompensated cost of providing charity and welfare services is computed.

Assumptions:

The Texas method states that bad debts are to be included with expenses in the calculation of charity care. In reality, the vast majority of accounts written off as bad debts represents undocumented charity care provided to those with family income at or below the State charity guidelines. NCH Healthcare System, Inc. includes bad debt in the calculation of uncompensated care in the footnotes in the Audited Financial Statements.

Conclusion:

The estimated cost of providing uncompensated care to charity and welfare patients is \$ 26,913,313 .

NCH Healthcare System, Inc.
Analysis of Medicaid Cost Subsidy
For the year ended September 30, 2017

	<u>2017</u>
Total Medicaid Charges	\$ 200,657,448
Adjusted Expenses as a Percentage of Revenues - page 14	x <u>28.9464%</u>
Estimated Cost of Providing Care to Medicaid Patients	58,083,096
Reimbursement from Medicaid Program	(28,252,661)
Medicaid Cost Subsidy	<u>\$ 29,830,435</u>

Methodology:

The Medicaid Cost Subsidy represents the excess of the costs of providing services to Medicaid beneficiaries. Medicaid payments reflect those received thru December 18, 2017.

Conclusion:

The estimated cost of providing care to Medicaid patients in excess of reimbursement is \$ 29,830,435 .

Note - In 2017, NCH Healthcare System, Inc. recognized \$5.9 million in disproportionate share ("DSH") add on payments from Medicare. A portion of this reimbursement is related to Medicaid patients.

NCH Healthcare System, Inc.
Interest Expense on Long-Term Debt
For the year ended September 30, 2017

Long-Term Debt-Municipal Bonds	\$ 152,281,825
Interest Rate Differential Between taxable and non-taxable	<u>2.4394%</u>
Estimated Interest Expense Savings of Tax Exempt Borrowings	<u>\$ 3,714,803</u>

Methodology

Used the Municipal Bond calculator to calculate taxable equivalent yield on the 2010, 2011 Public bonds and 2011 Bank Qualified bonds.

Assumptions

Compared taxable bond issues versus non-taxable at time of issuance to determine the tax-exempt savings.

Conclusion:

Due to the taxable bond issue rate being above the non-taxable bond issue rate at time of issuance, NCH Healthcare System, Inc. would incur approximately \$3,714,803 in interest expense.