

# **NCH Healthcare System, Inc. and Subsidiaries**

Consolidated Financial Report  
September 30, 2018

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RSM US LLP

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of NCH Healthcare System, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2018 and 2017, the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NCH Healthcare System, Inc. and Subsidiaries as of September 30, 2018 and 2017, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Miami, Florida  
January 23, 2019

**NCH Healthcare System, Inc. and Subsidiaries**

**Consolidated Balance Sheets  
September 30, 2018 and 2017**

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 64,104,813	\$ 41,305,268
Investments	1,212	10,375,846
Due from patients and others, net of allowance for uncollectibles of approximately \$48,734,000 in 2018 and \$40,595,000 in 2017	73,060,566	61,178,583
Assets limited as to use	12,872,090	16,955,324
Inventories	11,883,261	11,204,360
Estimated third-party payor receivable	-	1,301,484
Other current assets	14,115,201	6,827,092
<b>Total current assets</b>	<b>176,037,143</b>	<b>149,147,957</b>
Assets limited as to use:		
Self-insurance fund	13,168,185	15,402,801
Board-designated assets	319,900,267	324,425,200
Assets held by trustee under bond indentures	4,459,808	4,425,529
Donor receivables	19,035,735	26,114,636
Assets designated or restricted for donor intentions	28,294,601	22,545,064
	<b>384,858,596</b>	<b>392,913,230</b>
Less assets limited as to use that are available to pay current liabilities	<b>(12,872,090)</b>	<b>(16,955,324)</b>
	<b>371,986,506</b>	<b>375,957,906</b>
Investment in partnerships	1,089,957	998,042
Property and equipment, net of accumulated depreciation	366,196,319	333,510,191
Other assets	7,879,807	8,804,151
<b>Total assets</b>	<b>\$ 923,189,732</b>	<b>\$ 868,418,247</b>

See notes to the consolidated financial statements.

**NCH Healthcare System, Inc. and Subsidiaries**

**Consolidated Balance Sheets  
September 30, 2018 and 2017**

	2018	2017
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 47,476,312	\$ 5,798,754
Current portion of estimated self-insurance liabilities	2,960,208	4,070,960
Estimated third-party payor payable	557,652	-
Accounts payable	32,055,469	28,098,394
Accrued expenses	35,045,190	27,302,363
Accrued interest	2,835,115	2,901,049
<b>Total current liabilities</b>	<b>120,929,946</b>	<b>68,171,520</b>
Long-term debt, excluding current portion	97,597,555	144,925,102
Estimated self-insurance liabilities, excluding current portion	10,207,977	11,331,841
Other liabilities	9,019,708	8,916,839
<b>Total liabilities</b>	<b>237,755,186</b>	<b>233,345,302</b>
Net assets:		
Unrestricted	633,023,449	583,707,743
Temporarily restricted	36,826,700	36,582,126
Permanently restricted	15,584,397	14,783,076
<b>Total net assets</b>	<b>685,434,546</b>	<b>635,072,945</b>
<b>Total liabilities and net assets</b>	<b>\$ 923,189,732</b>	<b>\$ 868,418,247</b>

See notes to the consolidated financial statements.

**NCH Healthcare System, Inc. and Subsidiaries**

**Consolidated Statements of Operations  
Years Ended September 30, 2018 and 2017**

	2018	2017
Unrestricted revenues:		
Net patient service revenue	\$ 610,052,040	\$ 543,174,655
Other revenue	15,339,783	14,394,185
Unrestricted charitable contributions	8,012,072	2,842,278
Net assets released from restrictions for operations	4,258,439	2,445,497
<b>Total revenues</b>	<b>637,662,334</b>	<b>562,856,615</b>
Expenses:		
Salaries and wages	289,721,631	254,419,561
Employee benefits	36,655,270	32,320,263
Supplies and other expenses	168,953,409	146,563,052
Purchased services	72,160,232	69,745,886
Depreciation and amortization	37,999,155	35,752,516
Interest expense	6,667,340	7,080,346
<b>Total expenses</b>	<b>612,157,037</b>	<b>545,881,624</b>
<b>Operating income</b>	<b>25,505,297</b>	<b>16,974,991</b>
Other income:		
Investment income	13,469,225	7,080,551
Disposition of assets, net	(76,742)	(533,762)
<b>Excess of revenues over expenses</b>	<b>38,897,780</b>	<b>23,521,780</b>
Change in net unrealized gains on other than trading securities	3,441,131	24,489,927
Net assets released from restrictions for capital	6,976,795	7,186,147
<b>Increase in unrestricted net assets</b>	<b>\$ 49,315,706</b>	<b>\$ 55,197,854</b>

See notes to consolidated financial statements.

**NCH Healthcare System, Inc. and Subsidiaries**

**Consolidated Statements of Changes in Net Assets  
Years Ended September 30, 2018 and 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2016	\$ 528,509,889	\$ 32,989,659	\$ 14,561,078	\$ 576,060,626
Excess of revenues over expenses	23,521,780	-	-	23,521,780
Change in net unrealized gains				
on other than trading securities	24,489,927	1,764,520	215,998	26,470,445
Restricted gifts and bequests	-	11,042,527	6,000	11,048,527
Income from restricted investments	-	417,064	-	417,064
Net assets released from restrictions for operations	-	(2,445,497)	-	(2,445,497)
Net assets released from restrictions for capital	7,186,147	(7,186,147)	-	-
<b>Change in net assets</b>	<b>55,197,854</b>	<b>3,592,467</b>	<b>221,998</b>	<b>59,012,319</b>
Net assets at September 30, 2017	583,707,743	36,582,126	14,783,076	635,072,945
Excess of revenues over expenses	38,897,780	-	-	38,897,780
Change in net unrealized gains				
on other than trading securities	3,441,131	512,748	200,030	4,153,909
Restricted gifts and bequests	-	10,243,837	601,291	10,845,128
Income from restricted investments	-	723,223	-	723,223
Net assets released from restrictions for operations	-	(4,258,439)	-	(4,258,439)
Net assets released from restrictions for capital	6,976,795	(6,976,795)	-	-
<b>Change in net assets</b>	<b>49,315,706</b>	<b>244,574</b>	<b>801,321</b>	<b>50,361,601</b>
<b>Net assets at September 30, 2018</b>	<b>\$ 633,023,449</b>	<b>\$ 36,826,700</b>	<b>\$ 15,584,397</b>	<b>\$ 685,434,546</b>

See notes to consolidated financial statements.



**NCH Healthcare System, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows  
Years Ended September 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 50,361,601	\$ 59,012,319
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Restricted gifts and bequests for capital and endowment	(4,111,878)	(5,440,678)
Net (gain) loss from partnerships	(134,310)	1,273,304
Net realized and unrealized gains on other than trading securities	(9,724,541)	(24,054,171)
Income from restricted gifts and bequests	(723,223)	(417,064)
Depreciation and amortization	38,147,919	35,918,307
Provision for bad debts	74,903,998	63,115,629
Loss on disposal of property and equipment	76,742	533,762
Changes in assets and liabilities:		
Increase in due from patients and others excluding provision for bad debts	(86,785,981)	(62,401,459)
Change in estimated third-party payor receivable/payable	1,859,136	(3,305,565)
Increase in inventories	(678,901)	(916,549)
Decrease in donor receivables	228,839	2,211,216
(Increase) decrease in other current assets	(7,288,109)	760,617
Increase in accounts payable	2,782,920	8,458,684
Increase (decrease) in accrued expenses	7,742,827	(1,613,404)
Decrease in accrued interest	(65,934)	(61,538)
Decrease in estimated self-insurance liabilities	(2,234,616)	(1,975,525)
Increase (decrease) in other liabilities	102,869	(458,509)
<b>Net cash provided by operating activities</b>	<b>64,459,358</b>	<b>70,639,376</b>
Cash flows from investing activities:		
Purchases of property and equipment including acquisition of tangible and intangible assets	(69,106,628)	(47,803,214)
Proceeds from the sales of property and equipment	56,759	24,575
Purchases of investments	(135,400,600)	(102,646,619)
Sales of investments	156,475,508	92,715,452
Decrease (increase) in other assets	386,344	(2,136,156)
Increase (decrease) in partnerships	42,395	(2,034,439)
<b>Net cash used in investing activities</b>	<b>(47,546,222)</b>	<b>(61,880,401)</b>
Cash flows from financing activities:		
Restricted gifts and bequests for capital and endowment	10,961,940	2,233,290
Income from restricted gifts and bequests	723,223	417,064
Repayment of long-term debt	(5,798,754)	(5,597,773)
<b>Net cash provided by (used in) financing activities</b>	<b>5,886,409</b>	<b>(2,947,419)</b>
<b>Increase in cash and cash equivalents</b>	<b>22,799,545</b>	<b>5,811,556</b>
Cash and cash equivalents:		
Beginning	41,305,268	35,493,712
Ending	\$ 64,104,813	\$ 41,305,268
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 7,176,048	\$ 7,224,417
Change in donor receivables for capital and endowment	(6,850,062)	3,207,388
Noncash additions to property and equipment	6,839,664	5,665,509

See notes to consolidated financial statements.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Summary of Significant Accounting Policies

**Nature of organization:** The NCH Healthcare System, Inc., (the Parent) 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 NCH Healthcare System, Inc. and Subsidiaries (the System) 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 713 beds. The Downtown Naples Hospital Campus is a 391-bed acute care facility and North Naples Hospital Campus is a 322-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 System. The System's Board of Trustees also serve on the Board of Trustees of the Hospital.

NCHMD, Inc. (d/b/a NCH Healthcare Group), a not-for-profit corporation, owns and operates physician medical practices in Collier and Lee County, Florida.

The Obligated Group consists of Naples Community Hospital, Inc., NCHMD, Inc. and the Parent.

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.

NCH ACO, LLC, a not-for-profit corporation was formed in May 2017, to participate in the Medicare Shared Savings Program.

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.

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 November 2017, CII's partnership agreement with NDIC ended. Before the partnership ended, the System acquired the majority of the assets of NDIC on January 1, 2017 (see Note 18). (ii) Ambulatory Surgical Care Center, Inc. (ASCC) owns a 15% interest in Naples Day Surgery (NDS), a nonaffiliated limited liability company which operates an ambulatory surgery centers in Collier County, Florida and is accounted for using the equity method of accounting. (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 and is accounted for using the equity method of accounting.

The Parent 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. BCHC's total liabilities exceed total assets and as a result the System reported other liabilities on the balance sheet of \$2,072,418 and \$2,040,410, for the years ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, total long-term debt outstanding at BCHC was approximately \$19,368,000 and \$20,303,000, respectively.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

The Parent 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.

The System maintains the legal right to appoint trustees and directors of its wholly owned 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 wholly owned subsidiaries.

**Basis of presentation:** These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to report 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 donors of these assets permit the System to use the income earned from these assets for general or specific purposes.

**Temporarily restricted net assets:** Net assets subject to donor-imposed stipulations and/or time restrictions 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.

A summary of the Organization's significant accounting policies follows:

**Principles of consolidation:** The consolidated financial statements include the accounts of the System. All significant intercompany amounts and transactions have been eliminated in consolidation. The entities that are part of the System are all legally separate entities.

**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 for specific purposes and self-insurance programs or by board designation and arrangements under trust agreements.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

**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. Investments are recorded as current assets when they are available for current operations. Investments that are not available for current operations as a result of contractual obligations, restrictions, designations or for other reasons are not included in current assets. Investment income or loss includes realized gains and losses on investments, interest and dividends unless the income or loss is restricted by donor or law. Unrealized gains and losses on other than trading investments are excluded from the excess of revenues over expenses unless the unrealized losses are determined to be other than temporary. Interest and dividends are recorded when earned. Realized gains and losses are recorded when the investments are sold. Unrealized gains and losses represent the change in fair value between reporting periods. All of the System's investments are classified as other than trading.

The System invests in a professionally managed portfolio that contains common shares and bonds of publicly traded companies, U.S. government and agency obligations, mutual funds and money market funds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

**Due from patients and others:** Due from patients and others are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

**Inventories:** Inventories consist primarily 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, assets held by trustee under bond indenture agreements, donor receivables, and assets designated or restricted for donor intentions. Amounts required to meet current liabilities of the System have been classified as current assets.

The System has received gifts of beneficial interests in trusts held by bank trustees. Under some trusts, the System is named as the beneficiary in remainder trusts held by third parties. The beneficial interest in these trusts are carried at fair value. The System has other trusts whereby it has the irrevocable right to receive the income earned on its share of the trust assets in perpetuity, but never receives the trust assets. The System reports their interest in these trusts based on their prorata share of the fair value of the assets in the trust. The beneficial interest in the trusts are reported as assets limited as to use and as temporarily or permanently restricted net assets (endowments).

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

**Donor receivables:** Pledges to make future donations are reported at net present value generally at the time the unconditional pledge is made, net of an allowance for estimated uncollectible pledges.

**Donor contributions:** Unconditional donor promises to give and contributions are reported at fair value at the time of the gift. Conditional promises to give are recognized at fair value when the conditions on which they depend are substantially met or the probability that the condition will not be met is remote. 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 and consolidated statements of changes in net assets as net assets released from restrictions for operations or capital.

**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 based on the estimated utility of the assets and considering the American Hospital Association guidelines. 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 income within the consolidated statements of operations.

**Debt issue costs:** Debt issue costs are amortized over the life of the related bonds using the effective interest method.

**Estimated self-insurance liabilities:** The liability 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 liabilities are included with accrued expenses. The liability 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 classified as other than trading securities and assets released from donor restrictions for capital in accordance with stipulations of a 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, reimbursed cost, discounted charges and per diem. Net patient service revenue is reported when the services are performed, 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 net patient service revenue.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

**Income taxes:** The System and all of its not-for-profit subsidiaries are exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code (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. The income tax expense for fiscal year 2017 was \$0 and the estimate for income tax expense for fiscal year 2018 is approximately \$1,188,000. The System's practice is to recognize interest and/or penalties related to income tax matters as income tax expense in the consolidated statements of operations under supplies and other expenses. The System is generally no longer subject to tax examinations in the major U.S. taxing jurisdictions in which they operate for tax years prior to 2014.

**Fair value measurements:** The System follows the authoritative guidance for fair value measurements and the fair value option for financial assets and financial liabilities. 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 on their acquisition or commitment date, 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 that 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 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. Marketable debt instruments in this category include U.S. government and agency securities, corporate bonds, fixed income funds and foreign and domestic equity 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 equity funds include charitable remainder trust receivables and perpetual trusts which are recorded at fair value based on the underlying value of the assets in the trust or discounted cash flow of the expected payment streams.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

**Recent accounting pronouncements not yet adopted:** In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a robust framework for addressing revenue recognition issues and replaces most of the existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date. The standard is effective for the System's fiscal year beginning October 1, 2018. Management has adopted this update subsequent to September 30, 2018 and has determined that the potential impact that the adoption of this update will have on its financial reporting is not material.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosures of financial instruments. The ASU, among other changes, will require unrealized gains and losses on equity investments to be recognized within the performance indicator. ASU No. 2016-01 will be effective for the System's fiscal year beginning October 1, 2019. At September 30, 2016, the System elected to early adopt the amendment that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein. The System will appropriately adopt this standard in fiscal year 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance establishes the principals to report transparent and economically neutral information about the assets and liabilities that arise from leases. The standard is effective for the System's fiscal year beginning October 1, 2019. The System will appropriately adopt this standard in fiscal year 2020.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which updates the requirements for financial statements and notes to improve the usefulness of information provided to donors, grantors, creditors and other users of financial statements. The standard is effective for the System's fiscal year beginning October 1, 2018. Management has adopted this update subsequent to September 30, 2018 and has determined that the potential impact that the adoption of this update will have on its financial reporting is not material.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The standard is effective for the System's fiscal year beginning October 1, 2019. The System will appropriately adopt this standard in fiscal year 2020.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The standard is effective for the System's fiscal year beginning October 1, 2018. Management has adopted this update subsequent to September 30, 2018 and has determined that the potential impact that the adoption of this update will have on its financial reporting is not material.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates the requirement to perform the second step of the goodwill impairment test. The standard is effective for the System's fiscal year beginning October 1, 2022. The System will appropriately adopt this standard in fiscal year 2023.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The standard is effective for the System's fiscal year beginning October 1, 2018. Management has adopted this update subsequent to September 30, 2018 and has determined that the potential impact that the adoption of this update will have on its financial reporting is not material.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*. The standard is effective for the System's fiscal year beginning October 1, 2019. ASU 2018-10 narrows aspects of the guidance issued in the amendments in ASU 2016-02. The System will appropriately adopt this standard in fiscal year 2020.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. The standard is effective for the System's fiscal year beginning October 1, 2019. ASU 2018-11 provides entities with an additional (and optional) transition method to adopt the new leases standard, ASU 2016-02. The System will appropriately adopt this standard in fiscal year 2020.

#### Note 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 acute, rehabilitation, psychiatric 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.

The System's hospital specific rates include the full update for meaningful electronic health record (EHR) user and quality data submission.

Certain Medicare services are paid under a cost reimbursement methodology. The System's Medicare cost reports have been filed for all years through September 30, 2017 and have been audited by the Medicare intermediary for all years through September 30, 2016. 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:** Florida Medicaid implemented a prospective inpatient reimbursement based on All Patient Refined Diagnostic Related Groups methodology (APR DRG) effective in 2013. Payments under APR DRG assignment are made on a per case basis and are not subject to retrospective rate adjustments. Florida Medicaid implemented a prospective reimbursement methodology for outpatient services using Enhanced Ambulatory Payment Group (EAPG) effective July 1, 2017. Prior to that date outpatient services were paid based upon a cost reimbursement methodology using a per revenue code line item published rate. Outpatient payments prior to July 2017, are subject to retrospective rate adjustments.

The System's Medicaid cost report audits have been completed through September 30, 2015.

Changes in estimates of third-party payor settlements increased net patient service revenue by approximately \$1,918,000 and \$1,793,000, respectively, for the years ended September 30, 2018 and 2017.



## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2 Third-Party Payors (Continued)

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, 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 can result in retroactive settlement with third parties. Any retroactive adjustments for other third-party claims are recorded in the period when final settlement is determined.

#### Note 3. Net Patient Service Revenue and Due From Patients and Others

Net patient service revenue consisted of the following for the years ended September 30:

	2018	2017
Gross charges	\$ 2,400,289,556	\$ 2,153,606,520
Medicare and Medicaid allowances	(1,350,767,473)	(1,209,485,024)
Other discounts and allowances	(364,566,045)	(337,831,212)
Total allowances	(1,715,333,518)	(1,547,316,236)
Provision for bad debts	(74,903,998)	(63,115,629)
Total deductions from gross charges	(1,790,237,516)	(1,610,431,865)
Net patient service revenue	\$ 610,052,040	\$ 543,174,655

Patient service revenue net of contractual allowances, discounts and bad debt recognized from third-party payor sources in the years ended September 30, is as follows:

	2018	2017
Third-party payors	\$ 574,106,625	\$ 511,597,186
Self-pay payors	35,945,415	31,577,469
Total all payors	\$ 610,052,040	\$ 543,174,655

The System recognizes net patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered.

Amounts due from patients and others are reported net of uncollectible accounts for bad debts and contractual allowances under third-party payor arrangements in the accompanying consolidated financial statements.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 3. Net Patient Service Revenue and Due From Patients and Others (Continued)

Patient service revenue, net of contractual allowances, discounts, and bad debt recognized in the years ended September 30, 2018 and 2017, and net amounts due from patients and others from these major payor sources is as follows:

	Net Patient Service Revenue		Due From Patients and Others	
	2018	2017	2018	2017
Medicare	50%	51%	33%	34%
Medicaid	5%	6%	5%	6%
Blue Cross/Blue Shield	22%	26%	17%	17%
Others	23%	17%	45%	43%
Total all payors	100%	100%	100%	100%

#### Note 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.

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, was as follows:

	2018	2017
Charity care – charges foregone, based on established rates	\$ 95,824,133	\$ 90,329,483
Welfare – difference between established rates and reimbursement received	3,747,704	2,646,910
Total charity care and welfare	99,571,837	92,976,393
Bad debts – charges deemed uncollectible	74,903,998	63,115,629
Total uncompensated care	\$ 174,475,835	\$ 156,092,022
Estimated cost of providing uncompensated care	\$ 43,464,295	\$ 38,712,741

The System applied 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.

The System's allowance for doubtful accounts increased approximately \$8,139,000 from approximately \$40,595,000 for fiscal year 2017 to approximately \$48,734,000 for fiscal year 2018. The increase in the allowance for doubtful accounts is attributed to the current trends in the collection of patient accounts. The System has seen increases in health insurance deductible amounts and co-pays which have negatively impacted the allowance for doubtful accounts. The System has not materially changed its charity care policy.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 5. Temporarily and Permanently Restricted Net Assets, and Endowments

Temporarily restricted net assets are available for the following purposes at September 30:

	2018	2017
Health care services:		
Building construction and purchase of equipment	\$ 21,968,483	\$ 21,437,935
Clinical	14,230,018	14,375,552
Education	191,244	226,915
Indigent	436,955	541,724
	<u>\$ 36,826,700</u>	<u>\$ 36,582,126</u>

Permanently restricted net assets at September 30, are restricted to:

	2018	2017
Investments to be held in perpetuity, the income from which is expendable to support health care services	<u>\$ 15,584,397</u>	<u>\$ 14,783,076</u>

At September 30, outstanding pledges from various corporations, foundations and individuals, included in donor receivables in assets limited as to use, were as follows:

	2018	2017
Amounts due:		
Within one year	\$ 5,452,074	\$ 8,458,834
In one to five years	8,807,899	13,637,493
In six to eight years	127,132	669,130
Over eight years	9,510,536	9,168,064
	<u>23,897,641</u>	<u>31,933,521</u>
Less:		
Discounts for the time value of money	<u>(4,861,906)</u>	<u>(5,818,885)</u>
	<u>\$ 19,035,735</u>	<u>\$ 26,114,636</u>

Estimated cash flows from pledge receivables due after one year are discounted using a risk-adjusted rate, that is commensurate with the pledges' due dates and established in the year the pledge is received.

The System operates under the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA). The FUPMIFA defines an endowment fund as an institutional fund, or any part thereof, not wholly expendable by the institution on a current basis under the terms of the applicable gift instrument. The System's interpretation of its fiduciary responsibilities for donor restricted endowments under FUPMIFA is that it is required to use reasonable care and caution as would be exercised by a prudent investor, in considering the investment management and expenditures of endowment funds. In accordance with FUPMIFA, the System may expend so much of an endowment fund as the System determines to be prudent for the uses and purposes of which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 5. Temporarily and Permanently Restricted Net Assets, and Endowments (Continued)

The System considers the following in expenditure decisions for its endowment funds:

- The program needs of the System
- The intent of the donors of the endowment fund
- The terms of the applicable instrument
- General economic conditions
- The possible effects of inflation or deflation
- The expected total return from income and the appreciation of investments
- The other resources of the System
- Perpetuation of the endowment

The System classifies the following as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, when applicable. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by FUPMIFA. The investment income from the System's endowment funds are designated for general and specific purposes.

The System's endowment investment policies are directed by the Investment Committee of the Board of Trustees. The System's policies establish a moderate risk posture with respect to both time and risk preference. These risk postures are developed to provide consistent return patterns over a moderate time horizon and are consistent with conserving the purchasing power of its endowment funds. Strategies employed for achieving the System's investment objectives include passively and actively managed funds invested in domestic and global equities, domestic and global fixed income, absolute return and real assets.

**NCH Healthcare System, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 5. Temporarily and Permanently Restricted Net Assets, and Endowments (Continued)**

Changes in endowment net assets for the years ended September 30, 2018 and 2017, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2016	\$ 5,000,976	\$ 14,561,078	\$ 19,562,054
Investment return:			
Investment income	404,816	-	404,816
Change in unrealized losses	1,655,186	215,998	1,871,184
Total investment return	2,060,002	215,998	2,276,000
Gifts	-	6,000	6,000
Appropriation of endowment assets for expenditure	(316,062)	-	(316,062)
Endowment net assets at September 30, 2017	6,744,916	14,783,076	21,527,992
Investment return:			
Investment income	696,680	-	696,680
Change in unrealized gains/(losses)	477,726	200,030	677,756
Total investment return	1,174,406	200,030	1,374,436
Gifts	-	601,291	601,291
Appropriation of endowment assets for expenditure	(505,380)	-	(505,380)
Endowment net assets at September 30, 2018	\$ 7,413,942	\$ 15,584,397	\$ 22,998,339

**NCH Healthcare System, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 6. Assets Limited as to Use and Investments**

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

	2018	2017
Self-insurance funds:		
Cash and cash equivalents	\$ 11,977,262	\$ 11,117,129
U.S. government and agency securities	-	916,459
Mortgage-backed securities	227	815,631
Corporate bonds	-	1,060,523
Self-insurance receivables	1,190,696	1,493,059
	<u>13,168,185</u>	<u>15,402,801</u>
Board-designated assets:		
Cash and cash equivalents	4,727,919	6,212,140
U.S. government and agency securities	30,918,999	27,507,512
Mortgage-backed securities	15,892,732	31,021,264
Corporate bonds	31,887,746	24,523,679
Fixed income funds	45,594,566	45,892,136
Equities and equity funds – domestic	126,745,616	120,586,235
Equities and equity funds – foreign	64,132,689	68,682,234
	<u>319,900,267</u>	<u>324,425,200</u>
Assets held by trustee under bond indentures:		
Cash and cash equivalents	4,459,808	4,425,529
Assets designated or restricted for donor intentions:		
Cash and cash equivalents	9,238,041	4,244,826
U.S. government and agency securities	326,547	491,054
Mortgage-backed securities	145,989	245,341
Corporate bonds	432,940	609,233
Fixed income funds	91,776	92,928
Equities and equity funds – domestic	11,756,537	10,398,919
Equities and equity funds – foreign	6,302,771	6,462,763
Donor receivables	19,035,735	26,114,636
	<u>47,330,336</u>	<u>48,659,700</u>
Total assets limited as to use	<u>\$ 384,858,596</u>	<u>\$ 392,913,230</u>

The composition of current unrestricted and undesignated investments stated at fair value at September 30, are set forth in the following table:

	2018	2017
Current investments:		
U.S. government and agency securities	\$ -	\$ 3,405,069
Mortgage-backed securities	1,212	3,030,446
Corporate bonds	-	3,940,331
Total current investments	<u>\$ 1,212</u>	<u>\$ 10,375,846</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 6. Assets Limited as to Use and Investments (Continued)

Investment income and gains (losses) from unrestricted cash, assets limited as to use, and investments, excluding earnings reported in temporarily restricted net assets, are comprised of the following for the years ended September 30:

	2018	2017
Investment income	\$ 7,898,593	\$ 8,943,360
Net realized gains (losses)	5,570,632	(1,862,809)
	13,469,225	7,080,551
Change in unrealized gains on other than trading securities	3,441,131	24,489,927
Total investment earnings	<u>\$ 16,910,356</u>	<u>\$ 31,570,478</u>

The fair value of debt securities classified by contractual maturity, as of September 30, 2018, are as follows:

	Amortized Cost	Fair Value
Due within one year	\$ 5,928,672	\$ 5,766,727
Due after one year through three years	23,953,931	23,456,930
Due after three years	34,649,654	34,342,575
Mortgage-backed securities	16,461,653	16,040,160
	<u>\$ 80,993,910</u>	<u>\$ 79,606,392</u>

Expected maturities will differ from contractual maturities because the issuers of certain debt securities do have the right to call or prepay their obligations without any penalties.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 6. Assets Limited as to Use and Investments (Continued)

The System follows the authoritative guidance for fair value measurements as defined in Note 1 and the following tables present the System's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at September 30, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 24,105,773	\$ 6,713,934	\$ -	\$ 30,819,707
U.S. government and agency securities	-	31,245,546	-	31,245,546
Mortgage-backed securities	-	16,040,160	-	16,040,160
Corporate bonds	-	32,320,686	-	32,320,686
Fixed income funds	-	45,686,342	-	45,686,342
Equities and equity funds – domestic	121,577,160	15,491,899	1,433,094	138,502,153
Equities and equity funds – foreign	53,239,736	17,195,724	-	70,435,460
	198,922,669	164,694,291	1,433,094	365,050,054
Trusts held by others	-	-	4,631,238	4,631,238
Total assets at fair value	\$ 198,922,669	\$ 164,694,291	\$ 6,064,332	\$ 369,681,292
	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 20,073,618	\$ 6,335,262	\$ -	\$ 26,408,880
U.S. government and agency securities	-	32,320,094	-	32,320,094
Mortgage-backed securities	-	35,112,682	-	35,112,682
Corporate bonds	-	30,133,766	-	30,133,766
Fixed income funds	-	45,985,064	-	45,985,064
Equities and equity funds – domestic	114,623,730	15,000,022	1,361,402	130,985,154
Equities and equity funds – foreign	57,311,765	17,833,232	-	75,144,997
	192,009,113	182,720,122	1,361,402	376,090,637
Trusts held by others	-	-	7,908,865	7,908,865
Total assets at fair value	\$ 192,009,113	\$ 182,720,122	\$ 9,270,267	\$ 383,999,502

The following tables are a rollforward of the consolidated balance sheets amounts for financial instruments classified by the System within Level 3 of the valuation hierarchy as defined in Note 1:

	Trusts Held by Others	Equity Funds	Total
Fair value October 1, 2016	\$ 7,443,078	\$ 1,289,858	\$ 8,732,936
Realized and unrealized gain	253,287	71,544	324,831
Contributions	350,000	-	350,000
Distributions	(137,500)	-	(137,500)
Fair value September 30, 2017	7,908,865	1,361,402	9,270,267
Realized and unrealized gain	283,125	71,692	354,817
Contributions	-	-	-
Distributions	(3,560,752)	-	(3,560,752)
Fair value September 30, 2018	\$ 4,631,238	\$ 1,433,094	\$ 6,064,332



## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 6. Assets Limited as to Use and Investments (Continued)

The System evaluates the investment portfolio for other-than-temporary impairment (OTTI) in accordance with Accounting Standards Codification (ASC) 320, Investments – Debt and Equity Securities. An investment security is considered impaired if the fair value of the security is less than its cost or amortized cost basis. When impairment of an equity or debt security is considered to be other-than-temporary, the security is written down to its fair value and an impairment loss is recorded in earnings. The System has reviewed debt and equity securities in a loss position as of September 30, 2018 and 2017, which included evaluating the near-term prospects of the issuers in relation to the severity and duration of the unrealized losses, and reviewing the securities for instances of credit downgrades, defaults, and other matters that might indicate the declines in value are other-than-temporary. Based on that evaluation and the System's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the System does not consider these investments to be other-than-temporarily impaired at September 30, 2018 and 2017.

The Systems unrealized losses by category of investment, based on the length of time the securities are in a continuous unrealized loss position at September 30, are as follows:

	2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency securities	\$ 9,959,884	\$ (148,511)	\$ 30,269,045	\$ (837,084)	\$ 40,228,929	\$ (985,595)
Corporate bonds	14,360,758	(108,243)	11,433,208	(343,744)	25,793,966	(451,987)
Fixed income funds	2,238,305	(168,033)	43,448,037	(3,517,406)	45,686,342	(3,685,439)
Equities and equity funds – domestic	51,549,027	(1,579,148)	15,176,560	(841,756)	66,725,587	(2,420,904)
	<u>\$ 78,107,974</u>	<u>\$ (2,003,935)</u>	<u>\$ 100,326,850</u>	<u>\$ (5,539,990)</u>	<u>\$ 178,434,824</u>	<u>\$ (7,543,925)</u>
	2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency securities	\$ 29,818,704	\$ (135,090)	\$ 20,378,867	\$ (394,114)	\$ 50,197,571	\$ (529,204)
Corporate bonds	12,124,194	(85,835)	6,076,290	(136,621)	18,200,484	(222,456)
Fixed income funds	809,027	(32,976)	29,466,572	(1,200,811)	30,275,599	(1,233,787)
Equities and equity funds – domestic	332,242	(22,541)	14,667,781	(995,752)	15,000,023	(1,018,293)
	<u>\$ 43,084,167</u>	<u>\$ (276,442)</u>	<u>\$ 70,589,510</u>	<u>\$ (2,727,298)</u>	<u>\$ 113,673,677</u>	<u>\$ (3,003,740)</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 7. Property and Equipment

Property and equipment and accumulated depreciation and amortization consists of the following at September 30:

	2018	2017
Land	\$ 34,765,813	\$ 27,957,731
Land improvements	8,924,756	8,745,498
Buildings	420,003,906	406,292,678
Fixed equipment	51,207,653	55,329,046
Movable equipment	294,033,737	282,814,015
Rental apartments	48,079	600,990
Leasehold improvements	15,300,147	12,049,825
Facilities expansion in progress	45,166,302	15,234,924
	<u>869,450,393</u>	<u>809,024,707</u>
Less accumulated depreciation and amortization	<u>(503,254,074)</u>	<u>(475,514,516)</u>
	<u>\$ 366,196,319</u>	<u>\$ 333,510,191</u>

The facilities expansion in progress at September 30, 2018, included the construction costs of various projects, which management estimates will cost an additional \$42,810,000, \$54,500,000 and \$39,500,000 to complete during 2019, 2020 and 2021, respectively. The System funds these construction projects through operations and contributions.

**Impairment:** Long-lived assets are tested for impairment based on undiscounted cash flows and, if impaired, written down to fair value based on either discounted cash flows or market values. To date, management has determined that no impairment of long-lived assets is required.

**NCH Healthcare System, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 8. Goodwill and Other Identifiable Intangible Assets**

Goodwill and other identifiable intangible assets, and the related accumulated amortization, are comprised of the following at September 30, 2018 and 2017, and are included in other assets on the consolidated balance sheets.

	2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets not subject to amortization:			
Goodwill	\$ 4,430,085	\$ -	\$ 4,430,085
Intangible assets subject to amortization:			
Electronic medical records (5 years)	330,000	115,500	214,500
Employee contracts (10 years)	4,480,000	3,811,333	668,667

	2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets not subject to amortization:			
Goodwill	\$ 4,430,085	\$ -	\$ 4,430,085
Intangible assets subject to amortization:			
Electronic medical records (5 years)	330,000	49,500	280,500
Employee contracts (10 years)	4,480,000	3,339,333	1,140,667

Estimated future annual amortization expense is as follows:

Years ending September 30:	
2019	\$ 538,000
2020	262,667
2021	66,000
2022	16,500
	<u>\$ 883,167</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 9. Long-Term Debt

The System was obligated under long-term debt as follows at September 30:

	2018	2017
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 (payable by the Hospital under an agreement with Collier County) consisting of \$3,526,312 serial bonds due October 2018, with interest paid quarterly at 2.954%. \$3,631,943 serial bonds due October 2019, with interest paid quarterly at 2.954%. \$3,739,816 serial bonds due October 2020, with interest paid quarterly at 2.954%.	\$ 10,898,071	\$ 14,321,825
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2011 Public (payable by the Hospital under an agreement with Collier County) consisting of \$1,705,000 serial bonds due October 2018, with interest paid semi-annually at 4.375%. \$1,780,000 serial bonds due October 2019 with interest paid semi-annually at 4.5%. \$1,865,000 serial bonds due October 2020, with interest paid semi-annually at 5% and \$3,380,000 serial bonds due October 2021 with interest paid semi-annually at 5.00% and \$3,545,000 serial bonds due October 2022, with interest paid semi-annually at 5.00% and \$81,065,000 serial bonds due from October 2023 through October 2039, with interest paid semi-annually at rates ranging from 5.50% to 6.25%.	93,340,000	94,970,000
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2011 (payable by the Hospital under an agreement with Collier County) consisting of \$775,000 serial bonds due October 2018 with interest paid monthly at 2.15%. The remaining revenue bond amount of \$41,470,000 was paid on October 1, 2018.	42,245,000	42,990,000
Total long-term debt	146,483,071	152,281,825
Less:		
Unamortized original issue discount	(630,015)	(691,320)
Debt issuance costs	(779,189)	(866,649)
Current maturities	(47,476,312)	(5,798,754)
	\$ 97,597,555	\$ 144,925,102

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 9. Long-Term Debt (Continued)

The agreements underlying the bond issues described above contain covenants that provide for, among other things, the maintenance of certain financial ratios, conditions for issuance of additional indebtedness and the transferability of funds. The System was in compliance with financial related covenants for the years ended September 30, 2018 and 2017. The Series 2010, 2011 Public and 2011 Bank Qualified bonds are collateralized under the Hospital Master Trust Indenture. The Hospital Master Trust Indenture is collateralized by all revenue, accounts receivable, contract rights, and general intangibles of the Obligated Group and by the money and securities held in the funds and accounts established under the applicable indentures.

The 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 September 30:	
2019	\$ 47,476,312
2020	5,411,943
2021	5,604,816
2022	3,380,000
2023	3,545,000
Thereafter	81,065,000
	<u>\$ 146,483,071</u>

#### Note 10. Self-Insured Claims

The System is self-insured for its professional liability, workers' compensation and employee health programs.

For 2018 and 2017 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 \$1,309,639 and \$1,843,199 during the years ended September 30, 2018 and 2017, respectively, and are included in supplies and other expenses in the consolidated statements of operations. As of September 30, 2018 and 2017, the System had accrued \$12,132,605 and \$13,998,100, 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 3% in 2018 and 2017. The discount on the accrual for professional liability was approximately \$1,009,000 and \$1,140,000 at September 30, 2018 and 2017, respectively. The System has recorded approximately \$1,070,000 and \$1,049,000 for September 30, 2018 and 2017, respectively, of estimated professional liability insurance recoveries which is included in the self-insurance fund in assets limited as to use on the accompanying consolidated balance sheets.

## **NCH Healthcare System, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

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#### **Note 10. Self-Insured Claims (Continued)**

For 2018 and 2017 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). As of September 30, 2018 and 2017, the System had accrued \$1,035,580 and \$1,404,701, 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. Total expenses under this program were \$284,983 and \$685,032 during the years ended September 30, 2018 and 2017, respectively, and are included in supplies and other expenses in the consolidated statements of operations. The accrued workers' compensation liability has been discounted at a rate of 3% in 2018 and 2017. The discount on the accrued workers' compensation liability was approximately \$134,000 and \$146,000 at September 30, 2018 and 2017, respectively. The System has recorded approximately \$121,000 and \$445,000 for September 30, 2018 and 2017, respectively, of estimated workers compensation insurance recoveries which is included in the self-insurance fund in assets limited as to use on the accompanying consolidated balance sheets.

For 2018 and 2017 employee health coverage, the System had a \$300,000 per claim self-insured retention. The plan calls for an unlimited lifetime maximum benefit per covered life. As of September 30, 2018 and 2017, the System had accrued \$6,986,568 and \$5,204,826, respectively, based on historical experience, which, in the opinion of management is sufficient, to cover reported claims and claims incurred but not reported. Due to the short-term nature of these claims, the liability is included in accrued expenses and has not been discounted. The System recognizes patient service revenue for employee's receiving medical care within the System. Employee health services provided by external services outside the System are included in employee benefits as an expense.

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.

#### **Note 11. Defined Contribution Plan**

The System has a defined contribution plan covering all eligible employees. The System, at its discretion will match a percentage of each participant's salary reduction contributions after the participant has completed 12 months of employment. In the event the System chooses to make a matching contribution, the matching amount shall equal 100% of the first 2% of compensation contributed by the participant as salary reduction contributions plus 50% of the next 4% of compensation contributed by the participant as salary reduction contributions, up to a maximum of 4% of compensation.

The System's contributions, net of forfeitures, for the years ended September 30, 2018 and 2017, were approximately \$7,149,000 and \$6,592,000, respectively.

#### **Note 12. Related Party Transactions**

One physician member of the Board of Trustees has an exclusive contract with the System. Three members of the Board of Trustees are employees of the System. One member of the Board of Trustees is an owner of a property, which NCH pays for rental space.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 13. Leases

The System leases buildings and equipment under operating leases. Rental expense for the years ended September 30, 2018 and 2017, approximated \$6,963,000 and \$6,298,000, respectively, and are included in supplies and other expenses in the consolidated statements of operations. The future minimum lease payments under operating leases at September 30, 2018, are approximately as follows:

Years ending September 30:

2019	\$ 5,984,000
2020	5,060,000
2021	4,798,000
2022	4,725,000
2023	4,217,000
Thereafter	11,769,000
	<u>\$ 36,553,000</u>

#### Note 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 \$64,105,000 and \$41,305,000 as of September 30, 2018 and 2017, respectively. The System's assets limited as to use and investments include cash and cash equivalents, U.S. government and agency securities, corporate bonds, preferred stock and common stock which are subject to market risk, as listed in Note 6. The System limits the amount of credit exposure to any one company or financial institution by diversifying its investments.

Notes 2 and 3 detail the concentration of revenue and accounts receivable.

#### Note 15. Functional Expenses

The expenses reported in the consolidated statements of operations were incurred for the following:

	2018	2017
Patient and ancillary care	\$ 449,406,334	\$ 399,687,641
Education	15,367,367	14,853,957
Technology	26,627,410	19,855,755
General and administrative	66,771,539	59,475,414
Development expenses	2,084,937	2,542,152
Other activities	51,899,450	49,466,705
Total functional expenses	<u>\$ 612,157,037</u>	<u>\$ 545,881,624</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 16. Investment in Partnerships

The partnerships that the System has ownership in, furthers the System's strategy to build a network of affiliated providers and expand availability of health care resources within the Southwest Florida region. Condensed financial information, obtained from unaudited financial statements for the System's significant partnership investments as of and for the years ended September 30, are as follows:

	BCHC	
	2018	2017
Total assets	\$ 16,036,470	\$ 16,263,216
Total liabilities	\$ 20,541,305	\$ 20,944,035
Net assets (deficit)	(4,504,835)	(4,680,819)
Total liabilities and net assets	\$ 16,036,470	\$ 16,263,216
Revenue	\$ 7,261,507	\$ 7,301,922
Expenses	(9,700,202)	(9,176,247)
Excess of revenue over (under) expenses	\$ (2,438,695)	\$ (1,874,325)
Member contributions – NCH 50%	\$ 1,187,339	\$ 1,401,085

#### Note 17. Hurricane Impact

On September 10, 2017, Hurricane Irma made landfall in the System's primary service area of Collier County. The size of the storm and duration were significant and the impact of the storm was felt throughout Collier County and across the State of Florida. NCH remained fully operational before, during and after the storm. However due to the mandatory evacuations that were in place in our service area before and during the storm and the community recovery efforts after the storm, our September 2017 inpatient and outpatient volumes were much lower than forecast. Patient volumes did quickly rebound to normal levels beginning in October 2017. In addition to the decreased September 2017 volumes, the System also experienced an increase in labor, food, supplies, and maintenance and repair expenses of approximately \$3,000,000 due to the hurricane.

The System is in the process of filing a claim with Federal Emergency Management Agency (FEMA) for these expenses. The System has not recognized any reimbursement that may be received from FEMA, in accordance with accounting principles generally accepted in the United States (GAAP).

#### Note 18. Disposition of Partnership

In November 2017, Community Imaging, Inc.'s (CII) partnership in Naples Diagnostic Imaging Center, Ltd. (NDIC) ended. Before the partnership ended the System acquired the land, buildings, radiology equipment, other tangible assets and intangible assets of NDIC on January 1, 2017. The System consolidated these diagnostic imaging centers with existing imaging centers under NCHMD, Inc. and upon doing so, became the largest provider of imaging services in Collier County. NCH paid \$5,250,000 to purchase NDIC assets. The transaction resulted in \$2,048,420 of goodwill and \$330,000 of intangible assets.

#### Note 19. Subsequent Events

The System has performed a review of subsequent events through January 23, 2019, the date the consolidated financial statements were issued.





RSM US LLP

## Independent Auditor's Report on the Supplementary Information

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

We have audited the consolidated financial statements of NCH Healthcare System, Inc. and Subsidiaries as of and for the years ended September 30, 2018 and 2017, and have issued our report thereon, dated January 23, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying consolidating information is presented for purposes of additional analysis, rather than to present the financial position and results of operations of the individual companies and is not a required part of the financial statements as a whole. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*RSM US LLP*

Miami, Florida  
January 23, 2019

NCH Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet  
September 30, 2018

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Obligated Group	All Other Entities	Eliminations	System Consolidated Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 68,170,179	\$ (4,496,489)	\$ 63,673,690	\$ 431,123	\$ -	\$ 64,104,813
Investments	1,212	-	1,212	-	-	1,212
Due from patients and others, net of allowance for estimated uncollectibles	63,966,172	8,611,130	72,577,302	483,264	-	73,060,566
Assets limited as to use	11,822,878	1,041,905	12,864,783	7,307	-	12,872,090
Inventories	11,027,734	855,527	11,883,261	-	-	11,883,261
Estimated third-party payor receivable	-	-	-	-	-	-
Other current assets	12,538,410	1,277,454	13,815,864	299,337	-	14,115,201
<b>Total current assets</b>	<b>167,526,585</b>	<b>7,289,527</b>	<b>174,816,112</b>	<b>1,221,031</b>	<b>-</b>	<b>176,037,143</b>
Assets limited as to use:						
Self-insurance fund	8,500,873	4,634,806	13,135,679	32,506	-	13,168,185
Board-designated assets	319,900,267	-	319,900,267	-	-	319,900,267
Assets held by trustee under bond indentures	4,459,808	-	4,459,808	-	-	4,459,808
Donor receivables	19,035,735	-	19,035,735	-	-	19,035,735
Assets designated or restricted for donor intentions	28,294,601	-	28,294,601	-	-	28,294,601
	380,191,284	4,634,806	384,826,090	32,506	-	384,858,596
Less assets limited as to use that are available to pay current liabilities	(11,822,878)	(1,041,905)	(12,864,783)	(7,307)	-	(12,872,090)
	368,368,406	3,592,901	371,961,307	25,199	-	371,986,506
Investment in partnerships	-	6,371,189	6,371,189	500,341	(5,781,573)	1,089,957
Property and equipment, net of accumulated depreciation	322,726,342	35,602,660	358,329,002	7,867,317	-	366,196,319
Other assets	1,866,020	4,303,787	6,169,807	1,710,000	-	7,879,807
<b>Total assets</b>	<b>\$ 860,487,353</b>	<b>\$ 57,160,064</b>	<b>\$ 917,647,417</b>	<b>\$ 11,323,888</b>	<b>\$ (5,781,573)</b>	<b>\$ 923,189,732</b>
<b>Liabilities and net assets</b>						
Current liabilities:						
Current portion of long-term debt	\$ 47,476,312	\$ -	\$ 47,476,312	\$ -	\$ -	\$ 47,476,312
Current portion of estimated self-insurance liabilities	1,910,996	1,041,905	2,952,901	7,307	-	2,960,208
Estimated third-party payor payable	557,652	-	557,652	-	-	557,652
Accounts payable	29,571,625	2,427,910	31,999,535	55,934	-	32,055,469
Accrued expenses	22,590,425	11,583,925	34,174,350	870,840	-	35,045,190
Accrued interest	2,835,115	-	2,835,115	-	-	2,835,115
<b>Total current liabilities</b>	<b>104,942,125</b>	<b>15,053,740</b>	<b>119,995,865</b>	<b>934,081</b>	<b>-</b>	<b>120,929,946</b>
Long-term debt, excluding current portion	97,597,555	-	97,597,555	-	-	97,597,555
Estimated self-insurance liabilities, excluding current portion	6,589,877	3,592,901	10,182,778	25,199	-	10,207,977
Due to related organizations	22,187,011	(630,264)	21,556,747	(21,556,747)	-	-
Other liabilities	5,301,319	3,436,640	8,737,959	281,749	-	9,019,708
<b>Total liabilities</b>	<b>236,617,887</b>	<b>21,453,017</b>	<b>258,070,904</b>	<b>(20,315,718)</b>	<b>-</b>	<b>237,755,186</b>
Net assets:						
Unrestricted	571,458,369	35,707,047	607,165,416	31,639,606	(5,781,573)	633,023,449
Temporarily restricted	36,826,700	-	36,826,700	-	-	36,826,700
Permanently restricted	15,584,397	-	15,584,397	-	-	15,584,397
<b>Total net assets</b>	<b>623,869,466</b>	<b>35,707,047</b>	<b>659,576,513</b>	<b>31,639,606</b>	<b>(5,781,573)</b>	<b>685,434,546</b>
<b>Total liabilities and net assets</b>	<b>\$ 860,487,353</b>	<b>\$ 57,160,064</b>	<b>\$ 917,647,417</b>	<b>\$ 11,323,888</b>	<b>\$ (5,781,573)</b>	<b>\$ 923,189,732</b>

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidating Balance Sheet September 30, 2017

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Obligated Group	All Other Entities	Eliminations	System Consolidated Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 45,340,618	\$ (4,502,337)	\$ 40,838,281	\$ 466,987	\$ -	\$ 41,305,268
Investments	10,375,846	-	10,375,846	-	-	10,375,846
Due from patients and others, net of allowance for estimated uncollectible	52,404,283	8,229,485	60,633,768	544,815	-	61,178,583
Assets limited as to use	15,681,337	1,263,847	16,945,184	10,140	-	16,955,324
Inventories	10,418,626	785,734	11,204,360	-	-	11,204,360
Estimated third-party payor receivable	1,301,484	-	1,301,484	-	-	1,301,484
Other current assets	4,805,171	1,214,962	6,020,133	806,959	-	6,827,092
<b>Total current assets</b>	<b>140,327,365</b>	<b>6,991,691</b>	<b>147,319,056</b>	<b>1,828,901</b>	<b>-</b>	<b>149,147,957</b>
Assets limited as to use:						
Self-insurance fund	10,582,573	4,781,865	15,364,438	38,363	-	15,402,801
Board-designated assets	324,425,200	-	324,425,200	-	-	324,425,200
Assets held by trustee under bond indentures	4,425,529	-	4,425,529	-	-	4,425,529
Donor receivables	26,114,636	-	26,114,636	-	-	26,114,636
Assets designated or restricted for donor intentions	22,545,064	-	22,545,064	-	-	22,545,064
	388,093,002	4,781,865	392,874,867	38,363	-	392,913,230
Less assets limited as to use that are available to pay current liabilities	(15,681,337)	(1,263,847)	(16,945,184)	(10,140)	-	(16,955,324)
	372,411,665	3,518,018	375,929,683	28,223	-	375,957,906
Investment in partnerships	-	6,443,937	6,443,937	335,678	(5,781,573)	998,042
Property and equipment, net of accumulated depreciation	290,390,308	35,149,004	325,539,312	7,970,879	-	333,510,191
Other assets	2,359,553	4,449,598	6,809,151	1,995,000	-	8,804,151
<b>Total assets</b>	<b>\$ 805,488,891</b>	<b>\$ 56,552,248</b>	<b>\$ 862,041,139</b>	<b>\$ 12,158,681</b>	<b>\$ (5,781,573)</b>	<b>\$ 868,418,247</b>
<b>Liabilities and net assets</b>						
Current liabilities:						
Current portion of long-term debt	\$ 5,798,754	\$ -	\$ 5,798,754	\$ -	\$ -	\$ 5,798,754
Current portion of estimated self-insurance liabilities	2,796,973	1,263,847	4,060,820	10,140	-	4,070,960
Accounts payable	25,182,875	2,821,370	28,004,245	94,149	-	28,098,394
Accrued expenses	18,689,759	7,688,167	26,377,926	924,437	-	27,302,363
Accrued interest	2,901,049	-	2,901,049	-	-	2,901,049
<b>Total current liabilities</b>	<b>55,369,410</b>	<b>11,773,384</b>	<b>67,142,794</b>	<b>1,028,726</b>	<b>-</b>	<b>68,171,520</b>
Long-term debt, excluding current portion	144,925,102	-	144,925,102	-	-	144,925,102
Estimated self-insurance liabilities, excluding current portion	7,785,600	3,518,018	11,303,618	28,223	-	11,331,841
Due to related organizations	21,569,378	(630,264)	20,939,114	(20,939,114)	-	-
Other liabilities	5,147,234	3,391,432	8,538,666	378,173	-	8,916,839
<b>Total liabilities</b>	<b>234,796,724</b>	<b>18,052,570</b>	<b>252,849,294</b>	<b>(19,503,992)</b>	<b>-</b>	<b>233,345,302</b>
Net assets:						
Unrestricted	519,326,965	38,499,678	557,826,643	31,662,673	(5,781,573)	583,707,743
Temporarily restricted	36,582,126	-	36,582,126	-	-	36,582,126
Permanently restricted	14,783,076	-	14,783,076	-	-	14,783,076
<b>Total net assets</b>	<b>570,692,167</b>	<b>38,499,678</b>	<b>609,191,845</b>	<b>31,662,673</b>	<b>(5,781,573)</b>	<b>635,072,945</b>
<b>Total liabilities and net assets</b>	<b>\$ 805,488,891</b>	<b>\$ 56,552,248</b>	<b>\$ 862,041,139</b>	<b>\$ 12,158,681</b>	<b>\$ (5,781,573)</b>	<b>\$ 868,418,247</b>

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidating Statements of Operations Year Ended September 30, 2018

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Eliminations	Total Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Unrestricted revenues:							
Net patient service revenue	\$ 574,879,798	\$ 106,717,277	\$ (1,127,405)	\$ 680,469,670	\$ 4,486,368	\$ -	\$ 684,956,038
Provision for bad debts	(70,190,463)	(4,305,318)	-	(74,495,781)	(408,217)	-	(74,903,998)
<b>Net patient service revenue less provision for bad debt</b>	<b>504,689,335</b>	<b>102,411,959</b>	<b>(1,127,405)</b>	<b>605,973,889</b>	<b>4,078,151</b>	<b>-</b>	<b>610,052,040</b>
Other revenue	13,572,809	3,043,493	(2,612,880)	14,003,422	1,400,861	(64,500)	15,339,783
Unrestricted charitable contributions	8,012,072	-	-	8,012,072	-	-	8,012,072
Net assets released from restrictions for operations	4,258,439	-	-	4,258,439	-	-	4,258,439
<b>Total revenues</b>	<b>530,532,655</b>	<b>105,455,452</b>	<b>(3,740,285)</b>	<b>632,247,822</b>	<b>5,479,012</b>	<b>(64,500)</b>	<b>637,662,334</b>
Expenses:							
Salaries and wages	196,084,133	92,062,984	(927,407)	287,219,710	2,501,921	-	289,721,631
Employee benefits	30,240,205	6,003,207	-	36,243,412	411,858	-	36,655,270
Supplies and other expenses	149,963,121	21,341,336	(2,812,878)	168,491,579	526,330	(64,500)	168,953,409
Purchased services	63,650,621	8,166,460	-	71,817,081	343,151	-	72,160,232
Depreciation and amortization	33,818,078	3,778,731	-	37,596,809	402,346	-	37,999,155
Interest expense	6,667,340	-	-	6,667,340	-	-	6,667,340
<b>Total expenses</b>	<b>480,423,498</b>	<b>131,352,718</b>	<b>(3,740,285)</b>	<b>608,035,931</b>	<b>4,185,606</b>	<b>(64,500)</b>	<b>612,157,037</b>
<b>Operating income (loss)</b>	<b>50,109,157</b>	<b>(25,897,266)</b>	<b>-</b>	<b>24,211,891</b>	<b>1,293,406</b>	<b>-</b>	<b>25,505,297</b>
Other income:							
Investment income (loss)	14,457,837	(1,292,095)	-	13,165,742	303,483	-	13,469,225
Disposition of assets, net	(74,943)	(2,916)	-	(77,859)	1,117	-	(76,742)
<b>Excess of revenues over (under) expenses</b>	<b>64,492,051</b>	<b>(27,192,277)</b>	<b>-</b>	<b>37,299,774</b>	<b>1,598,006</b>	<b>-</b>	<b>38,897,780</b>
Change in net unrealized gains							
on other than trading securities	3,441,131	-	-	3,441,131	-	-	3,441,131
Net assets released from restrictions for capital	6,976,795	-	-	6,976,795	-	-	6,976,795
Transfers to related organizations	(22,778,573)	24,399,646	-	1,621,073	(1,621,073)	-	-
<b>Increase (decrease) in unrestricted net assets</b>	<b>\$ 52,131,404</b>	<b>\$ (2,792,631)</b>	<b>\$ -</b>	<b>\$ 49,338,773</b>	<b>\$ (23,067)</b>	<b>\$ -</b>	<b>\$ 49,315,706</b>

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidating Statements of Operations Year Ended September 30, 2017

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Eliminations	Total Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Unrestricted revenues:							
Net patient service revenue	\$ 515,331,873	\$ 87,372,768	\$ (1,084,355)	\$ 601,620,286	\$ 4,669,998	\$ -	\$ 606,290,284
Provision for bad debts	(60,717,679)	(1,777,899)	-	(62,495,578)	(620,051)	-	(63,115,629)
<b>Net patient service revenue less provision for bad debt</b>	454,614,194	85,594,869	(1,084,355)	539,124,708	4,049,947	-	543,174,655
Other revenue	12,413,361	2,729,538	(1,781,364)	13,361,535	1,097,150	(64,500)	14,394,185
Unrestricted charitable contributions	2,842,278	-	-	2,842,278	-	-	2,842,278
Net assets released from restrictions for operations	2,445,497	-	-	2,445,497	-	-	2,445,497
<b>Total revenues</b>	472,315,330	88,324,407	(2,865,719)	557,774,018	5,147,097	(64,500)	562,856,615
Expenses:							
Salaries and wages	172,650,441	80,345,506	(884,354)	252,111,593	2,307,968	-	254,419,561
Employee benefits	26,901,283	5,027,993	-	31,929,276	390,987	-	32,320,263
Supplies and other expenses	129,678,826	18,531,673	(1,981,365)	146,229,134	398,418	(64,500)	146,563,052
Purchased services	63,851,800	5,362,889	-	69,214,689	531,197	-	69,745,886
Depreciation and amortization	31,720,815	3,621,875	-	35,342,690	409,826	-	35,752,516
Interest expense	7,080,346	-	-	7,080,346	-	-	7,080,346
<b>Total expenses</b>	431,883,511	112,889,936	(2,865,719)	541,907,728	4,038,396	(64,500)	545,881,624
<b>Operating income (loss)</b>	40,431,819	(24,565,529)	-	15,866,290	1,108,701	-	16,974,991
Other income:							
Investment income (loss)	6,039,076	(968,150)	-	5,070,926	2,009,625	-	7,080,551
Disposition of assets, net	(533,762)	-	-	(533,762)	-	-	(533,762)
<b>Excess of revenues over (under) expenses</b>	45,937,133	(25,533,679)	-	20,403,454	3,118,326	-	23,521,780
Change in net unrealized gains							
on other than trading securities	24,489,927	-	-	24,489,927	-	-	24,489,927
Net assets released from restrictions for capital	7,186,147	-	-	7,186,147	-	-	7,186,147
Transfers to related organizations	(38,893,302)	41,181,783	-	2,288,481	(2,288,481)	-	-
<b>Increase in unrestricted net assets</b>	\$ 38,719,905	\$ 15,648,104	\$ -	\$ 54,368,009	\$ 829,845	\$ -	\$ 55,197,854