

NCH Healthcare System, Inc. and Subsidiaries

Consolidated Financial Report
September 30, 2020

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RSM US LLP

Independent Auditor's Report

Board of Trustees
NCH Healthcare System, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of NCH Healthcare System, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in fiscal year 2020, the System adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall, (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities*. Our opinion is not modified with respect to this matter.

RSM US LLP

Miami, Florida
January 15, 2021

NCH Healthcare System, Inc. and Subsidiaries

Consolidated Balance Sheets

September 30, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 133,840,422	\$ 13,166,430
Investments	2,657,913	2,633,905
Due from patients and others, net	67,227,456	82,015,752
Assets limited as to use	12,755,510	11,960,496
Inventories	14,681,676	12,224,123
Estimated third-party payor receivable	452,527	1,635,839
Other current assets	8,681,640	9,716,197
Total current assets	240,297,144	133,352,742
Assets limited as to use:		
Self-insurance fund	14,048,801	13,549,928
Board-designated assets	318,940,683	308,368,049
Assets held by trustee under bond indentures	4,541,286	4,496,099
Donor receivables	23,900,513	18,748,608
Assets designated or restricted for donor intentions	26,519,377	27,040,650
	387,950,660	372,203,334
Less assets limited as to use that are available to pay current liabilities	(12,755,510)	(11,960,496)
	375,195,150	360,242,838
Investment in partnerships	687,200	967,483
Property and equipment, net of accumulated depreciation	383,623,326	382,649,659
Other assets	6,485,455	7,049,001
Total assets	\$ 1,006,288,275	\$ 884,261,723

See notes to the consolidated financial statements.

NCH Healthcare System, Inc. and Subsidiaries

**Consolidated Balance Sheets
September 30, 2020 and 2019**

	2020	2019
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 5,604,816	\$ 5,411,943
Current portion of estimated self-insurance liabilities	3,527,654	3,185,588
Accounts payable	27,601,838	29,566,871
Accrued expenses	45,383,785	36,531,818
Accrued interest	2,795,332	2,771,190
Current portion of Medicare accelerated payments	11,622,340	-
Deferred revenue – provider relief funds	15,674,733	-
Total current liabilities	112,210,498	77,467,410
Long-term debt, excluding current portion	107,106,842	92,320,762
Estimated self-insurance liabilities, excluding current portion	10,521,147	10,364,340
Medicare accelerated payments, excluding current portion	73,608,151	-
Other liabilities	8,961,410	9,329,207
Total liabilities	312,408,048	189,481,719
Net assets:		
Net assets without donor restrictions	640,352,561	642,718,698
Net assets with donor restrictions	53,527,666	52,061,306
Total net assets	693,880,227	694,780,004
Total liabilities and net assets	\$ 1,006,288,275	\$ 884,261,723

See notes to the consolidated financial statements.

NCH Healthcare System, Inc. and Subsidiaries

**Consolidated Statements of Operations
Years Ended September 30, 2020 and 2019**

	2020	2019
Revenues without donor restrictions:		
Net patient service revenue	\$ 596,831,814	\$ 627,071,573
Other revenue	29,965,573	16,300,472
Charitable contributions without donor restrictions	3,590,354	11,416,226
Net assets released from restrictions for operations	1,630,683	1,303,559
Total revenues	632,018,424	656,091,830
Expenses:		
Salaries and wages	321,302,319	319,247,521
Employee benefits	43,094,062	42,153,461
Supplies and other expenses	185,888,632	179,773,905
Purchased services	74,933,679	68,573,747
Depreciation and amortization	47,263,276	43,662,881
Interest expense	5,686,947	5,620,211
Total expenses	678,168,915	659,031,726
Operating loss	(46,150,491)	(2,939,896)
Other income:		
Investment income	27,815,749	11,056,828
Reclassification of unrealized gains based on trading security designation	1,154,638	-
(Loss) gain on disposal of property and equipment	(211,195)	71,361
Excess of revenues (under) over expenses	(17,391,299)	8,188,293
Change in net unrealized losses on other than trading securities	-	(3,753,826)
Reclassification of unrealized gains based on trading security designation	(1,154,638)	-
Net assets released from restrictions for capital	16,179,800	5,260,782
(Decrease) increase in net assets without donor restrictions	\$ (2,366,137)	\$ 9,695,249

See notes to consolidated financial statements.

NCH Healthcare System, Inc. and Subsidiaries

**Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2020 and 2019**

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Net assets at September 30, 2018	\$ 633,023,449	\$ 52,411,097	\$ 685,434,546
Excess of revenues over expenses	8,188,293	-	8,188,293
Change in net unrealized gains on securities	(3,753,826)	198,056	(3,555,770)
Restricted gifts and bequests	-	5,589,014	5,589,014
Income from restricted investments	-	427,480	427,480
Net assets released from restrictions for operations	-	(1,303,559)	(1,303,559)
Net assets released from restrictions for capital	5,260,782	(5,260,782)	-
Change in net assets	9,695,249	(349,791)	9,345,458
Net assets at September 30, 2019	642,718,698	52,061,306	694,780,004
Excess of revenues under expenses	(17,391,299)	-	(17,391,299)
Change in net unrealized gains on securities	-	2,223,786	2,223,786
Reclassification of unrealized gains based on trading security designation	(1,154,638)	-	(1,154,638)
Restricted gifts and bequests	-	16,551,408	16,551,408
Income from restricted investments	-	501,649	501,649
Net assets released from restrictions for operations	-	(1,630,683)	(1,630,683)
Net assets released from restrictions for capital	16,179,800	(16,179,800)	-
Change in net assets	(2,366,137)	1,466,360	(899,777)
Net assets at September 30, 2020	\$ 640,352,561	\$ 53,527,666	\$ 693,880,227

See notes to consolidated financial statements.

NCH Healthcare System, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended September 30, 2020 and 2019**

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (899,777)	\$ 9,345,458
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Restricted gifts and bequests for capital and endowment	(3,229,037)	(1,534,587)
Net (loss) gain from partnerships	70,001	(146,826)
Net realized and unrealized losses on investments	(15,190,689)	512,801
Income from restricted gifts and bequests	(501,649)	(427,480)
Depreciation and amortization	47,591,604	43,798,031
Provision for bad debts	1,114,468	1,291,435
Gain on disposal of property and equipment and Bonita Community Health Center	(6,871,104)	(71,361)
Changes in assets and liabilities:		
Decrease (increase) in due from patients and others excluding provision for bad debts	13,673,828	(10,246,621)
Change in estimated third-party payor receivable	1,183,312	(2,193,491)
Increase in inventories	(2,457,553)	(340,862)
(Increase) decrease in donor receivables	(5,151,905)	277,175
Decrease in other current assets	1,034,557	4,399,004
Increase (decrease) in accounts payable	114,304	(1,264,311)
Increase in accrued expenses	8,851,967	1,486,628
Increase (decrease) in accrued interest	24,142	(63,925)
Increase in Medicare accelerated payments	85,230,491	-
Increase in estimated self-insurance liabilities	498,873	381,743
(Decrease) increase in other liabilities	1,714,502	309,499
Increase in deferred revenue – provider relief funds	15,674,733	-
Net cash provided by operating activities	142,475,068	45,512,310
Cash flows from investing activities:		
Purchases of property and equipment	(50,460,130)	(60,867,811)
Proceeds from the sales of property and equipment	8,415	136,664
Purchases of investments	(78,078,636)	(90,894,629)
Sales of investments	82,649,896	100,117,270
Decrease in other assets	300,879	292,806
Decrease in partnerships	210,282	269,300
Proceeds from sale of Bonita Community Health Center	5,000,000	-
Net cash used in investing activities	(40,369,294)	(50,946,400)
Cash flows from financing activities:		
Restricted gifts and bequests for capital and endowment	3,229,037	1,544,539
Income from restricted gifts and bequests	501,649	427,480
Repayment of long-term debt	(5,411,943)	(47,476,312)
Payment of bond financing charges	(250,525)	-
Proceeds from issuance of bond payable	20,500,000	-
Net cash provided by (used in) financing activities	18,568,218	(45,504,293)
Increase (decrease) in cash and cash equivalents	120,673,992	(50,938,383)
Cash and cash equivalents:		
Beginning	13,166,430	64,104,813
Ending	\$ 133,840,422	\$ 13,166,430
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 5,716,092	\$ 5,889,473
Change in donor receivables for capital and endowment	(1,808,944)	(9,952)
Noncash additions to property and equipment	3,536,040	5,615,377

See notes to consolidated financial statements.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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. The Children's Medical Services program ended January 31, 2019.

Health Resources Corporation (HRC), a for-profit holding company, which consists of the following proprietary subsidiaries: (i) Ambulatory Surgical Care Center, Inc. (ASCC) owns a 15% interest in Naples Day Surgery (NDS), a nonaffiliated limited liability company which operates ambulatory surgery centers in Collier County, Florida and is accounted for using the equity method of accounting. On January 1, 2019, Naples Day Surgery closed its operations. (ii) 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. At September 30, 2019, BCHC's total liabilities exceed total assets and as a result the System reported other liabilities on the consolidated balance sheets of \$2,175,649. On November 29, 2019, Lee Health acquired the System's 50% ownership interest in BCHC which resulted in the System recognizing a gain of approximately \$7,082,000 in fiscal year 2020, which is reported within investment income on the consolidated statements of operations. The debt guarantee was released upon the sale.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 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 two classes of net assets – net assets without donor restrictions or net assets with donor restrictions as follows:

Net assets without donor restrictions: Net assets without donor restrictions represent resources generated from operations, unrestricted donations and the satisfaction or lapse of donor restrictions that are no longer subject to donor-imposed stipulations.

Net assets with donor restrictions: Net assets with donor restrictions are 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 or have been restricted by donors to be maintained in perpetuity by the System. Generally, the donor of the net assets restricted in perpetuity permits the System to use the income earned from these assets for general or specific purposes.

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 consolidated 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 consolidated 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

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. 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. Effective October 1, 2019, the System adopted the remaining provisions of Accounting Standards Update (ASU) 2016-01, and also designated the investments in debt securities within its investment portfolio as trading securities. As a result, effective October 1, 2019, all unrealized gains and losses on investments are also included in investment income. For fiscal year 2019, the unrealized gains and losses on other than trading investments were excluded from the excess of revenues over expenses unless the unrealized losses were determined to be other than temporary.

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: Accounts receivable for medical services are recorded net of implicit price concessions. Implicit price concessions represent differences between amounts billed and the estimated consideration the System expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors. Accounts are written off when collection efforts have been exhausted.

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 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 net assets with donor restrictions.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 net assets with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions 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 net assets without donor restrictions. 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.

Goodwill and other identifiable intangible assets: Goodwill and other identifiable intangible assets, and the related accumulated amortization at September 30, 2020 and 2019 was \$4,512,585 and \$4,775,252, respectively, and is included in other assets on the consolidated balance sheets. The System reviews goodwill for impairment annually or sooner if indications of possible impairment are identified. No impairment expense was recognized during the years ended September 30, 2020 and 2019.

Debt issue costs: Debt issue costs are amortized over the life of the related bonds using the effective interest method and are reported net of long-term debt.

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 net assets without donor restrictions, include assets released from donor restrictions for capital in accordance with stipulations of a gift and for the year ended September 30, 2019, included unrealized gains and losses on investments classified as other than trading securities.

Net patient service revenue: The System reports patient service revenue at the amount that reflects the consideration to which the System expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive adjustments due to settlement of audits and reviews. Revenue is recognized as performance obligations are satisfied.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient.

As the System's performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for goods and services provided to patients, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and/or implicit price concessions. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts expected to collect based on the System's collection history with similar class of patients. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2020 and 2019 were \$1,114,468 and \$1,291,435, respectively, and are included in supplies and other expenses in the consolidated statements of operations.

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter in payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

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

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 2019 was \$41,000 and the estimate for income tax expense for fiscal year 2020 is approximately \$56,000. 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 2016.

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

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

Reclassifications: Certain amounts in the 2019 consolidated financial statements have been reclassified to be consistent with the presentation in the 2020 consolidated financial statements. These reclassifications did not impact net assets or the increase in net assets previously reported.

Recent accounting pronouncements: In January 2016, the FASB issued ASU 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 with readily determinable fair values to be recognized within the performance indicator. 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. Effective October 1, 2019 the System adopted the remaining provisions of ASU 2016-01. This resulted in unrealized gains and losses on equity investments with readily determinable fair values to be recognized in the System's excess of revenue over expenses rather than presented in the System's other changes in net assets.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 introduces a lease accounting model that requires an entity to recognize assets and liabilities arising from most leases, including both financing and operating leases. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a financing or operating lease. ASU 2016-02 will also require qualitative and quantitative lease disclosures. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU 2018-10 narrows aspects of the guidance issued in the amendments in ASU 2016-02. ASU 2018-11 provides entities with an additional (and optional) transition method to adopt ASU 2016-02. Based on the deferred effective dates provided in ASU 2020-05, the new standards are effective for the System's fiscal year beginning October 1, 2020. The System will appropriately adopt these standards in fiscal year 2021 and anticipates that it will report a right of use asset and liability based on the present value of its operating lease commitments.

In August 2016, the FASB issued ASU 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 consolidated statements of cash flows with the objective of reducing existing diversity in practice with respect to these items. Effective October 1, 2019 the System adopted the standard with no material effect.

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

COVID-19 pandemic: In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19). In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. The resulting measures to contain the spread and impact of COVID-19 have adversely affected the System's results of operations. As a result of the COVID-19 pandemic, federal and state governments have passed legislation, promulgated regulations and taken other administrative actions intended to assist health care providers in providing care to COVID-19 and other patients during the public health emergency. Sources of relief include the Coronavirus Aid, Relief and Economic Security Act (the CARES Act), which was enacted on March 27, 2020, and the Paycheck Protection Program and Health Care Enhancement Act (the PPPHCE Act), which was enacted on April 24, 2020. Together, the CARES Act and the PPPHCE Act include \$175,000,000,000 in funding to be distributed to eligible providers through the Public Health and Social Services Emergency Fund (the PHSSEF). In addition, the CARES Act provides for an expansion of the Medicare Accelerated and Advance Payment Program whereby inpatient acute care hospitals and other eligible providers may request accelerated payment of up to 100% of their Medicare payment amount for a six-month period to be repaid through withholding of future Medicare fee-for-service payments beginning 12 months after receipt. During the period ended September 30, 2020, the System was the beneficiary of these stimulus measures, including the Medicare Accelerated and Advance Payment Program. The System's accounting policies for the recognition of these stimulus monies are described below.

CARES Act and PPPHCE Act Funds: During the year ended September 30, 2020, the System received approximately \$30,675,000 in payments through the PHSSEF in both general and targeted distributions. Approximately \$15,000,000 of the PHSSEF payments qualified as reimbursement for lost operating margin and incremental expenses and was recognized as other revenue in the consolidated statements of operations. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, certification that payment will be used to prevent, prepare for and respond to COVID-19 and shall reimburse the recipient only for health care-related expenses or lost operating margin that are attributable to COVID-19, and receipt of the funds. The System recognizes grant payments as income when there is reasonable assurance the System has complied with the conditions associated with the grant. The System's estimates could change materially in the future based on operating performance or COVID-19 activities at individual locations, as well as the evolving grant compliance guidance provided by the government. The approximately \$15,675,000 that has not been recognized as other revenue or that has not been refunded to HHS as of September 30, 2020, is reflected within deferred revenue – provider relief funds in the consolidated balance sheets. Such unrecognized amounts may be recognized as other revenue in future periods if the underlying conditions for recognition are met. See Note 16 for a subsequent events.

Medicare accelerated payments of approximately \$85,230,000 were received by the System during the year ended September 30, 2020. The Medicare accelerated payments are interest free and the program currently requires that Centers for Medicare and Medicaid Services (CMS) recoup the accelerated payments beginning 12 months after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until such time as the accelerated payments have been fully recouped. The program currently requires that any outstanding balance remaining after 29 months must be repaid by the provider or be subjected to a 4% annual interest rate. As of September 30, 2020, the liability for Medicare accelerated payments is reflected as approximately \$11,622,000 and \$73,608,000 in current and long-term liabilities, respectively.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2019, 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 Inpatient Medicaid services are paid at prospectively determined rates based on All Patient Refined Diagnostic Related Groups methodology (APR DRG). Payments under APR DRG assignment are made on a per case basis and are not subject to retrospective rate adjustments. Florida Medicaid Outpatient services are paid at prospectively determined rates based on Enhanced Ambulatory Payment Group (EAPG) methodology.

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

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.

Changes in estimates of third-party payor settlements increased net patient service revenue by approximately \$1,107,000 and \$1,656,000, respectively, for the years ended September 30, 2020 and 2019.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

The composition of net patient service revenue based on payor source for the years ended September 30, are as follows:

	2020	2019
Medicare and Medicaid including HMO	\$ 325,662,951	\$ 343,466,232
Commercial	249,098,819	252,914,008
Self Pay and other	22,070,044	30,691,333
Net patient service revenue	<u>\$ 596,831,814</u>	<u>\$ 627,071,573</u>

Hospital revenue includes a variety of services mainly covering inpatient procedures requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment as well as emergency care. Physician revenue includes services primarily focused on the care of outpatients covering primary and specialty healthcare needs. The composition of net patient service revenue based on services for the years ended September 30, are as follows:

	2020	2019
Inpatient	\$ 304,179,421	\$ 313,219,090
Outpatient	184,479,737	205,498,881
Physician	108,172,656	108,353,602
Net patient service revenue	<u>\$ 596,831,814</u>	<u>\$ 627,071,573</u>

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.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Uncompensated Care (Continued)

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

	2020	2019
Charity care – charges foregone, based on established rates	\$ 98,938,638	\$ 115,261,004
Welfare – difference between established rates and reimbursement received	3,401,510	3,404,101
Total charity care and welfare	102,340,148	118,665,105
Implicit price concession	84,446,991	64,780,407
Bad debts – charges deemed uncollectible	1,114,468	1,291,435
Total uncompensated care	<u>\$ 187,901,607</u>	<u>\$ 184,736,947</u>
Estimated cost of providing uncompensated care	<u>\$ 46,970,123</u>	<u>\$ 46,330,040</u>

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.

Note 5. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30:

	2020	2019
Health care services:		
Building construction and purchase of equipment	\$ 15,245,259	\$ 22,305,846
Clinical	20,336,943	13,112,519
Education	721,873	657,482
Indigent	1,154,984	354,248
Investments to be held in perpetuity, the income from which is expendable to support health care services	16,068,607	15,631,211
	<u>\$ 53,527,666</u>	<u>\$ 52,061,306</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:

	2020	2019
Amounts due:		
Within one year	\$ 4,686,570	\$ 4,278,809
In one to five years	8,452,434	9,099,657
In six to eight years	3,306,281	1,669,705
Over eight years	12,750,406	8,339,104
	29,195,691	23,387,275
Less:		
Discounts for the time value of money	(5,295,178)	(4,638,667)
	<u>\$ 23,900,513</u>	<u>\$ 18,748,608</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.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Net Assets with Donor Restrictions (Continued)

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.

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 net assets with donor restrictions: (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 donor-restricted endowment fund is classified in net assets with donor restrictions 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. Net Assets with Donor Restrictions (Continued)

Changes in net assets with donor restrictions for the years ended September 30, 2020 and 2019, consisted of the following:

	<u>Net Assets with Donor Restrictions</u>
Endowment net assets at September 30, 2018	\$ 22,998,339
Investment return:	
Investment income	408,600
Change in unrealized gains	33,132
Total investment return	<u>441,732</u>
Gifts	3,907
Appropriation of endowment assets for expenditure	<u>(304,293)</u>
Endowment net assets at September 30, 2019	<u>23,139,685</u>
Investment return:	
Investment income	484,008
Change in unrealized gains	1,271,456
Total investment return	<u>1,755,464</u>
Gifts	117,661
Appropriation of endowment assets for expenditure	<u>(334,085)</u>
Endowment net assets at September 30, 2020	<u>\$ 24,678,725</u>

For the years ended September 30, 2020 and 2019, net assets were released from donor restrictions by satisfying the time restriction or incurring operating expenses satisfying the restricted purposes in the amounts of approximately \$1,631,000 and \$1,304,000, respectively. For the years ended September 30, 2020 and 2019, net assets were released from donor restrictions used for purchase of property and equipment in the amounts of approximately \$16,180,000 and \$5,261,000, respectively.

Donor restricted net assets held by the System are reported at fair value and are restricted to investment and reinvestment in perpetuity, the income from which is expendable to support various programs sponsored by the System. A summary of the revenues for the year ended September 30, 2020, consisted of the following:

	<u>With Donor Restrictions</u>
Revenues, gains and other support:	
Public support:	
Restricted donations	\$ 14,883,521
Fundraising events	1,667,887
Total public support	<u>16,551,408</u>
Investment income and change in net unrealized gains on securities	2,725,435
Released from restrictions	<u>(17,810,483)</u>
Total revenues, gains and other support, net	<u>\$ 1,466,360</u>

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Liquidity and Availability

The System regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

The following table summarizes the System's financial assets available for general expenditure and endowment grant obligations within one year after September 30:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 133,840,422	\$ 13,166,430
Investments	321,598,596	311,001,954
Due from patients and others, net	67,227,456	82,015,752
Self-Insurance fund	14,048,801	13,549,928
Donor receivables	23,900,513	18,748,608
Assets designated or restricted for donor intentions	26,519,377	27,040,650
Assets held by trustee under bond indentures	4,541,286	4,496,099
Investment in partnerships	687,200	967,483
Other current receivables	1,625,520	1,851,611
Bequest receivable	1,261,257	2,557,401
Other long-term assets	5,652,585	6,200,252
Total financial assets	<u>600,903,013</u>	<u>481,596,168</u>
Less amounts not available to be used within one year:		
Board designated investments	(318,940,683)	(308,368,049)
Investments in partnerships	(687,200)	(967,483)
Self-Insurance fund	(14,048,801)	(13,549,928)
Assets designated or restricted for donor intentions	(26,519,377)	(27,040,650)
Donor receivables due over one year	(19,263,943)	(14,469,799)
Assets held by trustee under bond indentures	(4,541,286)	(4,496,099)
Bequests receivable due over one year	(540,244)	(570,427)
Other long-term assets	(5,652,585)	(6,200,252)
Total financial assets not available to be used within one year	<u>(390,194,119)</u>	<u>(375,662,687)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 210,708,894</u>	<u>\$ 105,933,481</u>

Board designated investments could be sold to meet the System's operating needs and other contractual commitments.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. 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:

	2020	2019
Self-insurance funds:		
Cash and cash equivalents	\$ 12,910,339	\$ 10,493,101
U.S. government and agency securities	113,656	439,867
Mortgage-backed securities	142,728	820,971
Corporate bonds	-	838,276
Self-insurance receivables	882,078	957,713
	<u>14,048,801</u>	<u>13,549,928</u>
Board-designated assets:		
Cash and cash equivalents	3,219,641	5,204,168
U.S. government and agency securities	13,720,755	20,113,300
Mortgage-backed securities	27,754,349	14,809,007
Corporate bonds	28,654,679	37,791,780
Fixed income funds	39,624,934	44,347,650
Equities and equity funds – domestic	144,056,042	129,064,749
Equities and equity funds – foreign	61,910,283	57,037,395
	<u>318,940,683</u>	<u>308,368,049</u>
Assets held by trustee under bond indentures:		
Cash and cash equivalents	4,541,286	4,496,099
Assets designated or restricted for donor intentions:		
Cash and cash equivalents	4,299,249	6,118,450
U.S. government and agency securities	725,818	635,176
Mortgage-backed securities	323,557	356,636
Corporate bonds	673,265	669,025
Fixed income funds	91,561	99,178
Equities and equity funds – domestic	13,405,559	12,419,354
Equities and equity funds – foreign	7,000,368	6,742,831
Donor receivables	23,900,513	18,748,608
	<u>50,419,890</u>	<u>45,789,258</u>
Total assets limited as to use	<u>\$ 387,950,660</u>	<u>\$ 372,203,334</u>

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

	2020	2019
Current investments:		
U.S. government and agency securities	1,178,266	\$ 551,931
Mortgage-backed securities	1,479,647	1,030,130
Corporate bonds	-	1,051,844
Total current investments	<u>\$ 2,657,913</u>	<u>\$ 2,633,905</u>

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. 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 net assets with donor restrictions, are comprised of the following for the years ended September 30:

	2020	2019
Investment income, including gain from sale of BCHC (see Note 1)	\$ 14,848,846	\$ 8,013,859
Net change in unrealized gains	8,281,855	-
Net realized gains	4,685,048	3,042,969
	<u>27,815,749</u>	<u>11,056,828</u>
Change in net unrealized losses on other than trading securities	-	(3,753,826)
Total investment earnings	<u>\$ 27,815,749</u>	<u>\$ 7,303,002</u>

Investment expenses are recorded as reductions to investment income and realized gains.

The fair value of debt securities classified by contractual maturity, as of September 30, 2020, are as follows:

	Amortized Cost	Fair Value
Due within one year	\$ 3,695,152	\$ 3,697,606
Due after one year through three years	21,020,104	21,481,294
Due after three years	18,926,531	19,887,539
Mortgage-backed securities	29,576,170	29,700,281
	<u>\$ 73,217,957</u>	<u>\$ 74,766,720</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 7. 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, 2020 and 2019:

	2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 22,007,977	\$ 3,394,526	\$ -	\$ 25,402,503
U.S. government and agency securities	-	15,738,495	-	15,738,495
Mortgage-backed securities	-	29,700,281	-	29,700,281
Corporate bonds	-	29,327,944	-	29,327,944
Fixed income funds	-	39,716,495	-	39,716,495
Equities and equity funds – domestic	140,585,904	15,385,733	1,489,964	157,461,601
Equities and equity funds – foreign	53,072,042	15,838,609	-	68,910,651
	215,665,923	149,102,083	1,489,964	366,257,970
Trusts held by others	-	-	5,141,844	5,141,844
Total assets at fair value	\$ 215,665,923	\$ 149,102,083	\$ 6,631,808	\$ 371,399,814
	2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 21,427,503	\$ 5,310,788	\$ -	\$ 26,738,291
U.S. government and agency securities	-	21,740,274	-	21,740,274
Mortgage-backed securities	-	17,016,744	-	17,016,744
Corporate bonds	-	40,350,925	-	40,350,925
Fixed income funds	-	44,446,828	-	44,446,828
Equities and equity funds – domestic	124,444,830	15,677,598	1,361,675	141,484,103
Equities and equity funds – foreign	45,623,126	18,157,100	-	63,780,226
	191,495,459	162,700,257	1,361,675	355,557,391
Trusts held by others	-	-	4,740,826	4,740,826
Total assets at fair value	\$ 191,495,459	\$ 162,700,257	\$ 6,102,501	\$ 360,298,217

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, 2018	\$ 4,631,238	\$ 1,433,094	\$ 6,064,332
Realized and unrealized gains (losses)	109,588	(71,419)	38,169
Fair value September 30, 2019	4,740,826	1,361,675	6,102,501
Realized and unrealized gains	401,018	128,289	529,307
Fair value September 30, 2020	\$ 5,141,844	\$ 1,489,964	\$ 6,631,808

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Property and Equipment

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

	2020	2019
Land	\$ 34,875,801	\$ 34,875,801
Land improvements	8,924,756	8,924,756
Buildings	469,122,355	460,943,682
Fixed equipment	52,722,657	51,595,141
Movable equipment	359,723,699	335,414,631
Leasehold improvements	14,720,920	14,745,847
Facilities expansion in progress	29,433,768	17,341,409
	<u>969,523,956</u>	<u>923,841,267</u>
Less accumulated depreciation and amortization	<u>(585,900,630)</u>	<u>(541,191,608)</u>
	<u>\$ 383,623,326</u>	<u>\$ 382,649,659</u>

The facilities expansion in progress at September 30, 2020, included the construction costs of various projects, which management estimates will cost an additional approximate amount of \$19,302,000 and \$9,078,000 to complete during 2021 and 2022, 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 9. Long-Term Debt

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

	2020	2019
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 (payable by the Hospital under an agreement with Collier County) consisting of \$3,739,816 serial bonds due October 2020, with interest paid quarterly at 2.954%.	\$ 3,739,816	\$ 7,371,759
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2011 Public (payable by the Hospital under an agreement with Collier County) consisting of \$1,865,000 serial bonds due October 2020, with interest paid semi-annually at 5%. \$3,380,000 serial bonds due October 2021, with interest paid semi-annually at 5%. \$3,545,000 serial bonds due October 2022 with interest paid semi-annually at 5%. \$4,645,000 serial bonds due October 2023, with interest paid semi-annually at 5.5%. \$3,990,000 serial bonds due October 2024, with interest paid semi-annually at 5.5% and \$72,430,000 serial bonds due from October 2025 through October 2039, with interest paid semi- annually at rates ranging from 5.50% to 6.25%. The Series 2011 Public bonds will be called in April 2021 and replaced under a forward delivery agreement.	89,855,000	91,635,000
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2020 (payable by the Hospital under an agreement with Collier County) consisting of \$95,000 series bond due October 2023, interest paid semi-annually at 1.64%. \$1,410,000 series bond due October 2024, interest paid semi-annually at 1.64%. \$1,460,000 series bond due October 2025, interest paid semi-annually at 1.64%. \$1,510,000 series bond due October 2026, interest paid semi-annually at 1.64%. \$5,465,000 series bond due October 2027, interest paid semi-annually at 1.64% and \$10,560,000 series bonds due from October 2028 through October 2035, interest paid semi-annually at 1.64%.	20,500,000	-
Total long-term debt	114,094,816	99,006,759
Less:		
Unamortized original issue discount	(515,941)	(571,555)
Debt issuance costs	(867,217)	(702,499)
Current maturities	(5,604,816)	(5,411,943)
	<u>\$ 107,106,842</u>	<u>\$ 92,320,762</u>

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Long-Term Debt (Continued)

On March 23, 2020, the Collier County Industrial Development Authority authorized the issuance of up to \$50,000,000 of its Healthcare Facilities Revenue Bond, Series 2020 (the Series 2020 Bonds) to be issued by the Authority on behalf of Naples Community Hospital. Settlement of the 2020 Bond issue occurred on March 31, 2020. The purchaser of the 2020 bonds is DNT Asset Trust, a Delaware statutory trust and wholly owned subsidiary of JPMorgan Chase Bank, N.A., its successors, assigns and transferees (the Purchaser). Pursuant to a financing agreement between the Hospital and the Purchaser, the hospital is authorized to request, and the Purchaser is required to make, advances on this loan of up to a total of \$50,000,000. Such advances are required to be made by no later than February 15, 2022. As of September 30, 2020, such advances had been made in the amount of \$20,500,000. The Hospital pays interest only on the amount of the advances that have been made. The proceeds of the 2020 bonds are to be used to finance the construction and equipping of various capital improvements to the Hospital's facilities and finance costs associated with the issuance of the Series 2020 Bond.

On March 31, 2020, the Hospital entered into an agreement with DNT Asset Trust (the Forward Delivery Agreement) that provides for the issuance by the Collier County Industrial Development Authority (the Issuer) and purchase by DNT Asset Trust of a Healthcare Facilities Revenue Bond, Series 2021 (the Series 2021 Bonds) on March 30, 2021. Under the terms of the Forward Delivery Agreement the Issuer is obligated to issue the Series 2021 Bond and loan the proceeds to the Hospital, as the Borrower, and DT Asset Trust, a wholly-owned subsidiary of JP Morgan Chase Bank, N.A., its successors, assigns and transferees (the Purchaser) is committed to extend credit to the Issuer and the Hospital and to purchase the Series 2021 Bond. The purchase price of the Series 2021 Bond is \$90,769,000. The proceeds of the loan will be used by the Hospital to pay the redemption price (including principal, accrued interest, and redemption premium) in order to redeem in full as of April 1, 2021 all of the remaining outstanding Series 2011 Bonds previously issued by the Issuer on behalf of the Hospital. As of April 1, 2021, all of the Series 2011 Bonds will have been fully repaid and no longer an obligation of the Hospital. The issuance and delivery of the Series 2021 Bond are subject to certain terms and conditions contained in the Forward Delivery Agreement. The Series 2021 Bond loan will be collateralized under the Hospital Master Trust Indenture. The final maturity of the Series 2021 Bond will be October 1, 2039, and principal will be subject to periodic repayment, as provided in the Series 2021 Bond and the corresponding loan documents.

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, 2020 and 2019. The Series 2010, Series 2011 Public and Series 2020 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 based on the debt outstanding as of September 30, 2020, in each of the next five years and thereafter are as follows:

Years ending September 30:	
2021	\$ 5,604,816
2022	3,380,000
2023	3,545,000
2024	4,740,000
2025	5,400,000
Thereafter	91,425,000
	<u>\$ 114,094,816</u>

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Self-Insured Claims

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

For 2020 and 2019 professional liability, the System had a \$4,000,000 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 \$2,505,452 and \$2,697,249 during the years ended September 30, 2020 and 2019, respectively, and are included in supplies and other expenses in the consolidated statements of operations. As of September 30, 2020 and 2019, the System had accrued \$13,331,328 and \$12,647,349, 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 2.5% in 2020 and 3% in 2019. The discount on the accrual for professional liability was approximately \$872,000 and \$1,039,000 at September 30, 2020 and 2019, respectively. The System has recorded approximately \$828,000 and \$895,000 for September 30, 2020 and 2019, 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.

For 2020 and 2019 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, 2020 and 2019, the System had accrued \$717,473 and \$902,579, 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 \$417,631 and \$661,870 during the years ended September 30, 2020 and 2019, 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 2.5% in 2020 and 3% in 2019. The discount on the accrued workers' compensation liability was approximately \$72,000 and \$111,000 at September 30, 2020 and 2019, respectively. The System has recorded approximately \$54,000 and \$63,000 for September 30, 2020 and 2019, 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 2020 and 2019 employee health coverage, the System had a \$350,000 per claim self-insured retention. The plan calls for an unlimited lifetime maximum benefit per covered life. As of September 30, 2020 and 2019, the System had accrued \$8,840,204 and \$7,596,563, 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.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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, 2020 and 2019, were approximately \$8,557,000 and \$7,465,000, respectively.

Note 12. Related Party Transactions

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.

Note 13. Leases

The System leases buildings and equipment under operating leases. Rental expense for the years ended September 30, 2020 and 2019, approximated \$7,596,000 and \$7,207,000, 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, 2020, are approximately as follows:

Years ending September 30:	
2021	\$ 6,493,000
2022	5,561,000
2023	5,094,000
2024	3,821,000
2025	3,757,000
Thereafter	4,990,000
	<u>\$ 29,716,000</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 \$133,840,000 and \$13,166,000 as of September 30, 2020 and 2019, 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 7. 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.

NCH Healthcare System, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 15. Functional Expenses

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

	2020			
	Fundraising	Healthcare Services	General and Administrative	Total
Salaries and benefits	\$ 1,781,932	\$ 332,144,063	\$ 30,470,386	\$ 364,396,381
Supplies, purchased services and other	289,576	184,273,520	35,119,240	219,682,336
Repairs, equipment rental and facility costs	66,368	35,518,867	5,554,740	41,139,975
Depreciation and amortization	94,857	42,094,590	5,073,829	47,263,276
Interest	-	4,833,905	853,042	5,686,947
Total functional expenses	<u>\$ 2,232,733</u>	<u>\$ 598,864,945</u>	<u>\$ 77,071,237</u>	<u>\$ 678,168,915</u>

	2019			
	Fundraising	Healthcare Services	General and Administrative	Total
Salaries and benefits	\$ 1,361,814	\$ 331,320,960	\$ 28,718,208	\$ 361,400,982
Supplies, purchased services and other	368,304	176,174,607	32,735,314	209,278,225
Repairs, equipment rental and facility costs	50,951	33,214,090	5,804,386	39,069,427
Depreciation and amortization	80,568	38,808,140	4,774,173	43,662,881
Interest	-	4,777,179	843,032	5,620,211
Total functional expenses	<u>\$ 1,861,637</u>	<u>\$ 584,294,976</u>	<u>\$ 72,875,113</u>	<u>\$ 659,031,726</u>

Note 16. Subsequent Events

The System has performed a review of subsequent events through January 15, 2021, the date the consolidated financial statements were issued.

As discussed in Note 1, the System received CARES Act stimulus funds in 2020, and the System believes the amount recorded as revenue and the amount deferred for recognition in future periods as of and for the year ended September 30, 2020, are consistent with the guidance available from HHS as of September 30, 2020. In October and November 2020, new reporting requirements and other guidance was released related to the Provider Relief Funds. By in large the new guidance was determined to be a non-recognizable subsequent event. Management has not yet determined the effect of the new guidance on the System's financial statements for the year ending September 30, 2021.



RSM US LLP

Independent Auditor's Report on the Supplementary Information

Board of Trustees
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, 2020 and 2019, and have issued our report thereon dated January 15, 2021, 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 15, 2021

NCH Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet September 30, 2020

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 138,138,248	\$ (4,701,016)	\$ 133,437,232	\$ 403,190	\$ -	\$ 133,840,422
Investments	2,657,913	-	2,657,913	-	-	2,657,913
Due from patients and others, net	58,454,797	8,392,908	66,847,705	379,751	-	67,227,456
Assets limited as to use	11,540,815	1,205,089	12,745,904	9,606	-	12,755,510
Inventories	13,227,422	1,454,254	14,681,676	-	-	14,681,676
Estimated third-party payor receivable	452,527	-	452,527	-	-	452,527
Other current assets	6,842,308	1,858,539	8,700,847	(19,207)	-	8,681,640
Total current assets	231,314,030	8,209,774	239,523,804	773,340	-	240,297,144
Assets limited as to use:						
Self-insurance fund	9,211,306	4,799,239	14,010,545	38,256	-	14,048,801
Board-designated assets	318,940,683	-	318,940,683	-	-	318,940,683
Assets held by trustee under bond indentures	4,541,286	-	4,541,286	-	-	4,541,286
Donor receivables	23,900,513	-	23,900,513	-	-	23,900,513
Assets designated or restricted for donor intentions	26,519,377	-	26,519,377	-	-	26,519,377
	383,113,165	4,799,239	387,912,404	38,256	-	387,950,660
Less assets limited as to use that are available to pay current liabilities	(11,540,815)	(1,205,089)	(12,745,904)	(9,606)	-	(12,755,510)
	371,572,350	3,594,150	375,166,500	28,650	-	375,195,150
Investment in partnerships	-	6,396,863	6,396,863	71,910	(5,781,573)	687,200
Property and equipment, net of accumulated depreciation	337,657,285	38,564,595	376,221,880	7,401,446	-	383,623,326
Other assets	1,162,514	4,181,727	5,344,241	1,141,214	-	6,485,455
Total assets	\$ 941,706,179	\$ 60,947,109	\$ 1,002,653,288	\$ 9,416,560	\$ (5,781,573)	\$ 1,006,288,275
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	\$ 5,604,816	\$ -	\$ 5,604,816	\$ -	\$ -	\$ 5,604,816
Current portion of estimated self-insurance liabilities	2,312,959	1,205,089	3,518,048	9,606	-	3,527,654
Accounts payable	24,327,847	3,186,286	27,514,133	87,705	-	27,601,838
Accrued expenses	34,549,877	10,205,251	44,755,128	628,657	-	45,383,785
Accrued interest	2,795,332	-	2,795,332	-	-	2,795,332
Current portion of Medicare accelerated payments	10,102,860	1,519,480	11,622,340	-	-	11,622,340
Deferred revenue - provider relief funds	12,320,560	3,354,173	15,674,733	-	-	15,674,733
Total current liabilities	92,014,251	19,470,279	111,484,530	725,968	-	112,210,498
Long-term debt, excluding current portion	107,106,842	-	107,106,842	-	-	107,106,842
Estimated self-insurance liabilities, excluding current portion	6,898,347	3,594,150	10,492,497	28,650	-	10,521,147
Medicare accelerated payments, excluding current portion	63,984,782	9,623,369	73,608,151	-	-	73,608,151
Due to related organizations	13,108,040	(623,599)	12,484,441	(12,484,441)	-	-
Other liabilities	6,908,845	1,924,941	8,833,786	127,624	-	8,961,410
Total liabilities	290,021,107	33,989,140	324,010,247	(11,602,199)	-	312,408,048
Net assets:						
Net assets without donor restrictions	598,157,406	26,957,969	625,115,375	21,018,759	(5,781,573)	640,352,561
Net assets with donor restrictions	53,527,666	-	53,527,666	-	-	53,527,666
Total net assets	651,685,072	26,957,969	678,643,041	21,018,759	(5,781,573)	693,880,227
Total liabilities and net assets	\$ 941,706,179	\$ 60,947,109	\$ 1,002,653,288	\$ 9,416,560	\$ (5,781,573)	\$ 1,006,288,275

NCH Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet September 30, 2019

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 17,465,308	\$ (4,691,646)	\$ 12,773,662	\$ 392,768	\$ -	\$ 13,166,430
Investments	2,633,905	-	2,633,905	-	-	2,633,905
Due from patients and others, net	69,189,390	12,370,760	81,560,150	455,602	-	82,015,752
Assets limited as to use	10,868,788	1,082,518	11,951,306	9,190	-	11,960,496
Inventories	11,120,787	1,103,336	12,224,123	-	-	12,224,123
Estimated third-party payor receivable	1,635,839	-	1,635,839	-	-	1,635,839
Other current assets	8,408,316	1,331,631	9,739,947	(23,750)	-	9,716,197
Total current assets	121,322,333	11,196,599	132,518,932	833,810	-	133,352,742
Assets limited as to use:						
Self-insurance fund	8,906,339	4,604,501	13,510,840	39,088	-	13,549,928
Board-designated assets	308,368,049	-	308,368,049	-	-	308,368,049
Assets held by trustee under bond indentures	4,496,099	-	4,496,099	-	-	4,496,099
Donor receivables	18,748,608	-	18,748,608	-	-	18,748,608
Assets designated or restricted for donor intentions	27,040,650	-	27,040,650	-	-	27,040,650
	367,559,745	4,604,501	372,164,246	39,088	-	372,203,334
Less assets limited as to use that are available to pay current liabilities	(10,868,788)	(1,082,518)	(11,951,306)	(9,190)	-	(11,960,496)
	356,690,957	3,521,983	360,212,940	29,898	-	360,242,838
Investment in partnerships	-	6,366,694	6,366,694	382,362	(5,781,573)	967,483
Property and equipment, net of accumulated depreciation	336,976,353	38,026,493	375,002,846	7,646,813	-	382,649,659
Other assets	1,375,059	4,247,727	5,622,786	1,426,215	-	7,049,001
Total assets	\$ 816,364,702	\$ 63,359,496	\$ 879,724,198	\$ 10,319,098	\$ (5,781,573)	\$ 884,261,723
Liabilities and net assets						
Current liabilities:						
Current portion of long-term debt	\$ 5,411,943	\$ -	\$ 5,411,943	\$ -	\$ -	\$ 5,411,943
Current portion of estimated self-insurance liabilities	2,093,880	1,082,518	3,176,398	9,190	-	3,185,588
Estimated third-party payor payable	-	-	-	-	-	-
Accounts payable	26,309,347	3,156,225	29,465,572	101,299	-	29,566,871
Accrued expenses	25,358,451	10,538,476	35,896,927	634,891	-	36,531,818
Accrued interest	2,771,190	-	2,771,190	-	-	2,771,190
Total current liabilities	61,944,811	14,777,219	76,722,030	745,380	-	77,467,410
Long-term debt, excluding current portion	92,320,762	-	92,320,762	-	-	92,320,762
Estimated self-insurance liabilities, excluding current portion	6,812,459	3,521,983	10,334,442	29,898	-	10,364,340
Due to related organizations	22,956,311	(630,264)	22,326,047	(22,326,047)	-	-
Other liabilities	5,281,551	3,849,705	9,131,256	197,951	-	9,329,207
Total liabilities	189,315,894	21,518,643	210,834,537	(21,352,818)	-	189,481,719
Net assets:						
Net assets without donor restrictions	574,987,502	41,840,853	616,828,355	31,671,916	(5,781,573)	642,718,698
Net assets with donor restrictions	52,061,306	-	52,061,306	-	-	52,061,306
Total net assets	627,048,808	41,840,853	668,889,661	31,671,916	(5,781,573)	694,780,004
Total liabilities and net assets	\$ 816,364,702	\$ 63,359,496	\$ 879,724,198	\$ 10,319,098	\$ (5,781,573)	\$ 884,261,723

NCH Healthcare System, Inc. and Subsidiaries

Consolidating Statements of Operations Year Ended September 30, 2020

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Eliminations	Total Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Revenues without donor restrictions:							
Net patient service revenue	\$ 487,722,549	\$ 108,172,656	\$ (2,550,658)	\$ 593,344,547	\$ 3,487,267	\$ -	\$ 596,831,814
Other revenue	28,613,191	3,706,847	(2,471,263)	29,848,775	181,298	(64,500)	29,965,573
Charitable contributions without donor restrictions	3,590,354	-	-	3,590,354	-	-	3,590,354
Net assets released from restrictions for operations	1,630,683	-	-	1,630,683	-	-	1,630,683
Total revenues	521,556,777	111,879,503	(5,021,921)	628,414,359	3,668,565	(64,500)	632,018,424
Expenses:							
Salaries and wages	207,265,610	113,538,143	(1,923,760)	318,879,993	2,422,326	-	321,302,319
Employee benefits	35,465,307	7,315,560	332	42,781,199	312,863	-	43,094,062
Supplies and other expenses	165,656,886	22,548,627	(2,800,594)	185,404,919	548,213	(64,500)	185,888,632
Purchased services	69,248,140	5,395,333	(110,992)	74,532,481	401,198	-	74,933,679
Depreciation and amortization	42,663,264	4,417,123	(186,907)	46,893,480	369,796	-	47,263,276
Interest expense	5,686,947	-	-	5,686,947	-	-	5,686,947
Total expenses	525,986,154	153,214,786	(5,021,921)	674,179,019	4,054,396	(64,500)	678,168,915
Operating loss	(4,429,377)	(41,335,283)	-	(45,764,660)	(385,831)	-	(46,150,491)
Other income:							
Investment income	20,719,558	6,955,817	-	27,675,375	140,374	-	27,815,749
Reclassification of unrealized gains based on trading security designation	1,154,638	-	-	1,154,638	-	-	1,154,638
Loss on disposal of property and equipment	(40,712)	(267)	-	(40,979)	(170,216)	-	(211,195)
Excess of revenues over (under) expenses	17,404,107	(34,379,733)	-	(16,975,626)	(415,673)	-	(17,391,299)
Reclassification of unrealized gains based on trading security designation							
	(1,154,638)	-	-	(1,154,638)	-	-	(1,154,638)
Net assets released from restrictions for capital	16,179,800	-	-	16,179,800	-	-	16,179,800
Transfers to related organizations	(9,259,365)	19,496,849	-	10,237,484	(10,237,484)	-	-
Increase (decrease) in net assets without donor restrictions	\$ 23,169,904	\$ (14,882,884)	\$ -	\$ 8,287,020	\$ (10,653,157)	\$ -	\$ (2,366,137)

NCH Healthcare System, Inc. and Subsidiaries

Consolidating Statements of Operations Year Ended September 30, 2019

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Eliminations	Total Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Revenues without donor restrictions:							
Net patient service revenue	\$ 516,992,282	\$ 108,353,602	\$ (2,065,938)	\$ 623,279,946	\$ 3,791,627	\$ -	\$ 627,071,573
Other revenue	15,144,547	3,362,255	(2,612,881)	15,893,921	471,051	(64,500)	16,300,472
Charitable contributions without donor restrictions	11,416,226	-	-	11,416,226	-	-	11,416,226
Net assets released from restrictions for operations	1,303,559	-	-	1,303,559	-	-	1,303,559
Total revenues	544,856,614	111,715,857	(4,678,819)	651,893,652	4,262,678	(64,500)	656,091,830
Expenses:							
Salaries and wages	208,135,869	110,312,885	(1,639,487)	316,809,267	2,438,254	-	319,247,521
Employee benefits	34,688,427	7,149,673	(37,288)	41,800,812	352,649	-	42,153,461
Supplies and other expenses	159,393,816	23,122,499	(2,909,276)	179,607,039	231,366	(64,500)	179,773,905
Purchased services	62,986,964	5,233,785	(14,134)	68,206,615	367,132	-	68,573,747
Depreciation and amortization	38,996,599	4,374,640	(78,634)	43,292,605	370,276	-	43,662,881
Interest expense	5,620,211	-	-	5,620,211	-	-	5,620,211
Total expenses	509,821,886	150,193,482	(4,678,819)	655,336,549	3,759,677	(64,500)	659,031,726
Operating (loss) income	35,034,728	(38,477,625)	-	(3,442,897)	503,001	-	(2,939,896)
Other income:							
Investment income (loss)	12,397,115	(1,575,405)	-	10,821,710	235,118	-	11,056,828
Gain (loss) on disposal of property and equipment	76,482	(5,121)	-	71,361	-	-	71,361
Excess of revenues over (under) expenses	47,508,325	(40,058,151)	-	7,450,174	738,119	-	8,188,293
Change in net unrealized losses							
on other than trading securities	(3,753,826)	-	-	(3,753,826)	-	-	(3,753,826)
Net assets released from restrictions for capital	5,260,782	-	-	5,260,782	-	-	5,260,782
Transfers to related organizations	(45,486,148)	46,191,957	-	705,809	(705,809)	-	-
Increase (decrease) in net assets without donor restrictions	\$ 3,529,133	\$ 6,133,806	\$ -	\$ 9,662,939	\$ 32,310	\$ -	\$ 9,695,249