

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

Consolidated Financial Report  
September 30, 2017

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RSM US LLP

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of NCH Healthcare System, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2017 and 2016, 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, 2017 and 2016, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

Miami, Florida  
January 24, 2018

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

**Consolidated Balance Sheets  
September 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 41,305,268	\$ 35,493,712
Investments	10,375,846	12,652,337
Due from patients and others, net of allowance for uncollectibles of approximately \$40,595,000 in 2017 and \$33,149,000 in 2016	61,178,583	61,892,753
Assets limited as to use	16,955,324	14,081,258
Inventories	11,204,360	10,287,811
Estimated third-party payor receivable	1,301,484	-
Other current assets	6,827,092	7,587,709
<b>Total current assets</b>	<b>149,147,957</b>	<b>141,995,580</b>
Assets limited as to use:		
Self-insurance fund	15,402,801	17,378,326
Board-designated assets	324,425,200	289,072,024
Assets held by trustee under bond indentures	4,425,529	4,389,554
Donor receivables	26,114,636	25,118,464
Assets designated or restricted for donor intentions	22,545,064	19,696,861
	<b>392,913,230</b>	<b>355,655,229</b>
Less assets limited as to use that are available to pay current liabilities	<b>(16,955,324)</b>	<b>(14,081,258)</b>
	<b>375,957,906</b>	<b>341,573,971</b>
Investment in partnerships	998,042	3,992,530
Property and equipment, net of accumulated depreciation	333,510,191	317,002,751
Other assets	8,804,151	7,204,971
<b>Total assets</b>	<b>\$ 868,418,247</b>	<b>\$ 811,769,803</b>

See notes to the consolidated financial statements.

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

**Consolidated Balance Sheets  
September 30, 2017 and 2016**

	2017	2016
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 5,798,754	\$ 5,597,773
Current portion of estimated self-insurance liabilities	4,070,960	4,697,362
Accounts payable	28,098,394	18,917,230
Accrued expenses	27,302,363	28,915,767
Accrued interest	2,901,049	2,962,587
Estimated third-party payor payable	-	2,004,081
<b>Total current liabilities</b>	<b>68,171,520</b>	<b>63,094,800</b>
Long-term debt, excluding current portion	144,925,102	150,558,065
Estimated self-insurance liabilities, excluding current portion	11,331,841	12,680,964
Other liabilities	8,916,839	9,375,348
<b>Total liabilities</b>	<b>233,345,302</b>	<b>235,709,177</b>
Net assets:		
Unrestricted	583,707,743	528,509,889
Temporarily restricted	36,582,126	32,989,659
Permanently restricted	14,783,076	14,561,078
<b>Total net assets</b>	<b>635,072,945</b>	<b>576,060,626</b>
<b>Total liabilities and net assets</b>	<b>\$ 868,418,247</b>	<b>\$ 811,769,803</b>

See notes to the consolidated financial statements.

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

**Consolidated Statements of Operations  
Years Ended September 30, 2017 and 2016**

	2017	2016
Unrestricted revenues:		
Net patient service revenue	\$ 543,174,655	\$ 527,778,355
Other revenue	14,394,185	14,447,533
Unrestricted charitable contributions	2,842,278	2,683,907
Net assets released from restrictions for operations	2,445,497	2,495,433
<b>Total revenues</b>	<b>562,856,615</b>	<b>547,405,228</b>
Expenses:		
Salaries and wages	254,419,561	244,343,752
Employee benefits	32,320,263	30,239,718
Supplies and other expenses	146,563,052	145,791,305
Purchased services	69,745,886	66,252,842
Depreciation and amortization	35,752,516	31,901,576
Interest expense	7,080,346	7,094,367
<b>Total expenses</b>	<b>545,881,624</b>	<b>525,623,560</b>
<b>Operating income</b>	<b>16,974,991</b>	<b>21,781,668</b>
Other income:		
Investment income	7,080,551	7,368,758
Disposition of assets, net	(533,762)	(40,878)
<b>Excess of revenues over expenses</b>	<b>23,521,780</b>	<b>29,109,548</b>
Change in net unrealized gains on other than trading securities	24,489,927	15,576,335
Net assets released from restrictions for capital	7,186,147	12,703,815
<b>Increase in unrestricted net assets</b>	<b>\$ 55,197,854</b>	<b>\$ 57,389,698</b>

See notes to consolidated financial statements.

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

**Consolidated Statements of Changes in Net Assets  
Years Ended September 30, 2017 and 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2015	\$ 471,120,191	\$ 39,700,015	\$ 14,426,617	\$ 525,246,823
Excess of revenues over expenses	29,109,548	-	-	29,109,548
Change in net unrealized gains on other than trading securities	15,576,335	1,420,760	127,461	17,124,556
Restricted gifts and bequests	-	6,743,345	7,000	6,750,345
Income from restricted investments	-	324,787	-	324,787
Net assets released from restrictions for operations	-	(2,495,433)	-	(2,495,433)
Net assets released from restrictions for capital	12,703,815	(12,703,815)	-	-
<b>Change in net assets</b>	<b>57,389,698</b>	<b>(6,710,356)</b>	<b>134,461</b>	<b>50,813,803</b>
Net assets at September 30, 2016	528,509,889	32,989,659	14,561,078	576,060,626
Excess of revenues over expenses	23,521,780	-	-	23,521,780
Change in net unrealized gains on other than trading securities	24,489,927	1,764,520	215,998	26,470,445
Restricted gifts and bequests	-	11,042,527	6,000	11,048,527
Income from restricted investments	-	417,064	-	417,064
Net assets released from restrictions for operations	-	(2,445,497)	-	(2,445,497)
Net assets released from restrictions for capital	7,186,147	(7,186,147)	-	-
<b>Change in net assets</b>	<b>55,197,854</b>	<b>3,592,467</b>	<b>221,998</b>	<b>59,012,319</b>
<b>Net assets at September 30, 2017</b>	<b>\$ 583,707,743</b>	<b>\$ 36,582,126</b>	<b>\$ 14,783,076</b>	<b>\$ 635,072,945</b>

See notes to consolidated financial statements.

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidated Statements of Cash Flows Years Ended September 30, 2017 and 2016

	2017		2016
Cash flows from operating activities:			
Change in net assets	\$ 59,012,319	\$	50,813,803
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Restricted gifts and bequests for capital and endowment	(5,440,678)		(4,434,554)
Net loss from partnerships	1,273,304		304,232
Change in net realized and unrealized gains on other than trading securities	(24,054,171)		(17,123,325)
Income from restricted gifts and bequests	(417,064)		(324,787)
Depreciation and amortization	35,918,307		31,901,576
Provision for bad debts	63,115,629		55,188,928
Loss on disposal of property and equipment	533,762		40,878
Changes in assets and liabilities:			
Increase in due from patients and others excluding provision for bad debts	(62,401,459)		(59,432,512)
Change in estimated third-party payor receivable/payable	(3,305,565)		(2,133,970)
Increase in inventories	(916,549)		(1,266,269)
Decrease in donor receivables	2,211,216		929,444
Decrease (increase) in other current assets	760,617		(1,063,637)
Increase in accounts payable	8,458,684		680,453
(Decrease) increase in accrued expenses	(1,613,404)		1,411,647
Decrease in accrued interest	(61,538)		(55,525)
Decrease in estimated self-insurance liabilities	(1,975,525)		(730,019)
(Decrease) Increase in other liabilities	(458,509)		451,246
<b>Net cash provided by operating activities</b>	<b>70,639,376</b>		<b>55,157,609</b>
Cash flows from investing activities:			
Purchases of property and equipment including acquisition of tangible and intangible assets	(47,803,214)		(50,145,413)
Proceeds from the sales of property and equipment	24,575		40,636
Purchases of investments	(102,646,619)		(97,141,392)
Sales of investments	92,715,452		93,144,228
(Increase) decrease in other assets	(2,136,156)		1,618,014
Investment in partnerships	(2,034,439)		(1,477,990)
<b>Net cash used in investing activities</b>	<b>(61,880,401)</b>		<b>(53,961,917)</b>
Cash flows from financing activities:			
Restricted gifts and bequests for capital and endowment	2,233,290		7,805,834
Income from restricted gifts and bequests	417,064		324,787
Repayment of long-term debt	(5,597,773)		(5,407,541)
<b>Net cash (used in) provided by financing activities</b>	<b>(2,947,419)</b>		<b>2,723,080</b>
<b>Increase in cash and cash equivalents</b>	<b>5,811,556</b>		<b>3,918,772</b>
Cash and cash equivalents:			
Beginning	35,493,712		31,574,940
Ending	\$ 41,305,268	\$	35,493,712
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 7,224,417	\$	7,244,138
Change in donor receivables for capital and endowment	3,207,388		(3,371,280)
Noncash additions to property and equipment	5,665,509		4,943,029

See notes to consolidated financial statements.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

The NCH Healthcare System, Inc. and Subsidiaries (the System) consolidated financial statements consist of the following entities:

Naples Community Hospital, Inc. (the Hospital), a not-for-profit corporation located in Collier County, Florida, consists of two hospitals with 713 beds. The Downtown Naples Hospital Campus is a 391-bed acute care facility and North Naples Hospital Campus is a 322-bed acute care facility. The Hospital also has a blood center and various other outpatient centers located throughout the community. The Hospital is a wholly owned subsidiary of the System. The majority of the System's Board of Trustees also serves 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.

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

Health Resources Corporation (HRC), a for-profit holding company which consists of the following proprietary subsidiaries: (i) Community Imaging, Inc. (CII) was formed to operate as a partner in the operation of diagnostic imaging centers. CII's 50% partnership interest in Naples Diagnostic Imaging Center, Ltd. (NDIC) is accounted for using the equity method of accounting. In November 2017, CII's partnership agreement with NDIC ended. Before the partnership ended, the System acquired the majority of the assets of NDIC on January 1, 2017 (see Note 18). (ii) Ambulatory Surgical Care Center, Inc. (ASCC) owns a 15% interest in Naples Day Surgery (NDS), a nonaffiliated limited liability company which operates an ambulatory surgery centers in Collier County, Florida and is accounted for using the equity method of accounting. (iii) Community Home Care, Inc. owns a 49% interest in Kokua Healing Arts, Inc.; an established private duty home health agency headquartered in Naples, Florida and is accounted for using the equity method of accounting.

The Parent owns a 50% interest in Bonita Community Health Center (BCHC), a not-for-profit organization. BCHC operates an urgent care center, an ambulatory surgical care center, a diagnostic imaging center and an outpatient rehabilitation center in Estero, Florida. Additionally, BCHC leases office space to physicians and other healthcare providers. The investment in BCHC is accounted for using the equity method. In conjunction with the issuance of long-term debt for the construction and equipping of the BCHC facility, the System has provided an unconditional guarantee to pay 50% of the obligations related to this debt should BCHC default. Currently, BCHC's total liabilities exceed total assets and as a result the System is reporting \$2,040,410 in other liabilities on the balance sheet. As of September 30, 2017, total long-term debt outstanding at BCHC was approximately \$20,303,000.

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.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

The System maintains the legal right to appoint trustees and directors of its wholly owned subsidiaries. In addition, the System maintains the right to approve: (1) the operating and capital budgets, (2) all amendments to the bylaws and articles of incorporation and (3) all long-term debt obligations and requests for certificates of need for all of the wholly owned subsidiaries.

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

**Permanently restricted net assets:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the System. Generally, the donors of these assets permit the System to use the income earned from these assets for general or specific purposes.

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

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

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

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

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

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

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

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

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

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

**Assets limited as to use:** Assets limited as to use primarily include assets required by state insurance laws to fund claims in the System's self-insurance programs, assets set aside by the Board of Trustees primarily for capital replacement, assets held by trustee under bond indenture agreements, donor receivables, and assets designated or restricted for donor intentions. Amounts required to meet current liabilities of the System have been classified as current assets.

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

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

**Donor contributions:** Unconditional donor promises to give and contributions are reported at fair value at the time of the gift. Conditional promises to give are recognized at fair value when the conditions on which they depend are substantially met or the probability that the condition will not be met is remote. Gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and consolidated statements of changes in net assets as net assets released from restrictions for operations or capital.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

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

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

**Excess of revenues over expenses:** The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments classified as other than trading securities and assets released from donor restrictions for capital in accordance with stipulations of a gift.

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

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

**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 2016 was approximately \$72,000 and the estimate for income tax expense for fiscal year 2017 is approximately \$1,283,000. The System's practice is to recognize interest and/or penalties related to income tax matters as income tax expense in the consolidated statements of operations under supplies and other expenses. The System is generally no longer subject to tax examinations in the major U.S. taxing jurisdictions in which they operate for tax years prior to 2014.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

**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.

**Reclassifications:** Reclassifications have been made to the 2016 consolidated financial statements in order to conform to the current period presentation. These reclassifications had no effect on excess of revenue over expenses, changes in net assets or total net assets as previously reported.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Newly adopted accounting pronouncements:** In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which resulted in the reclassification of debt issuance costs from “bond issue costs, net” to inclusion as a reduction of “long-term debt, excluding current portion” on the consolidated balance sheets. The System has adopted this guidance as of September 30, 2017 and retroactively applied to 2016.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which updates the goodwill impairment test by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The System has elected to early adopt this guidance as of September 30, 2017 and retroactively applied to 2016.

**Recent accounting pronouncements not yet adopted:** In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a robust framework for addressing revenue recognition issues and replaces most of the existing revenue recognition guidance, including industry-specific guidance, in current U.S. GAAP. The standard is effective for the System’s fiscal year beginning October 1, 2018. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The new guidance establishes the principals to report transparent and economically neutral information about the assets and liabilities that arise from leases. The standard is effective for the System’s fiscal year beginning October 1, 2019. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

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

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The standard is effective for the System’s fiscal year beginning October 1, 2019. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The standard is effective for the System's fiscal year beginning October 1, 2018. Management is currently evaluating the potential impact that the adoption of this update will have on its financial reporting.

#### 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, 2016 and have been audited by the Medicare intermediary for all years through September 30, 2014. Retroactive adjustments for cost report settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined.

**Medicaid:** Florida Medicaid implemented a prospective inpatient reimbursement based on All Patient Refined Diagnostic Related Groups methodology (APR DRG) effective in 2013. Payments under APR DRG assignment are made on a per case basis and are not subject to retrospective rate adjustments. Florida Medicaid implemented a prospective reimbursement methodology for outpatient services using Enhanced Ambulatory Payment Group (EAPG) effective July 1, 2017. Prior to that date outpatient services were paid based upon a cost reimbursement methodology using a per revenue code line item published rate. Outpatient payments prior to July 2017 are subject to retrospective rate adjustments.

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

Changes in estimates of third-party payor settlements increased net patient service revenue by approximately \$1,793,000 and \$637,000, respectively, for the years ended September 30, 2017 and 2016.

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.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Other:** The System has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these arrangements includes prospectively determined rates per discharge, per diem, discounts from established charges, and prospectively determined rates per procedure for outpatient services. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and can result in retroactive settlement with third parties. Any retroactive adjustments for other third party claims are recorded in the period when final settlement is determined.

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

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

	2017	2016
Gross charges	\$ 2,153,606,520	\$ 2,043,047,558
Medicare and Medicaid allowances	(1,209,485,024)	(1,153,630,290)
Other discounts and allowances	(337,831,212)	(306,449,985)
Total allowances	(1,547,316,236)	(1,460,080,275)
Provision for bad debts	(63,115,629)	(55,188,928)
Total deductions from gross charges	(1,610,431,865)	(1,515,269,203)
Net patient service revenue	\$ 543,174,655	\$ 527,778,355

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

	2017	2016
Third-party payors	\$ 511,597,186	\$ 500,103,989
Self-pay payors	31,577,469	27,674,366
Total all payors	\$ 543,174,655	\$ 527,778,355

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

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

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

Patient service revenue, net of contractual allowances, discounts, and bad debt recognized in the years ended September 30, 2017 and 2016, and net amounts due from patients and others from these major payor sources is as follows:

	Net Patient Service Revenue		Due From Patients and Others	
	2017	2016	2017	2016
Medicare	51%	50%	34%	32%
Medicaid	6%	7%	6%	7%
Blue Cross/Blue Shield	26%	21%	17%	17%
Others	17%	22%	43%	44%
Total all payors	100%	100%	100%	100%

#### Note 4. Uncompensated Care

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

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

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

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

	2017	2016
Charity care – charges foregone, based on established rates	\$ 90,329,483	\$ 79,994,693
Welfare – difference between established rates and reimbursement received	2,646,910	2,075,069
Total charity care and welfare	92,976,393	82,069,762
Bad debts – charges deemed uncollectible	63,115,629	55,188,928
Total uncompensated care	\$ 156,092,022	\$ 137,258,690
Estimated cost of providing uncompensated care	\$ 38,712,741	\$ 34,342,124

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

The System's allowance for doubtful accounts increased approximately \$7,446,000 from approximately \$33,149,000 for fiscal year 2016 to approximately \$40,595,000 for fiscal year 2017. The increase in the allowance for doubtful accounts is attributed to the current trends in the collection of patient accounts. The System has seen increases in health insurance deductible amounts and co-pays which have negatively impacted the allowance for doubtful accounts. The System has not materially changed its charity care policy.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

	2017	2016
Health care services:		
Building construction and purchase of equipment	\$ 21,437,935	\$ 16,828,847
Clinical	14,375,552	15,244,535
Education	226,915	227,260
Indigent	541,724	689,017
	<u>\$ 36,582,126</u>	<u>\$ 32,989,659</u>

Permanently restricted net assets at September 30 are restricted to:

	2017	2016
Investments to be held in perpetuity, the income from which is expendable to support health care services	<u>\$ 14,783,076</u>	<u>\$ 14,561,078</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:

	2017	2016
Amounts due:		
Within one year	\$ 8,458,834	\$ 4,994,342
In one to five years	13,637,493	13,750,245
In six to eight years	669,130	2,147,972
Over eight years	9,168,064	9,561,582
	<u>31,933,521</u>	<u>30,454,141</u>
Less:		
Discounts for the time value of money	<u>(5,818,885)</u>	<u>(5,335,677)</u>
	<u>\$ 26,114,636</u>	<u>\$ 25,118,464</u>

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

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

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

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

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

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

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

**Notes to Consolidated Financial Statements**

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

Changes in endowment net assets for the years ended September 30, 2017 and 2016, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2015	\$ 3,555,282	\$ 14,426,617	\$ 17,981,899
Investment return:			
Investment income	319,238	-	319,238
Change in unrealized losses	1,326,238	127,461	1,453,699
Total investment return	1,645,476	127,461	1,772,937
Gifts	-	7,000	7,000
Appropriation of endowment assets for expenditure	(199,782)	-	(199,782)
Endowment net assets at September 30, 2016	5,000,976	14,561,078	19,562,054
Investment return:			
Investment income	404,816	-	404,816
Change in unrealized gains	1,655,186	215,998	1,871,184
Total investment return	2,060,002	215,998	2,276,000
Gifts	-	6,000	6,000
Appropriation of endowment assets for expenditure	(316,062)	-	(316,062)
Endowment net assets at September 30, 2017	\$ 6,744,916	\$ 14,783,076	\$ 21,527,992

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

	2017	2016
Self-insurance funds:		
Cash and cash equivalents	\$ 11,117,129	\$ 11,975,810
U.S. government and agency securities	916,459	1,250,814
Mortgage-backed securities	815,631	1,735,726
Corporate bonds	1,060,523	1,282,441
Self-insurance receivables	1,493,059	1,133,535
	<u>15,402,801</u>	<u>17,378,326</u>
Board-designated assets:		
Cash and cash equivalents	6,212,140	4,257,310
U.S. government and agency securities	27,507,512	21,146,697
Mortgage-backed securities	31,021,264	35,149,054
Corporate bonds	24,523,679	28,053,427
Fixed income funds	45,892,136	41,234,731
Equities and equity funds – domestic	120,586,235	102,453,879
Equities and equity funds – foreign	68,682,234	56,776,926
	<u>324,425,200</u>	<u>289,072,024</u>
Assets held by trustee under bond indentures:		
Cash and cash equivalents	4,425,529	4,389,554
Assets designated or restricted for donor intentions:		
Cash and cash equivalents	4,244,826	3,241,586
U.S. government and agency securities	491,054	478,171
Mortgage-backed securities	245,341	284,412
Corporate bonds	609,233	455,560
Fixed income funds	92,928	93,061
Equities and equity funds – domestic	10,398,919	9,690,352
Equities and equity funds – foreign	6,462,763	5,453,719
Donor receivables	26,114,636	25,118,464
	<u>48,659,700</u>	<u>44,815,325</u>
Total assets limited as to use	<u>\$ 392,913,230</u>	<u>\$ 355,655,229</u>

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

	2017	2016
Current investments:		
U.S. government and agency securities	\$ 3,405,069	\$ 3,707,142
Mortgage-backed securities	3,030,446	5,144,317
Corporate bonds	3,940,331	3,800,878
Total current investments	<u>\$ 10,375,846</u>	<u>\$ 12,652,337</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

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

	2017	2016
Interest income and realized gains and losses on sale of investments	\$ 7,080,551	\$ 7,368,758
Change in unrealized gains on other than trading securities	24,489,927	15,576,335
Total investment earnings	<u>\$ 31,570,478</u>	<u>\$ 22,945,093</u>

The fair value of debt securities classified by contractual maturity, as of September 30, 2017, are as follows:

	Amortized Cost	Fair Value
Due within one year	\$ 13,121,965	\$ 13,072,898
Due after one year through three years	27,705,578	27,490,361
Due after three years	21,784,645	21,890,601
Mortgage-backed securities	35,295,350	35,112,682
	<u>\$ 97,907,538</u>	<u>\$ 97,566,542</u>

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

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

The System follows the authoritative guidance for fair value measurements as defined in Note 1 and the following tables present the System's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at September 30, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 20,073,618	\$ 6,335,262	\$ -	\$ 26,408,880
U.S. government and agency securities	-	32,320,094	-	32,320,094
Mortgage-backed securities	-	35,112,682	-	35,112,682
Corporate bonds	-	30,133,766	-	30,133,766
Fixed income funds	-	45,985,064	-	45,985,064
Equities and equity funds – domestic	114,623,730	15,000,022	1,361,402	130,985,154
Equities and equity funds – foreign	57,311,765	17,833,232	-	75,144,997
	192,009,113	182,720,122	1,361,402	376,090,637
Trusts held by others	-	-	7,908,865	7,908,865
Total assets at fair value	\$ 192,009,113	\$ 182,720,122	\$ 9,270,267	\$ 383,999,502
	2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 19,950,248	\$ 4,320,179	\$ -	\$ 24,270,427
U.S. government and agency securities	-	26,582,824	-	26,582,824
Mortgage-backed securities	-	42,313,509	-	42,313,509
Corporate bonds	-	33,592,306	-	33,592,306
Fixed income funds	-	41,327,792	-	41,327,792
Equities and equity funds – domestic	96,766,290	14,088,083	1,289,858	112,144,231
Equities and equity funds – foreign	44,477,644	17,753,001	-	62,230,645
	161,194,182	179,977,694	1,289,858	342,461,734
Trusts held by others	-	-	7,443,078	7,443,078
Total assets at fair value	\$ 161,194,182	\$ 179,977,694	\$ 8,732,936	\$ 349,904,812

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, 2015	\$ 7,128,075	\$ 1,267,536	\$ 8,395,611
Realized and unrealized gain	190,003	22,322	212,325
Contributions	250,000	-	250,000
Distributions	(125,000)	-	(125,000)
Fair value September 30, 2016	7,443,078	1,289,858	8,732,936
Realized and unrealized gain	253,287	71,544	324,831
Contributions	350,000	-	350,000
Distributions	(137,500)	-	(137,500)
Fair value September 30, 2017	\$ 7,908,865	\$ 1,361,402	\$ 9,270,267

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

The System evaluates the investment portfolio for other-than-temporary impairment (OTTI) in accordance with Accounting Standards Codification (ASC) 320, Investments – Debt and Equity Securities. An investment security is considered impaired if the fair value of the security is less than its cost or amortized cost basis. When impairment of an equity or debt security is considered to be other-than-temporary, the security is written down to its fair value and an impairment loss is recorded in earnings. The System has reviewed debt and equity securities in a loss position as of September 30, 2017 and 2016, which included evaluating the near-term prospects of the issuers in relation to the severity and duration of the unrealized losses, and reviewing the securities for instances of credit downgrades, defaults, and other matters that might indicate the declines in value are other-than-temporary. Based on that evaluation and the System's ability and intent to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, the System does not consider these investments to be other-than-temporarily impaired at September 30, 2017 and 2016.

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

	2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency securities	\$ 29,818,704	\$ (135,090)	\$ 20,378,867	\$ (394,114)	\$ 50,197,571	\$ (529,204)
Corporate bonds	12,124,194	(85,835)	6,076,290	(136,621)	18,200,484	(222,456)
Fixed income funds	809,027	(32,976)	29,466,572	(1,200,811)	30,275,599	(1,233,787)
Equities and equity funds – domestic	332,242	(22,541)	14,667,781	(995,752)	15,000,023	(1,018,293)
	<u>\$ 43,084,167</u>	<u>\$ (276,442)</u>	<u>\$ 70,589,510</u>	<u>\$ (2,727,298)</u>	<u>\$ 113,673,677</u>	<u>\$ (3,003,740)</u>

  

	2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency securities	\$ 22,732,178	\$ (134,522)	\$ 11,851,801	\$ (264,971)	\$ 34,583,979	\$ (399,493)
Corporate bonds	10,236,361	(104,088)	6,515,368	(247,037)	16,751,729	(351,125)
Fixed income funds	1,331,860	(118,019)	39,902,871	(4,152,660)	41,234,731	(4,270,679)
Equities and equity funds – domestic	1,319,145	(90,889)	57,246,581	(4,232,438)	58,565,726	(4,323,327)
	<u>\$ 35,619,544</u>	<u>\$ (447,518)</u>	<u>\$ 115,516,621</u>	<u>\$ (8,897,106)</u>	<u>\$ 151,136,165</u>	<u>\$ (9,344,624)</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 7. Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 27,957,731	\$ 24,398,307
Land improvements	8,745,498	8,745,499
Buildings	406,292,678	382,316,646
Fixed equipment	55,329,046	51,002,279
Movable equipment	282,814,015	257,970,631
Rental apartments	600,990	600,990
Leasehold improvements	12,049,825	11,840,392
Facilities expansion in progress	15,234,924	29,376,600
	<u>809,024,707</u>	<u>766,251,344</u>
Less: Accumulated depreciation and amortization	<u>(475,514,516)</u>	<u>(449,248,593)</u>
	<u>\$ 333,510,191</u>	<u>\$ 317,002,751</u>

The facilities expansion in progress at September 30, 2017, included the construction costs of various projects, which management estimates will cost an additional \$41,925,000, \$48,430,000 and \$14,250,000 to complete during 2018, 2019 and 2020, respectively. The System funds these construction projects through operations and contributions.

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

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

**Notes to Consolidated Financial Statements**

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

Goodwill and other identifiable intangible assets, and the related accumulated amortization, are comprised of the following at September 30, 2017 and 2016, and are included in other assets on the consolidated balance sheets.

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

	2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets not subject to amortization:			
Goodwill	\$ 2,381,665	\$ -	\$ 2,381,665
Intangible assets subject to amortization:			
Noncompete (7 years)	250,000	234,524	15,476
Employee contracts (10 years)	4,480,000	2,867,333	1,612,667

Estimated future annual amortization expense is as follows:

Years ending September 30:		
2018		\$ 538,000
2019		538,000
2020		262,667
2021		66,000
2022		16,500
		<u>\$ 1,421,167</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 9. Long-Term Debt

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

	2017	2016
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2010 (payable by the Hospital under an agreement with Collier County) consisting of \$3,423,754 serial bonds due October 2017 with interest paid quarterly at 2.954%. \$3,526,312 serial bonds due October 2018 with interest paid quarterly at 2.954%. \$3,631,943 serial bonds due October 2019 with interest paid quarterly at 2.954%. \$3,739,816 serial bonds due October 2020 with interest paid quarterly at 2.954%.	\$ 14,321,825	\$ 17,644,598
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2011 Public (payable by the Hospital under an agreement with Collier County) consisting of \$1,630,000 serial bonds due October 2017 with interest paid semi-annually at 5.00%. \$1,705,000 serial bonds due October 2018 with interest paid semi-annually at 4.375%. \$1,780,000 serial bonds due October 2019 with interest paid semi-annually at 4.5% and \$1,865,000 serial bonds due October 2020 with interest paid semi-annually at 5.00% and \$3,380,000 serial bonds due October 2021 with interest paid semi-annually at 5.00% and \$84,610,000 serial Bonds due from October 2022 through October 2039 with interest paid semi-annually at rates ranging from 5.00% to 6.25%.	94,970,000	96,525,000
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2011 (payable by the Hospital under an agreement with Collier County) consisting of \$745,000 serial bonds due October 2017 with interest paid monthly at 2.15%. \$775,000 serial bonds due October 2018 with interest paid monthly at 2.15%. The remaining revenue bond amount of \$41,470,000 will be repriced on October 1, 2018, and if not remarketed successfully the debt will become due in 2018.	42,990,000	43,710,000
Total long-term debt	152,281,825	157,879,598
Less:		
Unamortized original issue discount	(691,320)	(755,472)
Debt issuance costs	(866,649)	(968,288)
Current maturities	(5,798,754)	(5,597,773)
	<u>\$ 144,925,102</u>	<u>\$ 150,558,065</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

The agreements underlying the bond issues described above contain covenants that provide for, among other things, the maintenance of certain financial ratios, conditions for issuance of additional indebtedness and the transferability of funds. The System was in compliance with financial related covenants for the years ended September 30, 2017 and 2016. The Series 2010, 2011 Public, and 2011 Bank Qualified bonds are collateralized under the Hospital Master Trust Indenture. The Hospital Master Trust Indenture is collateralized by all revenue, accounts receivable, contract rights, and general intangibles of the Obligated Group and by the money and securities held in the funds and accounts established under the applicable indentures.

The aggregate principal maturities and sinking fund requirements on long-term debt in each of the next five years and thereafter are as follows, assuming that the \$41,470,000 of the 2011 Bank Qualified Bonds are successfully remarketed as disclosed on the previous page. If the bonds are not remarketed the amount reported as maturities below in fiscal year 2019, would increase by approximately \$41,470,000.

Years ending September 30:

2018	\$ 5,798,754
2019	6,006,312
2020	6,216,943
2021	6,439,816
2022	4,295,000
Thereafter	<u>123,525,000</u>
	<u>\$ 152,281,825</u>

#### Note 10. Self-Insured Claims

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

For 2017 and 2016 professional liability, the System had a \$3,000,000 per claim self-insured retention. To pay claims in excess of the self-insured retention, the System purchased an excess professional liability policy (claims-made basis).

Losses from asserted claims and from unasserted claims identified under the System's incident reporting system are accrued based on estimates that incorporate the System's past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors and incidents that may have occurred but that have not been identified under the incident reporting system. Total expenses under this program were \$1,843,199 and \$3,031,662 during the years ended September 30, 2017 and 2016, respectively, and are included in supplies and other expenses in the consolidated statements of operations. As of September 30, 2017 and 2016, the System had accrued \$13,998,100 and \$16,123,571, respectively, which, in the opinion of management, based on historical experience and current actuarial analyses, is sufficient to cover reported claims and claims incurred but not reported. The accrued professional liability has been discounted at a rate of 3% in 2017 and 2016. The discount on the accrual for professional liability was approximately \$1,140,000 and \$1,285,000 at September 30, 2017 and 2016, respectively. The System has recorded approximately \$1,049,000 and \$856,000 for September 30, 2017 and 2016, respectively, of estimated professional liability insurance recoveries which is included in the self-insurance fund in assets limited as to use on the accompanying consolidated balance sheets.

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

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

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

For 2017 and 2016 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, 2017 and 2016, the System had accrued \$1,404,701 and \$1,254,755, 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 \$685,032 and \$629,598 during the years ended September 30, 2017 and 2016, respectively, and are included in supplies and other expenses in the consolidated statements of operations. The accrued workers' compensation liability has been discounted at a rate of 3% in 2017 and 2016. The discount on the accrued workers' compensation liability was approximately \$146,000 and \$135,000 at September 30, 2017 and 2016, respectively. The System has recorded approximately \$445,000 and \$277,000 for September 30, 2017 and 2016, 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 2017 and 2016 employee health coverage, the System had a \$300,000 per claim self-insured retention. The plan calls for an unlimited lifetime maximum benefit per covered life. As of September 30, 2017 and 2016, the System had accrued \$5,204,826 and \$4,366,106, respectively, based on historical experience, which, in the opinion of management is sufficient, to cover reported claims and claims incurred but not reported. Due to the short-term nature of these claims, the liability is included in accrued expenses and has not been discounted. The System recognizes patient service revenue for employee's receiving medical care within the System. Employee health services provided by external services outside the System are included in employee benefits as an expense.

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

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

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

The System's contributions, net of forfeitures, for the years ended September 30, 2017 and 2016, were approximately \$6,592,000 and \$5,332,000, respectively.

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

Several physician members of the Board of Trustees serve as elected medical department chairs, medical directors and medical staff officers and are paid a stipend for serving in these positions or have an exclusive contract with the System. In addition, some of these physician members participate in ER call rotation and are paid a per diem fee for coverage. Three members of the Board of Trustees are employees of the System. One member of the Board of Trustees is an owner of a property, which NCH pays for rental space.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 13. Leases

The System leases buildings and equipment under operating leases. Rental expense for the years ended September 30, 2017 and 2016, approximated \$6,298,000 and \$5,630,000, 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, 2017, are approximately as follows:

Years ending September 30:

2018	\$ 5,128,000
2019	2,856,000
2020	2,331,000
2021	2,143,000
2022	2,035,000
Thereafter	7,335,000
	<u>\$ 21,828,000</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 \$41,305,000 and \$35,494,000 as of September 30, 2017 and 2016, respectively. The System's assets limited as to use and investments include cash and cash equivalents, U.S. government and agency securities, corporate bonds, preferred stock and common stock which are subject to market risk, as listed in Note 6. The System limits the amount of credit exposure to any one company or financial institution by diversifying its investments.

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

#### Note 15. Functional Expenses

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

	2017	2016
Patient and ancillary care	\$ 399,687,641	\$ 381,518,982
Education	14,853,957	12,208,101
Technology	19,855,755	19,553,151
General and administrative	59,475,414	61,046,672
Development expenses	2,542,152	2,479,063
Other activities	49,466,705	48,817,591
Total functional expenses	<u>\$ 545,881,624</u>	<u>\$ 525,623,560</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 16. Investment in Partnerships

The partnerships that the System has ownership in, furthers the System's strategy to build a network of affiliated providers and expand availability of health care resources within the Southwest Florida region. The System's ownership interest in NDIC was 50% through January 1, 2017. The System acquired the land, buildings, radiology equipment, other tangible assets and intangible assets of NDIC on January 1, 2017. The System terminated (see Note 18) the NDIC partnership in November 2017. The System's ownership in BCHC is 50%. Condensed financial information, obtained from unaudited financial statements for the System's significant partnership investments as of and for the years ended September 30 are as follows:

	NDIC		BCHC	
	2017	2016	2017	2016
Total assets	\$ -	\$ 7,747,365	\$ 16,263,216	\$ 16,373,653
Total liabilities	\$ -	\$ 1,930,904	\$ 20,944,035	\$ 22,066,669
Net assets (deficit)	-	5,816,461	(4,680,819)	(5,693,016)
Total liabilities and net assets	\$ -	\$ 7,747,365	\$ 16,263,216	\$ 16,373,653
Revenue	\$ -	\$ 16,497,373	\$ 7,301,922	\$ 7,444,373
Expenses	-	(16,260,035)	(9,176,247)	(9,151,482)
Excess of revenue over (under) expenses	\$ -	\$ 237,338	\$ (1,874,325)	\$ (1,707,109)
Member contributions – NCH 50%	\$ -	\$ -	\$ 1,401,085	\$ 1,643,352

#### Note 17. Hurricane Impact

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

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

#### Note 18. Disposition of Partnership

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

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

**Notes to Consolidated Financial Statements**

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**Note 19. Subsequent Events**

The System has performed a review of subsequent events through January 24, 2018, the date the consolidated financial statements were issued.



RSM US LLP

## Independent Auditor's Report on the Supplementary Information

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

We have audited the consolidated financial statements of NCH Healthcare System, Inc. and Subsidiaries as of and for the years ended September 30, 2017 and 2016, and have issued our report thereon, dated January 24, 2018, 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 24, 2018

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidating Balance Sheet September 30, 2017

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

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidating Balance Sheet September 30, 2016

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Obligated Group	All Other Entities	Eliminations	System Consolidated Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 40,085,720	\$ (5,241,707)	\$ 34,844,013	\$ 649,699	\$ -	\$ 35,493,712
Investments	12,652,337	-	12,652,337	-	-	12,652,337
Due from patients and others, net of allowance for estimated uncollectible	56,219,557	5,085,992	61,305,549	587,204	-	61,892,753
Assets limited as to use	12,593,059	1,478,233	14,071,292	9,966	-	14,081,258
Inventories	9,551,644	736,167	10,287,811	-	-	10,287,811
Other current assets	4,813,406	2,334,469	7,147,875	439,834	-	7,587,709
<b>Total current assets</b>	<b>135,915,723</b>	<b>4,393,154</b>	<b>140,308,877</b>	<b>1,686,703</b>	<b>-</b>	<b>141,995,580</b>
Assets limited as to use						
Self-insurance fund	11,872,597	5,468,859	17,341,456	36,870	-	17,378,326
Board-designated assets	289,072,024	-	289,072,024	-	-	289,072,024
Assets held by trustee under bond indentures	4,389,554	-	4,389,554	-	-	4,389,554
Donor receivables	25,118,464	-	25,118,464	-	-	25,118,464
Assets designated or restricted for donor intentions	19,696,861	-	19,696,861	-	-	19,696,861
	350,149,500	5,468,859	355,618,359	36,870	-	355,655,229
Less: assets limited as to use that are available to pay current liabilities	(12,593,059)	(1,478,233)	(14,071,292)	(9,966)	-	(14,081,258)
	337,556,441	3,990,626	341,547,067	26,904	-	341,573,971
Investment in partnerships	-	6,474,924	6,474,924	3,299,179	(5,781,573)	3,992,530
Property and equipment, net of accumulated depreciation	284,160,539	24,555,523	308,716,062	8,286,689	-	317,002,751
Other assets	2,839,877	2,085,094	4,924,971	2,280,000	-	7,204,971
<b>Total assets</b>	<b>\$ 760,472,580</b>	<b>\$ 41,499,321</b>	<b>\$ 801,971,901</b>	<b>\$ 15,579,475</b>	<b>\$ (5,781,573)</b>	<b>\$ 811,769,803</b>
<b>Liabilities and net assets</b>						
Current liabilities:						
Current portion of long-term debt	\$ 5,597,773	\$ -	\$ 5,597,773	\$ -	\$ -	\$ 5,597,773
Current portion of estimated self-insurance liabilities	3,209,163	1,478,233	4,687,396	9,966	-	4,697,362
Accounts payable	16,566,700	2,301,363	18,868,063	49,167	-	18,917,230
Accrued expenses	20,573,622	7,567,104	28,140,726	775,041	-	28,915,767
Accrued interest	2,962,587	-	2,962,587	-	-	2,962,587
Estimated third-party payor payable	2,004,081	-	2,004,081	-	-	2,004,081
<b>Total current liabilities</b>	<b>50,913,926</b>	<b>11,346,700</b>	<b>62,260,626</b>	<b>834,174</b>	<b>-</b>	<b>63,094,800</b>
Long-term debt, excluding current portion	150,558,065	-	150,558,065	-	-	150,558,065
Estimated self-insurance liabilities, excluding current portion	8,663,433	3,990,627	12,654,060	26,904	-	12,680,964
Due to related organizations	16,993,370	(392,508)	16,600,862	(16,600,862)	-	-
Other liabilities	5,185,989	3,702,928	8,888,917	486,431	-	9,375,348
<b>Total liabilities</b>	<b>232,314,783</b>	<b>18,647,747</b>	<b>250,962,530</b>	<b>(15,253,353)</b>	<b>-</b>	<b>235,709,177</b>
Net assets:						
Unrestricted	480,607,060	22,851,574	503,458,634	30,832,828	(5,781,573)	528,509,889
Temporarily restricted	32,989,659	-	32,989,659	-	-	32,989,659
Permanently restricted	14,561,078	-	14,561,078	-	-	14,561,078
<b>Total net assets</b>	<b>528,157,797</b>	<b>22,851,574</b>	<b>551,009,371</b>	<b>30,832,828</b>	<b>(5,781,573)</b>	<b>576,060,626</b>
<b>Total liabilities and net assets</b>	<b>\$ 760,472,580</b>	<b>\$ 41,499,321</b>	<b>\$ 801,971,901</b>	<b>\$ 15,579,475</b>	<b>\$ (5,781,573)</b>	<b>\$ 811,769,803</b>

## NCH Healthcare System, Inc. and Subsidiaries

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

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

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidating Statements of Operations Year Ended September 30, 2016

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Eliminations	Total Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Unrestricted revenues:							
Net patient service revenue	\$ 508,512,294	\$ 71,055,517	\$ (1,039,801)	\$ 578,528,010	\$ 4,439,274	\$ -	\$ 582,967,284
Provision for bad debts	(52,322,095)	(2,389,013)	-	(54,711,108)	(477,821)	-	(55,188,929)
<b>Net patient service revenue less provision for bad debt</b>	456,190,199	68,666,504	(1,039,801)	523,816,902	3,961,453	-	527,778,355
Other revenue	12,765,415	1,670,176	(1,839,876)	12,595,715	1,916,318	(64,500)	14,447,533
Unrestricted charitable contributions	2,683,907	-	-	2,683,907	-	-	2,683,907
Net assets released from restrictions for operations	2,495,433	-	-	2,495,433	-	-	2,495,433
<b>Total revenues</b>	474,134,954	70,336,680	(2,879,677)	541,591,957	5,877,771	(64,500)	547,405,228
Expenses:							
Salaries and wages	175,838,014	66,924,677	(846,536)	241,916,155	2,427,597	-	244,343,752
Employee benefits	26,005,539	3,833,356	-	29,838,895	400,823	-	30,239,718
Supplies and other expenses	130,426,718	16,634,151	(2,033,141)	145,027,728	828,077	(64,500)	145,791,305
Purchased services	61,970,063	4,064,063	-	66,034,126	218,716	-	66,252,842
Depreciation and amortization	28,972,275	2,500,753	-	31,473,028	428,548	-	31,901,576
Interest expense	7,094,367	-	-	7,094,367	-	-	7,094,367
<b>Total expenses</b>	430,306,976	93,957,000	(2,879,677)	521,384,299	4,303,761	(64,500)	525,623,560
<b>Operating income (loss)</b>	43,827,978	(23,620,320)	-	20,207,658	1,574,010	-	21,781,668
Other income:							
Investment income (loss)	7,553,641	(898,590)	-	6,655,051	713,707	-	7,368,758
Disposition of assets, net	6,829	(47,707)	-	(40,878)	-	-	(40,878)
<b>Excess of revenues over (under) expenses</b>	51,388,448	(24,566,617)	-	26,821,831	2,287,717	-	29,109,548
Change in net unrealized gains							
on other than trading securities	15,576,335	-	-	15,576,335	-	-	15,576,335
Net assets released from restrictions for capital	12,703,815	-	-	12,703,815	-	-	12,703,815
Transfers to related organizations	(25,788,335)	27,340,248	-	1,551,913	(1,551,913)	-	-
<b>Increase in unrestricted net assets</b>	\$ 53,880,263	\$ 2,773,631	\$ -	\$ 56,653,894	\$ 735,804	\$ -	\$ 57,389,698