

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

Consolidated Financial Report  
September 30, 2024

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## Independent Auditor's Report

RSM US LLP

Board of Trustees  
NCH Healthcare System, Inc.

### Opinion

We have audited the consolidated financial statements of NCH Healthcare System, Inc. and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, 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).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System as of September 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*RSM US LLP*

Coral Gables, Florida  
January 17, 2025

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

**Consolidated Balance Sheets**  
**September 30, 2024 and 2023**

	2024	2023
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 32,407,746	\$ 11,722,058
Investments	3,992,217	-
Due from patients and others, net	104,864,489	104,838,911
Assets limited as to use	32,967,777	28,236,465
Inventories	21,485,396	19,367,055
Estimated third-party payor receivable	69,594,741	53,923,582
Other current assets	18,071,848	19,333,741
<b>Total current assets</b>	<b>283,384,214</b>	<b>237,421,812</b>
Assets limited as to use:		
Self-insurance fund	23,127,068	22,423,625
Board-designated assets	249,516,673	231,123,909
Assets held by trustee under bond indentures	111,593,938	-
Donor receivables	93,871,356	72,029,731
Trusts held by others	6,603,153	6,277,866
Assets designated or restricted for donor intentions	95,489,087	39,893,298
	<b>580,201,275</b>	<b>371,748,429</b>
Less assets limited as to use that are available to pay current liabilities	<b>(32,967,777)</b>	<b>(28,236,465)</b>
	<b>547,233,498</b>	<b>343,511,964</b>
Investments	11,452,960	-
Investment in partnerships	26,940,998	25,789,132
Property and equipment, net of accumulated depreciation	521,698,864	439,596,932
Lease right-of-use assets for operating, net of accumulated amortization	16,617,809	18,731,763
Lease right-of-use assets for finance, net of accumulated amortization	1,097,500	722,088
Other assets	8,441,360	4,349,090
<b>Total assets</b>	<b>\$ 1,416,867,203</b>	<b>\$ 1,070,122,781</b>

See notes to the consolidated financial statements.

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

**Consolidated Balance Sheets  
September 30, 2024 and 2023**

	2024	2023
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 8,383,571	\$ 6,490,000
Current portion of estimated self-insurance liabilities	7,520,922	14,734,228
Accounts payable	95,343,208	70,306,032
Accrued expenses	56,119,120	49,189,447
Accrued interest	6,416,265	1,112,538
Current operating lease liability	5,747,791	5,460,407
Current finance lease liability	465,160	337,250
<b>Total current liabilities</b>	<b>179,996,037</b>	<b>147,629,902</b>
Long-term debt, excluding current portion	326,405,315	121,410,244
Estimated self-insurance liabilities, excluding current portion	29,973,515	17,230,386
Long-term operating lease liability, excluding current portion	11,716,781	14,023,955
Long-term finance lease liability, excluding current portion	650,380	389,753
Other liabilities	20,731,621	21,777,196
<b>Total liabilities</b>	<b>569,473,649</b>	<b>322,461,436</b>
Net assets:		
Net assets without donor restrictions	637,764,024	598,670,937
Noncontrolling interest in subsidiaries	730,096	-
Net assets with donor restrictions	208,899,434	148,990,408
<b>Total net assets</b>	<b>847,393,554</b>	<b>747,661,345</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,416,867,203</b>	<b>\$ 1,070,122,781</b>

See notes to the consolidated financial statements.

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

**Consolidated Statements of Operations  
Years Ended September 30, 2024 and 2023**

	2024	2023
Revenues without donor restrictions:		
Patient service revenue	\$ 882,209,664	\$ 783,128,907
Other revenue	16,584,416	21,398,988
Charitable contributions without donor restrictions	6,214,916	6,579,325
Net assets released from restrictions for operations	3,475,976	7,395,890
<b>Total revenues</b>	<b>908,484,972</b>	<b>818,503,110</b>
Expenses:		
Salaries and wages	412,131,820	379,159,274
Employee benefits	52,851,103	54,585,712
Supplies and other expenses	290,225,779	280,121,119
Purchased services	149,867,476	119,615,040
Depreciation and amortization	52,329,279	57,703,943
Interest expense	2,857,010	2,248,866
<b>Total expenses</b>	<b>960,262,467</b>	<b>893,433,954</b>
<b>Operating loss</b>	<b>(51,777,495)</b>	<b>(74,930,844)</b>
Other income (loss):		
Investment income	67,018,670	23,995,496
Gain on deconsolidation of subsidiary	-	16,375,000
Gain (loss) on disposal of property and equipment	8,039	(1,620,200)
Gain on acquisition	1,724,305	-
<b>Excess of revenues over (under) expenses</b>	<b>16,973,519</b>	<b>(36,180,548)</b>
Net assets released from restrictions for capital	21,951,689	17,055,997
<b>Increase (decrease) in net assets without donor restrictions</b>	<b>38,925,208</b>	<b>(19,124,551)</b>
Excess of revenues under expenses attributable to noncontrolling interest in subsidiary	167,879	-
<b>Excess of revenues over (under) expenses attributable to NCH Healthcare System, Inc. and Subsidiaries</b>	<b>\$ 39,093,087</b>	<b>\$ (19,124,551)</b>

See notes to consolidated financial statements.

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

**Consolidated Statements of Changes in Net Assets  
Years Ended September 30, 2024 and 2023**

	Net Assets Without Donor Restrictions	Noncontrolling Interest in Subsidiaries	Net Assets With Donor Restrictions	Total
Net assets at October 1, 2022	\$ 617,795,488	\$ -	\$ 80,407,589	\$ 698,203,077
Excess of revenues under expenses	(36,180,548)	-	-	(36,180,548)
Change in net unrealized gains on securities	-	-	2,376,739	2,376,739
Restricted gifts and bequests	-	-	89,859,837	89,859,837
Income from restricted investments	-	-	798,130	798,130
Net assets released from restrictions for operations	-	-	(7,395,890)	(7,395,890)
Net assets released from restrictions for capital	17,055,997	-	(17,055,997)	-
<b>Change in net assets</b>	<b>(19,124,551)</b>	<b>-</b>	<b>68,582,819</b>	<b>49,458,268</b>
Net assets at September 30, 2023	598,670,937	-	148,990,408	747,661,345
Acquisition of noncontrolling interest in Bonita ASC	-	897,975	-	897,975
Excess of revenues over expenses	17,141,398	-	-	17,141,398
Excess of revenues under expenses attributable to noncontrolling interest in subsidiary	-	(167,879)	-	(167,879)
Change in net unrealized gains on securities	-	-	9,284,555	9,284,555
Restricted gifts and bequests	-	-	74,747,377	74,747,377
Income from restricted investments	-	-	1,304,759	1,304,759
Net assets released from restrictions for operations	-	-	(3,475,976)	(3,475,976)
Net assets released from restrictions for capital	21,951,689	-	(21,951,689)	-
<b>Change in net assets</b>	<b>39,093,087</b>	<b>730,096</b>	<b>59,909,026</b>	<b>99,732,209</b>
<b>Net assets at September 30, 2024</b>	<b>\$ 637,764,024</b>	<b>\$ 730,096</b>	<b>\$ 208,899,434</b>	<b>\$ 847,393,554</b>

See notes to consolidated financial statements.



## NCH Healthcare System, Inc. and Subsidiaries

### Consolidated Statements of Cash Flows Years Ended September 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 99,732,209	\$ 49,458,268
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Restricted gifts and bequests for capital and endowment	(38,660,980)	(5,110,972)
Net loss from partnerships	122,551	4,208
Net realized and unrealized gains on investments	(54,359,602)	(21,999,538)
Income from restricted gifts and bequests	(1,304,759)	(798,130)
Depreciation and amortization	52,165,909	57,743,050
Provision for bad debts	308,236	405,674
(Gain) loss on disposal of property and equipment	(8,039)	1,620,200
Valuation of noncontrolling interests	(897,975)	-
Gain on acquisition	(1,724,305)	-
Changes in assets and liabilities:		
Increase in due from patients and others	(267,650)	(12,565,915)
Increase in estimated third-party payor receivable	(15,671,159)	(5,390,057)
Increase in inventories	(1,954,145)	(592,167)
(Increase) decrease in trusts held by others	(325,287)	252,612
Increase in donor receivables	(21,841,625)	(38,243,718)
Decrease (increase) in other current assets	1,272,013	(4,863,416)
Decrease (increase) in other assets	221,377	(439,029)
Increase in accounts payable	10,129,402	12,432,104
Increase in accrued expenses and accrued interest	12,021,697	7,585,814
Increase in estimated self-insurance liabilities	5,529,823	14,883,342
Decrease in other liabilities	(1,045,575)	(1,396,308)
<b>Net cash provided by operating activities</b>	<b>43,442,116</b>	<b>52,986,022</b>
Cash flows from investing activities:		
Purchases of property and equipment	(118,185,968)	(54,432,832)
Proceeds from the sales of property and equipment	73,494	3,455,331
Purchases of investments	(235,172,767)	(50,609,722)
Sales of investments	87,801,258	75,060,933
Net change in cash associated with acquisition of NCH-NH	(111,807)	-
Increase in partnerships	(1,146,063)	(20,442,243)
<b>Net cash used in investing activities</b>	<b>(266,741,853)</b>	<b>(46,968,533)</b>
Cash flows from financing activities:		
Restricted gifts and bequests for capital and endowment	38,660,980	5,110,972
Income from restricted gifts and bequests	1,304,759	798,130
Repayment of long-term debt	(6,490,000)	(6,368,000)
Payment of bond financing charges	(2,700,738)	-
Payment of finance lease	(512,428)	(476,049)
Proceeds from issuance of bond payable	213,722,852	-
<b>Net cash provided by (used in) financing activities</b>	<b>243,985,425</b>	<b>(934,947)</b>
<b>Increase in cash and cash equivalents</b>	<b>20,685,688</b>	<b>5,082,542</b>
Cash and cash equivalents:		
Beginning	11,722,058	6,639,516
Ending	<b>\$ 32,407,746</b>	<b>\$ 11,722,058</b>
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 1,816,272	\$ 2,339,059
Noncash additions to property and equipment	17,114,032	2,442,671
Noncash contributions of property and equipment to partnerships	2,605,733	16,375,000
Noncash additions to right-of-use asset and lease liability	1,981,641	1,493,602

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 which are wholly owned subsidiaries unless otherwise noted:

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 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 the Hospital, 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.

Health Resources Corporation (HRC), a for-profit holding company, owns 100% of the proprietary subsidiary, Community Home Care, Inc. which owns a 49% interest in Kokua Healing Arts, Inc.; an established private duty home health agency headquartered in Naples, Florida, which is accounted for using the equity method of accounting. Community Home Care, Inc. ended the partnership with Kokua Healing Arts, Inc. on September 30, 2023.

Greater Collier Insurance, Ltd. (the Captive) was formed in March 2022 in the Cayman Islands to access various insurance markets. The Captive is a subsidiary of NCH Healthcare System, Inc.

On November 22, 2021, the Hospital entered into a joint venture with VH Naples Holdings, LLC (ValueHealth) creating NCH – VH Joint Venture, LLC (NCH – VH). NCH – VH's purpose is to develop and operate ambulatory surgery centers in the local market. Prior to July 1, 2024, the Hospital owned a 51% interest in NCH – VH; however, ValueHealth had substantive participating rights as it had equal representation on the Board. The Board had the full, complete and exclusive authority to manage, direct and control the business, affairs and properties of the NCH – VH, and to perform any and all other acts or activities customary or incident to the management of the NCH – VH's activities. On February 17, 2023, a Notice, Joinder and Consent Agreement was executed resulting in ValueHealth transferring their ownership interests in the NCH – VH Joint Venture, LLC to NueHealth, and being renamed NCH – NH Bonita JV LLC (NCH – NH). As of September 30, 2023, the System accounted for the investment in NCH – NH under the equity method of accounting.

## 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)

On July 1, 2024, the Hospital purchased the remaining 49% ownership of NCH – NH from NueHealth. NCH – NH has a 66.67% ownership in NCH Bonita Ambulatory Surgery Center LLC (Bonita ASC). As of September 30, 2024, the System accounts for the investment in NCH-NH under the consolidated method of accounting. As of September 30, 2024, NCH – NH accounts for the investment in Bonita ASC under the consolidated method of accounting. The step acquisition resulted in a gain of approximately \$1,724,000 which is reported within the consolidated statements of operations as gain on acquisition for the year ended September 30, 2024. An independent valuation was performed which estimated the fair value of the assets and liabilities.

On July 1, 2021, the System entered into a joint venture with ProScan Imaging, LLC (PSI) creating ProScan NCH Imaging, LLC (PNI). PNI was created to improve and expand upon the existing radiology services provided by the System. While the System owns a 51% interest in PNI, PSI has substantive participating rights that include among other matters equal rights in appointing and removing directors and officers, approval of the operating and capital budgets, amending the bylaws, incurring debt and any other Major Decisions as defined in the LLC agreement. The System accounts for the investment in PNI under the equity method of accounting.

On December 1, 2022, the System entered a joint venture with Encompass Health Corporation creating Encompass Health Rehabilitation Hospital of Naples, LLC. The System owns a 50% interest in Encompass Health Rehabilitation Hospital of Naples, LLC. The joint venture operates an inpatient rehabilitation hospital in Collier County. The System accounts for the investment in Encompass Health Rehabilitation Hospital of Naples, LLC under the equity method of accounting.

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.

## 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)

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.

**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 including unrealized and realized gains and losses on investments, interest and dividends are reported as other income in the accompanying consolidated statements of operations, unless the income or loss is restricted by donor or law in which case the amounts are classified as increases or decreases in net assets with donor restrictions in the accompanying consolidated statements of changes in net assets. 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.

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 and explicit 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 net realizable value, on a first-in, first-out basis.

## 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)

**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, trusts held by others and assets designated or restricted for donor intentions. Amounts required to meet current liabilities of the System have been classified as current assets. The assets held by trustee under bond indenture agreements are related to the bond issue and are held by U.S. Bank Trust Company National Association. 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 is 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 pro rata share of the fair value of the assets in the trust. The beneficial interest in the trusts is reported as assets limited as to use as trust held by others.

**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.

**Leases:** The System determines whether an arrangement is a lease at the inception of the arrangement based on the terms and conditions in the contract. A contract contains a lease if there is an identified asset, and the System has the right to control the asset.

## 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)

Lease right-of-use (ROU) assets represent the System's right to use an underlying asset for the lease term and a lease liability represents the System's obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at the later of the commencement date (October 1, 2020) or the lease inception date based on the present value of lease payments over the lease terms. The System has elected to use the rate implicit in the lease agreement in determining the present value of lease payments unless that rate cannot be readily determined. If the rate is not implicit in the lease, the System elected the practical expedient to use the risk-free rate, using a period comparable with that of the lease term, based on the U.S. Treasury yield curve rate. Lease terms include options to extend the lease when it is reasonably certain those options will be exercised. The System has elected to not recognize assets and liabilities for leases with a lease term of 12 months or less (short-term leases). Lease payments for short-term leases are recognized as expense on a straight-line basis and any variable lease payments are recognized as expense in the period for which the obligation is incurred. The System has lease agreements with lease and non-lease components, which the System has elected to account for as a single lease component for all asset classes. In the consolidated statements of operations and changes in net assets, lease expense for lease payments is recognized on a straight-line basis over the lease term.

**Goodwill and other identifiable intangible assets:** Goodwill and other identifiable intangible assets at September 30, 2024 and 2023, was \$6,670,373 and \$2,381,665, 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. The indefinite-lived intangible assets are initially measured at fair value. The indefinite-lived intangible assets are evaluated for impairment at each annual reporting period and if events or circumstances indicate that the assets may be impaired. No goodwill or intangible asset impairment was recognized during the years ended September 30, 2024 and 2023.

**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 in the consolidated balance sheets.

**Estimated self-insurance liabilities:** The liability for estimated self-insured medical malpractice claims, workers' compensation claims, certain property 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, workers' compensation claims and certain property claims have been actuarially determined.

**Other revenue:** The System's other revenue consists of revenue associated with concierge medicine services, cafeteria sales, rental income, pharmacy activities, and government grant funding. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collections can be reasonably assured.

**Operating and nonoperating income (loss):** The consolidated statements of operations include an intermediate measure of operations, operating loss, which represents activities directly associated with the furtherance of the System's mission. Nonoperating activities that result in gains or losses peripheral to the System's primary mission are reflected as other income (loss). Other income (loss) activities include investment income, gain on deconsolidation of subsidiary, gains/losses on disposal of property and equipment, and gain on acquisition.

**Excess of revenues over (under) expenses:** The consolidated statements of operations include excess of revenues over (under) expenses, which is the System's performance indicator. Changes in net assets without donor restrictions include assets released from donor restrictions for capital in accordance with stipulations of a gift.

## 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)

**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.

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 be collected based on the System's collection history with similar classes 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, 2024 and 2023 was \$308,236 and \$405,674, respectively, and is 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 into 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 patient service revenue.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Income taxes:** The System and all of its not-for-profit subsidiaries are exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code (the Code). The System and all of its not-for-profit subsidiaries do not have significant unrelated business income; however, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities. The System's for-profit subsidiaries are subject to income tax. The Captive is not subject to income taxes as no income taxes are levied in the Cayman Islands. The income tax expense for fiscal year 2023 was approximately \$1,360 and the estimate for income tax expense for fiscal year 2024 is approximately \$0. 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 2020.

**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 foreign and domestic equities and equity funds 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 insufficient 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 money market funds, U.S. government and agency securities, mortgage-backed securities, corporate bonds, fixed income funds and foreign and domestic equities and equity funds.



## 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)

**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. As it relates to Level 3 assets, the System reports their interest in perpetual trusts based on their pro rata share of the fair value of the assets in the trust. In addition, the fair value of the charitable remainder trusts is recorded at the discounted cash flow of the expected payment streams.

**Reclassifications:** Certain amounts in the 2023 consolidated financial statements have been reclassified to be consistent with the presentation in the 2024 consolidated financial statements. Trusts held by others were separated from donor receivables and assets designated or restricted for donor intentions on the consolidated balance sheets and presented as a separate financial statement line item. These reclassifications did not impact net assets nor the change in net assets previously reported.

**Recent accounting pronouncements:** In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which created a new credit impairment standard for financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the consolidated financial statements as the amounts expected to be collected change. ASU 2016-13 was effective for the System beginning October 1, 2023, and did not materially impact the consolidated financial statements.

In August 2023, the FASB issued ASU 2023-05, *Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*, which requires that a joint venture, upon formation, apply a new basis of accounting. The amendments in this ASU are effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. The System is currently evaluating the impact of this new guidance on its 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 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.

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, 2023, and have been audited by the Medicare intermediary for all years through September 30, 2019. 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.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

**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 Florida Medicaid Program provides additional funding through the Low-Income Pool program which is intended to cover costs related to providing services to low income or uninsured patients. The System's Medicaid cost report review for low income pool has been completed through September 30, 2021.

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.

For the years ended September 30, 2024 and 2023, changes in estimated transaction price for performance obligations satisfied in prior years increased patient service revenue by approximately \$7,694,000 and \$645,000, respectively.

In 2019, a class action lawsuit that the Hospital is party to was made against U.S. Department of Health and Human Services (HHS). The lawsuit was brought as a result of CMS underpayments to Hospitals under the Disproportionate Share Program (DSH). The underpayments were a result of CMS exclusion of patient days eligible under Section 1115 Medicaid Demonstration Waivers. In 2022, the U.S. District Court ruled in the class' favor, and the decision was upheld by the U.S. District Court. As a result, CMS was required to recalculate the Hospital's DSH adjustments for the cost report periods impacted. The Hospital has updated the estimated underpayment from \$40,969,000 to \$47,563,000 for closed cost report periods from 2007 to 2017. The change in estimated underpayment of \$6,594,000 is recorded in patient service revenue during the year ended September 30, 2024. The net reimbursement estimated at \$33,800,000, which was recorded within estimated third-party payor receivable in the consolidated balance sheets for the year ended September 30, 2023 was increased to \$35,100,000 during the year ended September 30, 2024. This was based on the completed audits of FY 2007 and 2008. NCH received payment of \$12,900,000 including interest of \$3,691,000 for those two years.

The Hospital has submitted inpatient listings for all remaining cost report years and those are currently being reviewed by the Medicare Administrative Contractor (MAC). This includes the years 2009-2017.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Supplemental Payment Programs:** The System participates in a Medicaid supplemental program that is intended to cover costs of providing care to Medicaid HMO enrollees. The Hospital Directed Payment Program (DPP) is administered by region within the State of Florida. DPP payments are funded through the Medicaid Managed Care Plans (MCO) and provide funding for both inpatient and outpatient services based upon utilization for each MCO. The funding is a combination of Intergovernmental Transfers (IGTs) and federal dollars and must be authorized by CMS on an annual basis. The System recorded a receivable for DPP, Low Income Pool (LIP) and Graduate Medical Education (GME) of approximately \$34,237,000 and \$18,836,000 in connection with these programs as of September 30, 2024 and 2023, respectively. The revenue associated with these programs is recorded within patient service revenue and approximated \$32,400,000 and \$18,860,000 for the years ended September 30, 2024 and 2023, respectively. Taxes and other program related costs, totaling approximately \$14,941,000 and \$8,464,000 for the years ended September 30, 2024 and 2023, respectively, are reflected within supplies and other expenses in the consolidated statements of operations. During the years ended September 30, 2024 and 2023, the System has made payments of approximately \$8,132,000 and \$4,373,000 with the remaining \$15,273,000 and \$8,464,000 in accrued expenses within the consolidated balance sheets. As of the date of these consolidated financial statements, the System is pending to receive Year 4 payments associated with these programs and the Year 3 payments have been fully collected.

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

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

	2024	2023
Medicare and Medicaid including HMO	\$ 543,408,665	\$ 476,798,919
Commercial, Self Pay and other	338,800,999	306,329,988
Patient service revenue	<u>\$ 882,209,664</u>	<u>\$ 783,128,907</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 patient service revenue based on services for the years ended September 30, are as follows:

	2024	2023
Inpatient	\$ 490,330,047	\$ 414,529,181
Outpatient	296,222,176	277,204,312
Physician	95,657,441	91,395,414
Patient service revenue	<u>\$ 882,209,664</u>	<u>\$ 783,128,907</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### 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.

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

	2024	2023
Charity care—charges foregone, based on established rates	\$ 106,534,798	\$ 133,278,804
Welfare—difference between established rates and reimbursement received	286,914	2,098,205
Total charity care and welfare	106,821,712	135,377,009
Implicit price concession	117,925,947	56,017,193
Bad debts—charges deemed uncollectible	308,237	405,674
Total uncompensated care	<u>\$ 225,055,896</u>	<u>\$ 191,799,876</u>
Estimated cost of providing uncompensated care	<u>\$ 53,117,289</u>	<u>\$ 47,949,539</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:

	2024	2023
Health care services:		
Building construction and purchase of equipment	\$ 116,638,802	\$ 87,557,298
Clinical	54,595,010	35,311,145
Education	3,993,123	1,466,487
Indigent	1,213,989	1,213,112
Donor restricted endowment—historical cost:		
Clinical	22,470,714	13,784,330
Education	1,529,372	1,524,899
Indigent	1,855,271	1,855,271
Trusts held by others:		
Building construction and purchase of equipment	252,080	246,168
Clinical	6,351,073	5,803,481
Education	-	228,217
	<u>\$ 208,899,434</u>	<u>\$ 148,990,408</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 5. Net Assets with Donor Restrictions (Continued)

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

	2024	2023
Amounts due:		
Within one year	\$ 25,446,855	\$ 18,661,368
In one to five years	44,682,434	35,518,531
In six to eight years	27,244,370	9,560,461
Over eight years	6,728,190	20,902,880
	<u>104,101,849</u>	<u>84,643,240</u>
Less:		
Discounts for the time value of money	(10,230,493)	(12,613,509)
	<u>\$ 93,871,356</u>	<u>\$ 72,029,731</u>

Estimated cash flows from pledge receivables due after one year are discounted using a risk-adjusted rate and established in the year the pledge is received.

The System has not recognized as assets approximately \$36,006,000 and \$46,730,000 of conditional pledges to give related to the expansion of existing programs and facilities as of September 30, 2024 and 2023.

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
- Perpetuation of the endowment
- The other resources of the System

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 5. Net Assets with Donor Restrictions (Continued)

The System classifies amounts in its donor-restricted endowment funds as net assets with donor restriction because those net assets are time restricted until the Finance Committee of the Board of Trustees appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restriction. The Finance Committee of the Board of Trustees of the System has interpreted FUPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the System considers a fund to be underwater if the fair value of the fund is less than the sum of: (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The System has interpreted FUPMIFA to permit spending from underwater funds in accordance with the prudent measure required under law.

The System's endowment investment policies are directed by the Finance 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.

**Spending policy and how the investment objectives relate to spending policy:** The System has a policy of appropriating for distribution each year up to 6% of its endowment fund's average market value over the prior three years. Appropriation of donor restricted endowment earnings is allocated in proportion to the total investment portfolio. In establishing this policy, the System considered the long-term expected return on its endowment. This is consistent with the System's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the years ended September 30, 2024 and 2023, consisted of the following:

Endowment net assets at October 1, 2022	<u>\$ 19,471,328</u>
Investment return:	
Investment income, net	<u>3,688,916</u>
Total investment return	<u>3,688,916</u>
Gifts	4,929,499
Appropriation of endowment assets for expenditure	<u>(443,997)</u>
Endowment net assets at September 30, 2023	<u>27,645,746</u>
Investment return:	
Investment income, net	<u>7,972,671</u>
Total investment return	<u>7,972,671</u>
Gifts	8,690,857
Appropriation of endowment assets for expenditure	<u>(629,544)</u>
Endowment net assets at September 30, 2024	<u>\$ 43,679,730</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 5. Net Assets with Donor Restrictions (Continued)

For the years ended September 30, 2024 and 2023, 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 \$3,476,000 and \$7,396,000, respectively. For the years ended September 30, 2024 and 2023, net assets were released from donor restrictions used for purchase of property and equipment in the amounts of approximately \$21,952,000 and \$17,056,000, respectively.

#### 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:

	2024	2023
Financial assets:		
Cash and cash equivalents	\$ 32,407,746	\$ 11,722,058
Investments	15,445,177	-
Estimated third-party payor receivable	69,594,741	53,923,582
Board-designated assets	249,516,673	231,123,909
Due from patients and others, net	104,864,489	104,838,911
Self-insurance fund	23,127,068	22,423,625
Donor receivables	93,871,356	72,029,731
Trusts held by others	6,603,153	6,277,866
Assets designated or restricted for donor intentions	95,489,087	39,893,298
Assets held by trustee under bond indentures	111,593,938	-
Other receivables included in other assets	4,692,315	6,422,897
Total financial assets	<u>807,205,743</u>	<u>548,655,877</u>
Less amounts not available to be used within one year:		
Board-designated investments	(249,516,673)	(231,123,909)
Investments	(11,452,960)	-
Self-insurance fund	(23,127,068)	(22,423,625)
Assets designated or restricted for donor intentions	(95,489,087)	(39,893,298)
Assets held by trustee under bond indentures	(111,593,938)	-
Donor receivables due over one year	(68,424,501)	(53,368,363)
Trusts held by others due over one year	(6,603,153)	(6,277,866)
Total financial assets not available to be used within one year	<u>(566,207,380)</u>	<u>(353,087,061)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 240,998,363</u>	<u>\$ 195,568,816</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 and investments stated at fair value at September 30, are set forth in the following table:

	2024	2023
Captive investments:		
Cash and cash equivalents	\$ 3,389,399	\$ -
U.S. government and agency securities	3,546,037	-
Mortgage-backed securities	1,928,677	-
Fixed Income	3,298,554	-
Equities and equity funds—domestic	2,261,325	-
Equities and equity funds—foreign	1,021,185	-
	<u>15,445,177</u>	<u>-</u>
Self-insurance funds:		
Cash and cash equivalents	17,433,214	19,312,646
Self-insurance receivables	5,693,854	3,110,979
	<u>23,127,068</u>	<u>22,423,625</u>
Board-designated assets:		
Cash and cash equivalents	4,966,918	3,569,629
U.S. government and agency securities	16,346,559	13,639,153
Mortgage-backed securities	18,560,739	17,514,187
Corporate bonds	12,314,323	8,619,168
Fixed income funds	21,992,933	22,836,575
Equities and equity funds—domestic	125,507,124	114,669,061
Equities and equity funds—foreign	49,828,077	50,276,136
	<u>249,516,673</u>	<u>231,123,909</u>
Assets held by trustee under bond indentures:		
Cash and cash equivalents	41,098,319	-
U.S. government and agency securities	70,495,619	-
	<u>111,593,938</u>	<u>-</u>
Assets designated or restricted for donor intentions:		
Cash and cash equivalents	50,787,817	11,556,585
U.S. government and agency securities	1,564,123	907,348
Mortgage-backed securities	910,825	454,511
Corporate bonds	1,600,755	970,398
Fixed income funds	157,453	141,366
Equities and equity funds—domestic	24,294,734	15,406,332
Equities and equity funds—foreign	16,173,380	10,456,758
Donor receivables	93,871,356	72,029,731
Trusts held by others	6,603,153	6,277,866
	<u>195,963,596</u>	<u>118,200,895</u>
Total assets limited as to use and investments	<u>\$ 595,646,452</u>	<u>\$ 371,748,429</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 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:

	2024	2023
Investment income	\$ 21,943,623	\$ 4,372,697
Net change in unrealized gains	26,135,263	18,516,795
Net realized gains	18,939,784	1,106,004
Total investment earnings	<u>\$ 67,018,670</u>	<u>\$ 23,995,496</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, 2024, are as follows:

	Amortized Cost	Fair Value
Due within one year	\$ 73,050,451	\$ 74,080,152
Due after one year through three years	12,165,763	12,287,329
Due after three years	20,151,728	19,499,935
Mortgage-backed securities	20,022,644	21,400,241
	<u>\$ 125,390,586</u>	<u>\$ 127,267,657</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.

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, 2024 and 2023:

	2024			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market funds	\$ -	\$ 49,627,941	\$ -	\$ 49,627,941
U.S. government and agency securities	-	91,952,338	-	91,952,338
Mortgage-backed securities	-	21,400,241	-	21,400,241
Corporate bonds	-	13,915,078	-	13,915,078
Fixed income funds	-	25,448,940	-	25,448,940
Equities and equity funds—domestic	135,506,695	16,556,488	-	152,063,183
Equities and equity funds—foreign	51,709,986	15,312,656	-	67,022,642
	<u>187,216,681</u>	<u>234,213,682</u>	<u>-</u>	<u>421,430,363</u>
Trusts held by others	-	-	6,603,153	6,603,153
Total assets at fair value	<u>\$ 187,216,681</u>	<u>\$ 234,213,682</u>	<u>\$ 6,603,153</u>	<u>\$ 428,033,516</u>
Cash and cash equivalents				68,047,726
				<u>\$ 496,081,242</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 7. Assets Limited as to Use and Investments (Continued)

	2023			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market funds	\$ -	\$ 3,905,057	\$ -	\$ 3,905,057
U.S. government and agency securities	-	14,546,501	-	14,546,501
Mortgage-backed securities	-	17,968,698	-	17,968,698
Corporate bonds	-	9,589,566	-	9,589,566
Fixed income funds	-	22,977,941	-	22,977,941
Equities and equity funds—domestic	117,866,221	12,209,172	-	130,075,393
Equities and equity funds—foreign	48,365,851	12,367,043	-	60,732,894
	<u>166,232,072</u>	<u>93,563,978</u>	-	<u>259,796,050</u>
Trusts held by others	-	-	6,277,866	6,277,866
Total assets at fair value	<u>\$ 166,232,072</u>	<u>\$ 93,563,978</u>	<u>\$ 6,277,866</u>	<u>\$ 266,073,916</u>
Cash and cash equivalents				30,983,791
				<u>\$ 297,057,707</u>

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

	Trusts Held by Others
Fair value October 1, 2022	\$ 6,530,478
Change in fair value of trusts held by others	<u>(252,612)</u>
Fair value September 30, 2023	6,277,866
Change in fair value of trusts held by others	1,013,112
Distributions	<u>(687,825)</u>
Fair value September 30, 2024	<u>\$ 6,603,153</u>

#### Note 8. Property and Equipment

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

	2024	2023
Land	\$ 37,299,095	\$ 37,299,095
Land improvements	8,168,081	8,681,783
Buildings	549,825,798	546,521,999
Fixed equipment	66,334,640	61,000,696
Movable equipment	413,233,174	410,528,799
Leasehold improvements	18,947,883	19,132,270
Facilities expansion in progress	118,817,926	20,830,569
	<u>1,212,626,597</u>	<u>1,103,995,211</u>
Less accumulated depreciation and amortization	<u>(690,927,733)</u>	<u>(664,398,279)</u>
	<u>\$ 521,698,864</u>	<u>\$ 439,596,932</u>

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 8. Property and Equipment (Continued)

The facilities expansion in progress at September 30, 2024, included the construction costs of various projects, which management estimates will cost an additional approximate amount of \$205,644,000 to complete during 2025. 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.

#### Note 9. Long-Term Debt

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

	2024	2023
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2020 (payable by the Hospital under an agreement with Collier County) with interest paid semi-annually at 1.64%. The bond issue consists of the following: \$1,410,000 series bond due October 2024. \$1,460,000 series bond due October 2025. \$1,510,000 series bond due October 2026. \$5,465,000 series bond due October 2027. \$5,665,000 series bond due October 2028 and \$34,395,000 series bond due from October 2029 through October 2035.	\$ 49,905,000	\$ 50,000,000
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2021 (payable by the Hospital under an agreement with Collier County) with interest paid semi-annually at 1.80%. The bond issue consists of the following: \$5,203,000 series bond due October 2024. \$5,278,000 series bond due October 2025. \$5,354,000 series bond due October 2026. \$1,526,000 series bond due October 2027. \$1,451,000 series bond due October 2028. \$52,946,000 series bonds due from October 2029 through October 2039.	71,758,000	78,153,000
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2024A (Fixed Mode) (payable by the Hospital under an agreement with Collier County) with interest paid semi-annually at 5.00%. The bond issue consists of the following: \$92,710,000 series bond due from October 2040 through October 2054.	92,710,000	-
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2024B-1 (Term Mode) (payable by the Hospital under an agreement with Collier County) with interest paid semi-annually at 5.00%. The bond issue consists of the following: \$30,000,000 series bond due from October 2040 through October 2054.	30,000,000	-
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2024B-2 (Term Mode) (payable by the Hospital under an agreement with Collier County) with interest paid semi-annually at 5.00%. The bond issue consists of the following: \$35,000,000 series bond due from October 2040 through October 2054.	35,000,000	-

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

	2024	2023
Collier County Industrial Development Authority Healthcare Facilities Revenue Bonds, Series 2024C (Fixed Mode) (payable by the Hospital under an agreement with Collier County) with interest paid semi-annually at 5.249%. The bond issue consists of the following: \$42,290,000 series bond due October 2026.	\$ 42,290,000	\$ -
Notes payable in amounts between \$63,499 and \$1,300,000 with interest rates between 6.64% and 8.25%. Loan balances are due at various due dates between July 2025 and May 2031.	2,492,905	-
Total long-term debt	324,155,905	128,153,000
Less:		
Unamortized debt issuance costs	(2,645,822)	(252,756)
Unamortized debt premium	13,278,803	-
Current maturities	(8,383,571)	(6,490,000)
	<u>\$ 326,405,315</u>	<u>\$ 121,410,244</u>

On March 23, 2020, the Collier County Industrial Development Authority (the Authority) authorized the issuance of up to \$50,000,000 of its Healthcare Facilities Revenue Bond, Series 2020 (the 2020 Bonds) by the Authority on behalf of the Hospital. The purchaser of the 2020 Bonds is DNT Asset Trust, a Delaware statutory trust and wholly owned subsidiary of JP Morgan 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 were completed by February 15, 2022. 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 2020 Bond.

On March 30, 2021, the Authority issued Healthcare Facilities Revenue Bond, Series 2021 Bonds (2021 Bond) in the amount of \$90,767,000. The proceeds of the loan were used by the Hospital to pay the redemption price 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.

On March 20, 2024, the Authority issued Healthcare Facilities Revenue Bonds, Series 2024A (Fixed Mode) in the amount of \$92,710,000. The proceeds of the loan will be used to fund the construction and equipping of various capital improvements to the Hospital's facilities and finance costs associated with the issuance of the 2024A Bond.

On March 20, 2024, the Authority issued Healthcare Facilities Revenue Bonds, Series 2024B-1 and Series 2024B-2 (Term Mode) in the amount of \$30,000,000 and \$35,000,000, respectively. The proceeds of the loan will be used to fund the construction and equipping of various capital improvements to the Hospital's facilities and finance costs associated with the issuance of the 2024B Bond.

On March 20, 2024, the Authority issued Healthcare Facilities Revenue Bonds, Series 2024C (Fixed Mode) in the amount of \$42,290,000. The proceeds of the loan will be used to fund the HSS Orthopedic Center and the NCH Heart, Vascular and Stroke Institute. The proceeds of the loan are to be used to finance the construction and equipping of various capital improvements to the Hospital's facilities and finance costs with the issuance of the 2024C Bond.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

**Obligated group and other requirements:** The 2020, 2021 and 2024 bonds are subject to an Amended and Restated Master Trust Indenture dated as of March 1, 2024, with U.S. Bank Trust Company, National Association, as master trustee, as amended and supplemented from time to time (Master Indenture). Naples Community Hospital, Inc., as Obligated Group Representative, NCH Healthcare System, Inc. (NCH) and NCHMD, Inc. are currently the sole members of the Obligated Group. As security for the performance of its agreements contained in the Master Indenture and to secure Obligations issued pursuant to the Master Indenture, under the terms of the Master Indenture, the Obligated Group has pledged: (i) all of the Obligated Group's revenues, accounts, bank accounts, general intangibles, contract rights and related rights; and (ii) all proceeds, cash proceeds, cash equivalents, products, replacements, additions and improvements to substitutions for, and accessions of any and all property described in the foregoing (i), as more particularly described in Section 2.7 of the Master Indenture. In addition, pursuant to loan agreements related to the 2024 bonds, solely for the benefit of the holders of the applicable 2024 bonds, NCH has granted a security interest in certain money and securities held in the funds and accounts created under the bond trust indentures for the 2024 bonds. There are conditions and covenants required by the Master Indenture with which the Obligated Group must comply, including covenants that provide the maintenance of certain financial ratios, conditions for issuance of additional indebtedness and the transferability of funds. In addition, the Obligated Group is required to comply with certain other reporting and financial covenants pursuant to debt instruments related to the 2020 bonds and the 2021 bonds.

The aggregate principal maturities on long-term debt based on the debt outstanding as of September 30, 2024, in each of the next five years and thereafter are as follows:

Years ending September 30:	
2025	\$ 8,383,571
2026	6,858,333
2027	49,282,620
2028	7,128,478
2029	7,268,726
Thereafter	245,234,177
	<u>\$ 324,155,905</u>

#### Note 10. Self-Insured Claims

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

For 2024 and 2023 professional liability, respectively, the System had a \$5,000,000 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).

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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

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 \$15,695,258 and \$14,457,954 during the years ended September 30, 2024 and 2023, respectively, and are included in supplies and other expenses in the consolidated statements of operations. As of September 30, 2024 and 2023, the System had accrued \$32,379,222 and \$28,460,233, 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 3.5% in 2024 and 3.5% in 2023. The discount on the accrual for professional liability was approximately \$1,675,000 and \$1,684,000 at September 30, 2024 and 2023, respectively. The System has recorded approximately \$4,692,000 and \$2,968,000 at September 30, 2024 and 2023, 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 2024 and 2023 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, 2024 and 2023, the System had accrued \$2,712,590 and \$1,248,656, 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 \$2,081,806 and \$2,440,912 during the years ended September 30, 2024 and 2023, 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 3.5% in 2024 and 3.5% in 2023. The discount on the accrued workers' compensation liability was approximately \$116,000 and \$134,000 at September 30, 2024 and 2023, respectively. The System has recorded approximately \$1,001,494 and \$143,000 for September 30, 2024 and 2023, 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 2024 and 2023, employee health coverage, the System had a \$600,000 per claim self-insured retention. The plan calls for an unlimited lifetime maximum benefit per covered life. As of September 30, 2024 and 2023, the System had accrued approximately \$8,259,000 and \$10,038,000, 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 Captive began writing property coverage under two policies on April 1, 2022. The property – all other peril has a per claim self-insured retention of \$100,000. The property – storm surge has a per claim self-insured retention of 5% of the insured value with a minimum of \$500,000. The property liability has been discounted at a rate of 3.5%, approximately \$13,000. As of September 30, 2024 and 2023, the System has recorded a liability of approximately \$783,000 and \$435,000, respectively, with a \$0 estimate of insurance recoveries for both years, 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 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**

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#### **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, 2024 and 2023, were approximately \$8,842,000 and \$8,192,000, respectively.

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

One member of the Board of Trustees is an employee of the System. One member of the Board of Trustees is the President and Chairman of a company which NCH pays for rental space.

At September 30, 2024 and 2023, the System recorded receivables of approximately \$355,000 and \$408,000, respectively, from PNI for rent and expenses incurred by the System on behalf of PNI that is recorded in other current assets in the consolidated balance sheets. At September 30, 2024 and 2023, the System recorded rental income of approximately \$905,000 and \$1,214,000, respectively, which is recorded in other revenue and \$561,000 and \$1,033,000, respectively, as a reduction of various expenses in the consolidated statements of operations. At September 30, 2024 and 2023, the System recorded payables of approximately \$1,290,000 and \$5,200,000, respectively, to PSI for radiology reads for the Hospital that is recorded in accounts payable in the consolidated balance sheets, and expenses of approximately \$4,371,000 and \$1,022,000, respectively, that is recorded in purchased services in the consolidated statements of operations.

At September 30, 2024 and 2023, the System recorded rental revenue of approximately \$397,000 and \$159,000, respectively, from VH-Naples Holdings which is recorded in other revenue.

#### **Note 13. Leases**

The System has operating and finance leases that consist of medical equipment and medical office space agreements. The System's leases have remaining lease terms of one to ten years. For purposes of calculating operating lease liabilities, lease terms include options to extend the lease when it is reasonably certain those options will be exercised. For purposes of finance lease liabilities, the lease term represents the time at which ownership of the medical equipment will transfer to the System. Some leasing arrangements require variable payments that are dependent on usage or other measures. The variable lease payments are not presented as part of the initial ROU asset or lease liability. The System's lease agreements do not contain any material restrictive covenants.

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

**Notes to Consolidated Financial Statements**

**Note 13. Leases (Continued)**

The components of lease expense for operating and finance leases for the years ended September 30, are as follows:

	<u>2024</u>	<u>2023</u>
Operating lease expense	\$ 5,789,023	\$ 6,578,338
Finance lease expense:		
Amortization of right-of-use asset	488,039	475,189
Interest on lease liability	49,886	9,845
Short-term lease and variable lease expense	583,599	711,197
Total lease expense	<u>\$ 6,910,547</u>	<u>\$ 7,774,569</u>

Lease expense for operating leases is reported in supplies and other expenses in the accompanying consolidated statements of operations. Lease expense for finance leases is reported in depreciation and amortization and interest expense in the accompanying consolidated statements of operations. The System has elected to use the rate implicit in the lease agreement in determining the present value of lease payments unless that rate cannot be readily determined. If the rate is not implicit in the lease, the System elected the practical expedient to use the risk-free rate, using a period comparable with that of the lease term, based on the U.S. Treasury yield curve rate for all of leases.

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term (years):		
Finance leases	1.14	1.17
Operating leases	12.03	4.24
Weighted-average discount rate:		
Finance leases	1.31%	1.04%
Operating leases	6.24%	1.30%
Cash payments:		
Finance leases	\$ 512,428	\$ 476,049
Operating leases	5,672,668	6,649,704
	<u>\$ 6,185,096</u>	<u>\$ 7,125,753</u>



## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 13. Leases (Continued)

The following table provides the maturities of lease liabilities at September 30, 2024:

	Finance	Operating	Total
Maturity analysis (years ending September 30):			
2025	\$ 465,160	\$ 5,747,791	\$ 6,212,951
2026	396,470	4,263,318	4,659,788
2027	165,756	3,279,009	3,444,765
2028	134,000	2,347,558	2,481,558
2029	22,333	1,029,743	1,052,076
Thereafter	-	1,829,951	1,829,951
<b>Total</b>	<b>1,183,719</b>	<b>18,497,370</b>	<b>19,681,089</b>
Less present value discount:			
Lease liabilities	(68,179)	(1,032,798)	(1,100,977)
Less current portion	(465,160)	(5,747,791)	(6,212,951)
Long-term portion	<b>\$ 650,380</b>	<b>\$ 11,716,781</b>	<b>\$ 12,367,161</b>

#### 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 \$32,408,000 and \$11,722,000 as of September 30, 2024 and 2023, respectively, which, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limits. 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.

The System's concentration of credit risk relating to patient accounts receivable and related revenue is limited by the diversity and number of the System's patients and payors. The System receives payments for services rendered from federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers and patients. The System does not believe there are significant credit risks associated with these government agencies, nor any other particular payer that would subject the System to any significant credit risks in the collection of accounts receivable. Changes in general economic conditions, revenue cycle operations, payer mix, payer claim processing, or federal or state governmental health care coverage could affect collection of accounts receivable, cash flows and results of operations. Note 3 details the concentration of revenue.

## NCH Healthcare System, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 15. Functional Expenses

The expenses reported in the consolidated statements of operations were incurred for the following for the years ended September 30:

	2024			
	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 420,245,797	\$ 42,235,756	\$ 2,501,370	\$ 464,982,923
Supplies, purchased services and other	294,909,136	94,859,927	861,520	390,630,583
Repairs, equipment rental and facility costs	45,452,910	3,966,667	43,095	49,462,672
Depreciation and amortization	45,628,296	6,570,806	130,177	52,329,279
Interest	2,434,727	422,283	-	2,857,010
Total functional expenses	<u>\$ 808,670,866</u>	<u>\$ 148,055,439</u>	<u>\$ 3,536,162</u>	<u>\$ 960,262,467</u>

  

	2023			
	Healthcare Services	General and Administrative	Fundraising	Total
Salaries and benefits	\$ 395,120,644	\$ 36,972,216	\$ 1,652,126	\$ 433,744,986
Supplies, purchased services and other	266,442,223	83,122,722	1,044,014	350,608,959
Repairs, equipment rental and facility costs	44,237,666	4,863,942	25,592	49,127,200
Depreciation and amortization	50,258,046	7,316,834	129,063	57,703,943
Interest	1,911,536	337,330	-	2,248,866
Total functional expenses	<u>\$ 757,970,115</u>	<u>\$ 132,613,044</u>	<u>\$ 2,850,795</u>	<u>\$ 893,433,954</u>

#### Note 16. Subsequent Events

The System has performed a review of subsequent events through January 17, 2025, the date the consolidated financial statements were available to be issued.

## 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 (the System) as of and for the years ended September 30, 2024 and 2023, and have issued our report thereon, dated January 17, 2025, which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. 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 information has been subjected to the auditing procedures applied in the audits of the consolidated 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*

Coral Gables, Florida  
January 17, 2025

NCH Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet  
September 30, 2024

	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	\$ 28,648,084	\$ 3,080,789	\$ 31,728,873	\$ 678,873	\$ -	\$ 32,407,746
Investments	-	-	-	3,992,217	-	3,992,217
Due from patients and others, net	97,216,321	7,032,247	104,248,568	615,921	-	104,864,489
Assets limited as to use	18,101,718	13,329,749	31,431,467	1,536,310	-	32,967,777
Inventories	20,194,999	1,139,099	21,334,098	151,298	-	21,485,396
Estimated third-party payor receivable	69,594,741	-	69,594,741	-	-	69,594,741
Other current assets	11,548,166	6,351,756	17,899,922	1,241,915	(1,069,989)	18,071,848
<b>Total current assets</b>	<b>245,304,029</b>	<b>30,933,640</b>	<b>276,237,669</b>	<b>8,216,534</b>	<b>(1,069,989)</b>	<b>283,384,214</b>
Assets limited as to use:						
Self-insurance fund	13,145,350	5,257,516	18,402,866	4,724,202	-	23,127,068
Board-designated assets	249,516,673	-	249,516,673	-	-	249,516,673
Assets held by trustee under bond indentures	111,593,938	-	111,593,938	-	-	111,593,938
Donor receivables	28,655,119	65,216,237	93,871,356	-	-	93,871,356
Trusts held by others	6,603,153	-	6,603,153	-	-	6,603,153
Assets designated or restricted for donor intentions	71,804,710	23,684,377	95,489,087	-	-	95,489,087
	481,318,943	94,158,130	575,477,073	4,724,202	-	580,201,275
Less assets limited as to use that are available to pay current liabilities	(18,101,718)	(13,329,749)	(31,431,467)	(1,536,310)	-	(32,967,777)
	463,217,225	80,828,381	544,045,606	3,187,892	-	547,233,498
Investments	-	-	-	11,452,960	-	11,452,960
Investment in partnerships	2,337,532	37,803,437	40,140,969	-	(13,199,971)	26,940,998
Property and equipment, net of accumulated depreciation	494,942,849	16,749,722	511,692,571	10,006,293	-	521,698,864
Lease right-of-use assets for operating, net of accumulated amortization	14,064,690	-	14,064,690	2,553,119	-	16,617,809
Lease right-of-use assets for finance, net of accumulated amortization	1,097,500	-	1,097,500	-	-	1,097,500
Other assets	1,159,093	2,968,621	4,127,714	4,313,646	-	8,441,360
<b>Total assets</b>	<b>\$ 1,222,122,918</b>	<b>\$ 169,283,801</b>	<b>\$ 1,391,406,719</b>	<b>\$ 39,730,444</b>	<b>\$ (14,269,960)</b>	<b>\$ 1,416,867,203</b>
<b>Liabilities and net assets</b>						
Current liabilities:						
Current portion of long-term debt	\$ 6,613,000	\$ -	\$ 6,613,000	\$ 1,770,571	\$ -	\$ 8,383,571
Current portion of estimated self-insurance liabilities	4,274,868	1,709,744	5,984,612	1,536,310	-	7,520,922
Accounts payable	91,422,827	2,836,795	94,259,622	2,153,575	(1,069,989)	95,343,208
Accrued expenses	43,669,087	11,751,359	55,420,446	698,674	-	56,119,120
Accrued interest	6,416,265	-	6,416,265	-	-	6,416,265
Current operating lease liability	5,373,654	-	5,373,654	374,137	-	5,747,791
Current finance lease liability	465,160	-	465,160	-	-	465,160
<b>Total current liabilities</b>	<b>158,234,861</b>	<b>16,297,898</b>	<b>174,532,759</b>	<b>6,533,267</b>	<b>(1,069,989)</b>	<b>179,996,037</b>
Long-term debt, excluding current portion	325,682,981	-	325,682,981	722,334	-	326,405,315
Estimated self-insurance liabilities, excluding current portion	8,870,481	3,547,772	12,418,253	17,555,262	-	29,973,515
Due to related organizations	12,809,802	-	12,809,802	(12,809,802)	-	-
Long-term operating lease liability, excluding current portion	9,522,725	-	9,522,725	2,194,056	-	11,716,781
Long-term finance lease liability, excluding current portion	650,380	-	650,380	-	-	650,380
Other liabilities	14,174,504	4,788,502	18,963,006	1,768,615	-	20,731,621
<b>Total liabilities</b>	<b>529,945,734</b>	<b>24,634,172</b>	<b>554,579,906</b>	<b>15,963,732</b>	<b>(1,069,989)</b>	<b>569,473,649</b>
Net assets:						
Net assets without donor restrictions	569,881,058	57,148,346	627,029,404	23,934,591	(13,199,971)	637,764,024
Noncontrolling interest in subsidiaries	897,975	-	897,975	(167,879)	-	730,096
Net assets with donor restrictions	121,398,151	87,501,283	208,899,434	-	-	208,899,434
<b>Total net assets</b>	<b>692,177,184</b>	<b>144,649,629</b>	<b>836,826,813</b>	<b>23,766,712</b>	<b>(13,199,971)</b>	<b>847,393,554</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,222,122,918</b>	<b>\$ 169,283,801</b>	<b>\$ 1,391,406,719</b>	<b>\$ 39,730,444</b>	<b>\$ (14,269,960)</b>	<b>\$ 1,416,867,203</b>

NCH Healthcare System, Inc. and Subsidiaries

Consolidating Balance Sheet  
September 30, 2023

	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	\$ 8,522,248	\$ (3,349,948)	\$ 5,172,300	\$ 6,549,758	\$ -	\$ 11,722,058
Due from patients and others, net	97,780,133	6,494,879	104,275,012	563,899	-	104,838,911
Assets limited as to use	11,121,648	17,076,216	28,197,864	38,601	-	28,236,465
Inventories	18,213,795	1,153,260	19,367,055	-	-	19,367,055
Estimated third-party payor receivable	53,923,582	-	53,923,582	-	-	53,923,582
Other current assets	12,752,782	6,384,392	19,137,174	196,567	-	19,333,741
<b>Total current assets</b>	<b>202,314,188</b>	<b>27,758,799</b>	<b>230,072,987</b>	<b>7,348,825</b>	<b>-</b>	<b>237,421,812</b>
Assets limited as to use:						
Self-insurance fund	13,810,190	6,566,938	20,377,128	2,046,497	-	22,423,625
Board-designated assets	231,123,909	-	231,123,909	-	-	231,123,909
Donor receivables	17,906,113	54,123,618	72,029,731	-	-	72,029,731
Trusts held by others	6,277,866	-	6,277,866	-	-	6,277,866
Assets designated or restricted for donor intentions	39,893,298	-	39,893,298	-	-	39,893,298
	309,011,376	60,690,556	369,701,932	2,046,497	-	371,748,429
Less assets limited as to use that are available to pay current liabilities	(11,121,648)	(17,076,216)	(28,197,864)	(38,601)	-	(28,236,465)
	297,889,728	43,614,340	341,504,068	2,007,896	-	343,511,964
Investment in partnerships						
Property and equipment, net of accumulated depreciation	417,822,771	16,799,969	434,622,740	4,974,192	(6,428,981)	439,596,932
Lease right-of-use assets for operating, net of accumulated amortization	18,731,763	-	18,731,763	-	-	18,731,763
Lease right-of-use assets for finance, net of accumulated amortization	722,088	-	722,088	-	-	722,088
Other assets	1,133,213	2,446,537	3,579,750	769,340	-	4,349,090
<b>Total assets</b>	<b>\$ 938,613,751</b>	<b>\$ 122,837,758</b>	<b>\$ 1,061,451,509</b>	<b>\$ 15,100,253</b>	<b>\$ (6,428,981)</b>	<b>\$ 1,070,122,781</b>
<b>Liabilities and net assets</b>						
Current liabilities:						
Current portion of long-term debt	\$ 6,490,000	\$ -	\$ 6,490,000	\$ -	\$ -	\$ 6,490,000
Current portion of estimated self-insurance liabilities	6,463,169	3,073,327	9,536,496	5,197,732	-	14,734,228
Accounts payable	66,209,653	3,862,641	70,072,294	233,738	-	70,306,032
Accrued expenses	37,229,338	11,303,105	48,532,443	657,004	-	49,189,447
Accrued interest	1,112,538	-	1,112,538	-	-	1,112,538
Current operating lease liability	5,460,407	-	5,460,407	-	-	5,460,407
Current finance lease liability	337,250	-	337,250	-	-	337,250
<b>Total current liabilities</b>	<b>123,302,355</b>	<b>18,239,073</b>	<b>141,541,428</b>	<b>6,088,474</b>	<b>-</b>	<b>147,629,902</b>
Long-term debt, excluding current portion	121,410,244	-	121,410,244	-	-	121,410,244
Estimated self-insurance liabilities, excluding current portion	7,347,021	3,493,611	10,840,632	6,389,754	-	17,230,386
Due to related organizations	13,101,647	-	13,101,647	(13,101,647)	-	-
Long-term operating lease liability, excluding current portion	14,023,955	-	14,023,955	-	-	14,023,955
Long-term finance lease liability, excluding current portion	389,753	-	389,753	-	-	389,753
Other liabilities	16,933,745	4,400,347	21,334,092	443,104	-	21,777,196
<b>Total liabilities</b>	<b>296,508,720</b>	<b>26,133,031</b>	<b>322,641,751</b>	<b>(180,315)</b>	<b>-</b>	<b>322,461,436</b>
Net assets:						
Net assets without donor restrictions	545,696,690	44,122,660	589,819,350	15,280,568	(6,428,981)	598,670,937
Net assets with donor restrictions	96,408,341	52,582,067	148,990,408	-	-	148,990,408
<b>Total net assets</b>	<b>642,105,031</b>	<b>96,704,727</b>	<b>738,809,758</b>	<b>15,280,568</b>	<b>(6,428,981)</b>	<b>747,661,345</b>
<b>Total liabilities and net assets</b>	<b>\$ 938,613,751</b>	<b>\$ 122,837,758</b>	<b>\$ 1,061,451,509</b>	<b>\$ 15,100,253</b>	<b>\$ (6,428,981)</b>	<b>\$ 1,070,122,781</b>

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidating Statement of Operations Year Ended September 30, 2024

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Total Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Revenues without donor restrictions:						
Patient service revenue	\$ 782,458,902	\$ 95,657,443	\$ 878,116,345	\$ 4,093,319	\$ -	\$ 882,209,664
Other revenue	11,551,439	5,430,017	16,981,456	10,462,507	(10,859,547)	16,584,416
Charitable contributions without donor restrictions	6,214,916	-	6,214,916	-	-	6,214,916
Net assets released from restrictions for operations	3,251,800	224,176	3,475,976	-	-	3,475,976
<b>Total revenues</b>	<b>803,477,057</b>	<b>101,311,636</b>	<b>904,788,693</b>	<b>14,555,826</b>	<b>(10,859,547)</b>	<b>908,484,972</b>
Expenses:						
Salaries and wages	278,021,498	131,552,710	409,574,208	2,557,612	-	412,131,820
Employee benefits	41,642,588	10,747,015	52,389,603	461,500	-	52,851,103
Supplies and other expenses	272,665,301	14,508,734	287,174,035	13,911,291	(10,859,547)	290,225,779
Purchased services	141,350,784	8,037,458	149,388,242	479,234	-	149,867,476
Depreciation and amortization	50,022,238	1,916,698	51,938,936	390,343	-	52,329,279
Interest expense	2,815,217	-	2,815,217	41,793	-	2,857,010
<b>Total expenses</b>	<b>786,517,626</b>	<b>166,762,615</b>	<b>953,280,241</b>	<b>17,841,773</b>	<b>(10,859,547)</b>	<b>960,262,467</b>
<b>Operating (loss) income</b>	<b>16,959,431</b>	<b>(65,450,979)</b>	<b>(48,491,548)</b>	<b>(3,285,947)</b>	<b>-</b>	<b>(51,777,495)</b>
Other income (loss):						
Investment income	63,747,346	2,312,854	66,060,200	958,470	-	67,018,670
Gain (loss) on disposal of property and equipment	87,439	(93,054)	(5,615)	13,654	-	8,039
Gain on acquisition	1,724,305	-	1,724,305	-	-	1,724,305
<b>Excess of revenues over (under) expenses</b>	<b>82,518,521</b>	<b>(63,231,179)</b>	<b>19,287,342</b>	<b>(2,313,823)</b>	<b>-</b>	<b>16,973,519</b>
Net assets released from restrictions for capital	21,951,689	-	21,951,689	-	-	21,951,689
Transfers to related organizations	(79,387,867)	76,256,865	(3,131,002)	9,901,992	(6,770,990)	-
<b>Increase (decrease) in net assets without donor restrictions</b>	<b>25,082,343</b>	<b>13,025,686</b>	<b>38,108,029</b>	<b>7,588,169</b>	<b>(6,770,990)</b>	<b>38,925,208</b>
Excess of revenue over expenses attributable to noncontrolling interest in subsidiary	-	-	-	167,879	-	167,879
<b>Excess of revenues over (under) expenses attributable to NCH Healthcare System, Inc. and Subsidiaries</b>	<b>\$ 25,082,343</b>	<b>\$ 13,025,686</b>	<b>\$ 38,108,029</b>	<b>\$ 7,756,048</b>	<b>\$ (6,770,990)</b>	<b>\$ 39,093,087</b>

## NCH Healthcare System, Inc. and Subsidiaries

### Consolidating Statement of Operations Year Ended September 30, 2023

	Naples Community Hospital, Inc.	Other Obligated Group Entities	Total Obligated Group	All Other Entities	Eliminations	System Consolidated Total
Revenues without donor restrictions:						
Patient service revenue	\$ 687,903,295	\$ 91,395,414	\$ 779,298,709	\$ 3,830,198	\$ -	\$ 783,128,907
Other revenue	14,340,524	4,979,794	19,320,318	8,274,990	(6,196,320)	21,398,988
Charitable contributions without donor restrictions	6,579,325	-	6,579,325	-	-	6,579,325
Net assets released from restrictions for operations	7,270,390	125,500	7,395,890	-	-	7,395,890
<b>Total revenues</b>	<b>716,093,534</b>	<b>96,500,708</b>	<b>812,594,242</b>	<b>12,105,188</b>	<b>(6,196,320)</b>	<b>818,503,110</b>
Expenses:						
Salaries and wages	261,215,113	115,505,763	376,720,876	2,438,398	-	379,159,274
Employee benefits	44,222,170	9,934,400	54,156,570	429,142	-	54,585,712
Supplies and other expenses	253,829,530	19,675,119	273,504,649	12,812,790	(6,196,320)	280,121,119
Purchased services	111,143,055	7,850,338	118,993,393	621,647	-	119,615,040
Depreciation and amortization	55,004,263	2,332,794	57,337,057	366,886	-	57,703,943
Interest expense	2,248,866	-	2,248,866	-	-	2,248,866
<b>Total expenses</b>	<b>727,662,997</b>	<b>155,298,414</b>	<b>882,961,411</b>	<b>16,668,863</b>	<b>(6,196,320)</b>	<b>893,433,954</b>
<b>Operating (loss) income</b>	<b>(11,569,463)</b>	<b>(58,797,706)</b>	<b>(70,367,169)</b>	<b>(4,563,675)</b>	<b>-</b>	<b>(74,930,844)</b>
Other income:						
Investment income (loss)	25,906,558	(1,951,893)	23,954,665	40,831	-	23,995,496
Gain on deconsolidation of subsidiary	16,375,000	-	16,375,000	-	-	16,375,000
(Loss) gain on disposal of property and equipment	191,284	1,162	192,446	(1,812,646)	-	(1,620,200)
<b>Excess of revenues under expenses</b>	<b>30,903,379</b>	<b>(60,748,437)</b>	<b>(29,845,058)</b>	<b>(6,335,490)</b>	<b>-</b>	<b>(36,180,548)</b>
Net assets released from restrictions for capital	17,055,997	-	17,055,997	-	-	17,055,997
Transfers to related organizations	(81,617,500)	81,167,586	(449,914)	1,097,322	(647,408)	-
<b>(Decrease) increase in net assets without donor restrictions</b>	<b>\$ (33,658,124)</b>	<b>\$ 20,419,149</b>	<b>\$ (13,238,975)</b>	<b>\$ (5,238,168)</b>	<b>\$ (647,408)</b>	<b>\$ (19,124,551)</b>