# ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

## COMBINED FINANCIAL STATEMENTS

for the years ended June 30, 2018 and 2017

C O N T E N T S


| | Pages |
|---|---|
| Independent Auditor's Report | 1-2 |
| Combined Financial Statements: | |
| Balance Sheets | 3-4 |
| Statements of Operations and Changes in Net Assets | 5-6 |
| Statements of Cash Flows | 7-8 |
| Notes to Combined Financial Statements | 9-50 |
| Combining Information: | |
| Independent Auditor's Report on Combining Information | 51 |
| Balance Sheets | 52-59 |
| Statements of Excess Revenues (Expenses) | 60-63 |
| Statements of Cash Flows | 64-71 |

# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
St. Joseph's/Candler Health System, Inc.
Savannah, Georgia

We have audited the accompanying combined financial statements of St. Joseph's/Candler Health System, Inc. (System), which comprise the combined balance sheets as of June 30, 2018 and 2017, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

***Management's Responsibility for the Combined Financial Statements***

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

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*Auditor's Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Geechee Reinsurance Company, LLC, a wholly-owned subsidiary, which statements reflect total assets constituting 8% of combined total assets at June 30, 2018 and 2017 and total revenues constituting 1% of combined total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Geechee Reinsurance Company, LLC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, based on our audits and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of St. Joseph's/Candler Health System, Inc. as of June 30, 2018 and 2017, and the results of its operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Draffin & Tucker, LLP

Albany, Georgia
October 18, 2018

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINED BALANCE SHEETS
as of June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 9,617,973 | $ 8,117,526 |
| Assets limited as to use required for current liabilities | 2,182,796 | 2,173,446 |
| Patient accounts receivable, less allowance for doubtful accounts of approximately $24,500,000 and $20,600,000 for 2018 and 2017, respectively | 70,131,677 | 75,879,423 |
| Other receivables | 12,120,616 | 11,048,197 |
| Inventories | 15,271,297 | 13,447,862 |
| Prepaid expenses | 5,882,932 | 5,444,975 |
| Estimated third-party payor settlements | 3,155,490 | 2,658,404 |
| Total current assets | 118,362,781 | 118,769,833 |
| Assets limited as to use: | | |
| Held in trust under bond indenture | 26,486,651 | 35,258,399 |
| Restricted under interest rate swap and deferred compensation agreements | 4,849,588 | 3,824,565 |
| Board designated | 185,328,963 | 171,917,898 |
| Total assets limited as to use | 216,665,202 | 211,000,862 |
| Property and equipment, net | 199,407,305 | 197,567,399 |
| Derivative financial instruments | 614,553 | 394,386 |
| Other assets: | | |
| Long-term investments | 2,056,954 | 1,816,801 |
| Goodwill on long-term investments | 48,484,352 | 48,602,671 |
| Beneficial interest in net assets of Foundations | 11,499,121 | 9,707,033 |
| Total other assets | 62,040,427 | 60,126,505 |
| Total assets | $ 597,090,268 | $ 587,858,985 |

| | 2018 | 2017 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Current maturities of long-term debt | $ 8,431,742 | $ 8,160,932 |
| Short-term debt | - | 4,000,000 |
| Accounts payable | 28,414,742 | 24,768,268 |
| Accrued employee related expenses | 19,392,704 | 20,348,947 |
| Other accrued expenses | 8,056,162 | 9,016,194 |
| Total current liabilities | 64,295,350 | 66,294,341 |
| Long-term debt, excluding current maturities | 179,717,995 | 187,989,621 |
| Accrued self-insurance claims | 20,826,631 | 21,393,925 |
| Accrued pension cost | 26,046,331 | 31,282,754 |
| Deferred compensation payable | 10,126,944 | 9,828,341 |
| Collateral held under interest rate swap agreement | 850,000 | 230,000 |
| Total liabilities | 301,863,251 | 317,018,982 |
| Net assets: | | |
| Unrestricted net assets | 285,671,955 | 262,743,014 |
| Temporarily restricted net assets | 8,520,062 | 7,061,989 |
| Permanently restricted net assets | 1,035,000 | 1,035,000 |
| Total net assets | 295,227,017 | 270,840,003 |
| Total liabilities and net assets | $ 597,090,268 | $ 587,858,985 |

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
for the years ended June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Unrestricted revenues, gains and other support: | | |
| Patient service revenue (net of contractual allowances and discounts) | $ 550,112,684 | $ 508,732,425 |
| Provision for bad debts | ( 34,682,063) | ( 7,721,240) |
| Net patient service revenue | 515,430,621 | 501,011,185 |
| Other revenue | 48,714,833 | 47,532,427 |
| Total unrestricted revenues, gains and other support | 564,145,454 | 548,543,612 |
| Expenses: | | |
| Salaries and wages | 201,688,184 | 202,853,087 |
| Employee benefits | 40,971,515 | 38,271,179 |
| Physician and professional fees | 53,877,242 | 44,529,402 |
| Materials and supplies | 154,893,123 | 154,705,090 |
| Purchased services | 32,997,614 | 32,910,373 |
| Insurance | 5,250,112 | 5,821,518 |
| Interest | 5,633,223 | 5,633,645 |
| Depreciation and amortization | 23,867,546 | 22,999,843 |
| Other | 36,628,227 | 35,362,851 |
| Total expenses | 555,806,786 | 543,086,988 |
| Income from operations | 8,338,668 | 5,456,624 |
| Nonoperating income (loss): | | |
| Investment income | 7,481,422 | 5,206,003 |
| Change in fair value of derivative instruments | 220,167 | 351,227 |
| Net periodic pension cost | ( 628,535) | ( 2,043,636) |
| Nonoperating income, net | 7,073,054 | 3,513,594 |
| Revenues and gains in excess of expenses and losses | 15,411,722 | 8,970,218 |

Continued

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS, Continued
for the years ended June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Unrestricted net assets: | | |
| Change in beneficial interest in unrestricted net assets of Foundations, net | $ 334,015 | $ 701,519 |
| Contributions for property | 610,469 | 723,714 |
| Changes in net unrealized gains and losses on investments other than trading securities | 4,707,777 | 13,009,315 |
| Change in actuarial loss on defined benefit pension plan | ( 663,026) | 5,210,922 |
| Amortization of actuarial loss on defined benefit pension plan | 3,358,096 | 3,804,573 |
| Amortization of prior service cost on defined benefit pension plan | ( 830,112) | ( 830,112) |
| Increase in unrestricted net assets | 22,928,941 | 31,590,149 |
| Temporarily restricted net assets: | | |
| Increase in beneficial interest in temporarily restricted net assets of Foundations, net | 1,458,073 | 686,520 |
| Increase in net assets | 24,387,014 | 32,276,669 |
| Net assets, beginning of year | 270,840,003 | 238,563,334 |
| Net assets, end of year | $ 295,227,017 | $ 270,840,003 |

The accompanying notes are an integral part of these financial statements.

## COMBINED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase in net assets | $ 24,387,014 | $ 32,276,669 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Change in fair value of derivative instruments | ( 220,167) | ( 351,227) |
| Beneficial interest in net assets of Foundations, net | ( 1,792,088) | ( 1,388,039) |
| Net realized and unrealized gains on investments other than trading securities | ( 6,696,975) | ( 13,828,140) |
| Depreciation and amortization | 23,867,546 | 22,999,843 |
| Contributions for property | ( 610,469) | ( 723,714) |
| Changes in: | | |
| Patient accounts receivable | 5,747,746 | 1,443,075 |
| Other receivables | ( 1,072,419) | ( 3,439,925) |
| Inventories | ( 1,823,435) | ( 951,944) |
| Prepaid expenses | ( 437,957) | ( 514,765) |
| Accounts payable | 3,646,474 | 1,341,912 |
| Accrued liabilities | ( 1,916,275) | ( 4,430,405) |
| Estimated third-party payor settlements | ( 497,086) | 246,093 |
| Accrued self-insurance claims | ( 567,294) | ( 1,111,760) |
| Accrued pension costs | ( 5,236,423) | ( 10,141,745) |
| Deferred compensation payable | 298,603 | 111,378 |
| Net cash provided by operating activities | 37,076,795 | 21,537,306 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | ( 25,337,682) | ( 44,121,469) |
| Proceeds from sale of assets limited as to use | 125,377,643 | 190,483,787 |
| Purchases of assets limited as to use | (124,354,358) | (194,667,031) |
| Proceeds (payments) on pledged collateral for swaps | 620,000 | - |
| Sales (purchases) of long-term investments, net | ( 240,153) | ( 65,109) |
| Net cash used by investing activities | ( 23,934,550) | ( 48,369,822) |

Continued

COMBINED STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Cash flows from financing activities: | | |
| Repayment of long-term debt | $( 20,162,537) | $( 87,998,283) |
| Proceeds from issuance of long-term debt | 11,910,270 | 126,468,640 |
| Repayment of short-term debt | ( 9,000,000) | ( 11,000,000) |
| Proceeds from issuance of short-term debt | 5,000,000 | 1,000,000 |
| Contributions for property | 610,469 | 723,714 |
| Net cash provided by (used in) financing activities | ( 11,641,798) | 29,194,071 |
| Net increase in cash and cash equivalents | 1,500,447 | 2,361,555 |
| Cash and cash equivalents, beginning of year | 8,117,526 | 5,755,971 |
| Cash and cash equivalents, end of year | $ 9,617,973 | $ 8,117,526 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | $ 6,864,166 | $ 6,335,519 |

The accompanying notes are an integral part of these financial statements.

## 1. Summary of Significant Accounting Policies

### Organization

St. Joseph's/Candler Health System, Inc. (System), a not-for-profit membership corporation, was formed in 1997 under a Joint Operating Agreement entered into between Candler Hospital, Inc. (CH), Saint Joseph's Hospital, Inc. (SJH) and their various respective affiliates, such that the System became the parent organization of CH, SJH and the affiliates. The Sisters of Mercy of the Americas, Inc. (SMA) is the sole member of the System.

The System is governed by its board of trustees (Board) with 19 members. The Board is self-perpetuating and elects its own members, except for the right of the South Central Leadership Team of SMA to appoint three trustees who shall be Sisters of SMA or another congregation of Roman Catholic religious women; and three trustees serve as ex-officio members, the System CEO (ex-officio voting) and the Presidents of the Medical Staff of CH and SJH (ex-officio nonvoting).

The System operates a comprehensive integrated healthcare network and serves as the controlling body of its affiliated entities as follows:

CH is a not-for-profit corporation, of which the System is the sole member, established to provide comprehensive health care services through the operation of a 331-bed acute care hospital in Savannah, Georgia. CH is the sole member of and operates SJC Oncology Services – Georgia, LLC in Savannah, Georgia, SJC Oncology Services – South Carolina, LLC in Hilton Head, South Carolina, Candler Medical Oncology Practice, LLC, and Candler ENT Practice, LLC all of which are single member LLC's that provide advanced radiation oncology and other specialized services.

SJH is a not-for-profit corporation, of which the System is the sole member, established to provide comprehensive health care services through the operation of a 305-bed acute care hospital in Savannah, Georgia. SJH is the sole member of and operates St. Joseph's Medical Group, LLC, St. Joseph's Cardiology Group, LLC, and St. Joseph's Vascular Group, LLC, all of which are single member LLC's that provide specialized physician services.

SJC Home Health, Inc. (Home Health) is a not-for-profit corporation, of which the System is the sole member, established to provide home health services in a twenty-one county area in southeast Georgia.

Georgia Infirmary, Inc. (Infirmary) is a not-for-profit corporation, of which the System is the sole corporate member. The System shall have, and may exercise with respect to the Infirmary, all rights and authorities granted by law to members of nonprofit corporations in

Continued

1. Summary of Significant Accounting Policies, Continued

Organization, Continued

Georgia or the bylaws of the Infirmary, except that the System does not have the authority to change the mission of the Infirmary as outlined in the Infirmary's original Articles of Incorporation. In the event of any merger or sale of substantially all of the assets of the System, all membership interest of the System in the Infirmary shall be deemed surrendered by the System and reverted to the Infirmary. The Infirmary is an adult day health provider and also provides a case management program to improve health outcomes for elderly or disabled Medicaid recipients with chronic medical conditions.

SJC Ventures, Inc. (SJCV) is a for-profit corporation and wholly owned stock subsidiary of the System organized to be the sole shareholder of SJC Medical Group, Inc., SJC Properties, Inc. and SJC Health Services, Inc., thereby creating an affiliated group of corporations eligible to report on a consolidated basis for federal income tax purposes within the meaning of the Internal Revenue Code of 1986, as amended. In the accompanying combining information, the wholly owned subsidiaries of SJCV are presented separately.

SJC Medical Group, Inc. (SJCMG) is a for-profit corporation which owns, operates, and manages physician practices, in addition to performing billing services, of which SJCV is the sole shareholder.

SJC Properties, Inc. (Properties) is a for-profit corporation, wholly owned by SJCV, which owns and develops certain real estate and manages several medical office buildings.

SJC Health Services, Inc. (Health Services) is a for-profit corporation, wholly owned by SJCV, organized to further the health care delivery system of the System.

Geechee Reinsurance Company, LLC (Geechee) is a captive insurance company formed under the laws of the State of South Carolina to insure the general and professional liability risks of the System. Geechee is organized as a single member LLC with the System as its sole member.

St. Joseph's/Candler Advocate Health Network, LLC (AHN) operates as a clinically integrated network for the purpose of contracting with payers as an accountable care organization. AHN is organized as a single member LLC with the System as its sole member.

The combined financial statements include the accounts of St. Joseph's/Candler Health System, Inc. and its affiliated entities. All significant intercompany accounts and transactions have been eliminated.

Continued

1. Summary of Significant Accounting Policies, Continued

## Basis of Accounting

These combined financial statements, which are presented on the accrual basis of accounting, have been prepared to focus 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 classifying net assets and transactions as permanently restricted, temporarily restricted and unrestricted as follows:

- Permanently restricted net assets are those whose use by the System has been restricted by donors to be maintained in perpetuity.
- Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose.
- Unrestricted net assets are resources generated from operations, unrestricted donations, and lapse of temporary restrictions and are not subject to donor-imposed stipulations.

## Use of Estimates

The preparation of the combined financial statements in accordance 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 combined financial statements and the reported amounts of 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 such as certificates of deposit, commercial paper and money market accounts purchased with a maturity of three months or less.

## Allowance for Doubtful Accounts

Accounts receivable is reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the System utilizes a variety of information for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data from these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Continued

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts, Continued

The System analyzes the components of key patient account data including service date(s), charges, payments, adjustments, balance, financial class, patient type, service type, resource unit code and clinical codes. For receivables associated with services provided to patients who have third-party coverage, a variety of payment plans exist based on dates of service, charges, patient type, service type, resource value unit and outlier payment provisions. The System provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectibles, deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to have financial difficulties that make the realization of amounts due unlikely).

For receivables associated with non-contract payors and self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant provision for bad debts in the period of service on the basis of recent, relevant collection history by financial class and/or insurance plan. This will indicate that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected, after all reasonable collection efforts have been exhausted, is charged off against the allowance for doubtful accounts.

The System's allowance for doubtful accounts for self-pay patients increased from 83% of self-pay accounts receivable at June 30, 2017 to 86% of self-pay accounts receivable at June 30, 2018. In addition, the System's bad debt provision increased $26,960,823 from $7,721,240 for fiscal year 2017 to $34,682,063 for fiscal year 2018. Both increases were the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2018. The System did not change their charity care and uninsured discount policies during 2018, with the exception of updating the federal poverty guidelines used in determining financial assistance. See Note 10 for additional information.

Pension Cost

The System sponsors a frozen defined benefit pension plan. The System recognizes the overfunded and underfunded status of the defined benefit pension plan in its combined balance sheets. Changes in the funded status are recorded in the year in which the changes occurred in the combined statements of operations and changes in net assets. Components of the net periodic pension cost other than service cost are reported in nonoperating income (loss). See Note 12 for additional information.

Continued

1. Summary of Significant Accounting Policies, Continued

Inventories

Inventories are stated at the lower of cost and net realizable value, as determined on a first-in, first-out basis.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the combined balance sheets. Investments without a readily determinable fair value are evaluated for the applicability of the cost or equity method. Investments qualifying for the equity method are stated at quoted net asset value of shares held at year end. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess revenues unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess revenues unless the investments are trading securities.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements; restricted assets under an interest rate swap agreement and a deferred compensation agreement; and designated assets set aside by the Board for future capital improvements, self-insurance and unfunded deferred compensation, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the System have been reclassified in the combined balance sheets at June 30, 2018 and 2017.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, and are excluded from excess revenues, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that

Continued

1. Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations addressing how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Derivative Financial Instruments

The System accounts for its derivative financial instruments in accordance with FASB ASC 815, *Derivatives and Hedging*. FASB ASC 815 requires an entity to recognize all derivative instruments as either assets or liabilities in the combined balance sheets and to measure those instruments at fair value. FASB ASC 815 also requires that changes in the derivatives' fair values be recognized in the combined statement of operations and changes in net assets unless specific hedge accounting criteria are met. The System did not elect hedge accounting for its derivative instruments.

Goodwill

Goodwill and intangible assets with indefinite lives are tested for impairment annually and more frequently in the event of an impairment indicator. Intangible assets with definite lives are amortized over their respective estimated useful lives, and reviewed whenever events or circumstances indicate impairment may exist.

The System assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the System determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is required. If the two-step impairment test is determined to be necessary, and in step two the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference will be recorded.

As of June 30, 2018 and 2017, the System had goodwill of $48,484,352 and $48,602,671, respectively. The System has elected June 30th as its annual impairment assessment date. The System completed its annual impairment assessment and concluded that no material goodwill or indefinite lived intangible asset impairment charge was required for 2018.

Continued

1. Summary of Significant Accounting Policies, Continued

Beneficial Interest in Net Assets of Foundations

The System accounts for the activities of its related Foundations in accordance with FASB ASC 958-20, *Not-for-Profit Entities, Financially Interrelated Entities*. FASB ASC 958-20 establishes reporting standards for transactions in which a donor makes a contribution to a not-for-profit organization which accepts the assets on behalf of or transfers these assets to a beneficiary which is specified by the donor. The St. Joseph's Foundation of Savannah, Inc. and Candler Foundation, Inc. accept assets on behalf of SJH and CH, respectively.

Deferred Financing Costs

Costs related to the issuance of long-term debt were deferred and are being amortized using the straight-line method over the life of the related debt which approximates the effective interest method. These costs are reported on the combined balance sheets as a direct deduction from the carrying amount of the related debt liability.

Revenues and Gains in Excess of Expenses and Losses

The combined statements of operations and changes in net assets includes revenues and gains in excess of expenses and losses. Changes in unrestricted net assets which are excluded from revenues and gains in excess of expenses and losses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The System provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Continued

1. Summary of Significant Accounting Policies, Continued

Estimated Self-Insurance Costs

The provision for estimated malpractice claims and other claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The System, CH, SJH, Home Health and Infirmary are generally exempt from federal and state income taxes under Section 50l(c)(3) of the Internal Revenue Code. Only net income from activities designated as unrelated to the exempt purposes of CH, SJH, Home Health, and Infirmary are subject to federal and state unrelated business income tax. Geechee is organized as a single member LLC owned by System and is treated as a disregarded entity for tax purposes.

The System applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the System only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying combined balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of June 30, 2018 and 2017 or for the years then ended. The System's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

SJCV, SJCMG, Properties and Health Services have generally incurred operating losses for tax purposes and have not recorded a current or deferred tax provision due to significant net operating loss (NOL) carryforwards which would be utilized to offset any potential tax

Continued

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

liabilities generated from future taxable income. At June 30, 2018, NOL carryforwards expiring through 2037 amounted to approximately $88,824,000 and are available for the offset of future taxable income. No asset has been recognized related to this NOL carryforward due to continued operating losses.

Impairment of Long-Lived Assets

The System evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The System has not recorded any material impairment charges in the accompanying combined statements of operations and changes in net assets for the years ended June 30, 2018 and 2017.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement and Disclosures,* defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC 820 describes the following three levels of inputs that may be used:

- *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

- *Level 2:* Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

- *Level 3:* Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Continued

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncement

In 2018, the System prospectively adopted the provisions of Financial Accounting Standards Board ASU 2015-11, *Simplifying the Measurement of Inventory*. This ASU changes the measurement principle for certain inventory methods from the lower of cost or market to the lower of cost and net realizable value. The System's adoption of this guidance did not have a material effect on the financial statements.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which is a new comprehensive revenue recognition standard. The new guidance, including subsequent amendments, is effective for the System as of July 1, 2018. The System is continuing to evaluate the impact the guidance will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expense and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. The System expects to adopt the new guidance for the year ending June 30, 2019 and is continuing to evaluate the impact the guidance will have on the financial statements.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2017 combined financial statements to conform to the fiscal year 2018 presentation. These reclassifications had no impact on the change in net assets in the accompanying combined financial statements.

Subsequent Events

In preparing these combined financial statements, the System has evaluated events and transactions for potential recognition or disclosure through October 18, 2018, the date the combined financial statements were issued.

Continued

2. Investments

Assets Limited as to Use

The composition of assets limited as to use at June 30, 2018 and 2017 is set forth in the following table. Investments are stated at fair value and are considered other than trading.

| | 2018 | 2017 |
|---|---|---|
| Held in trust under bond indenture: | | |
| Cash and cash equivalents | $ 3,072,749 | $ 2,173,464 |
| Mutual funds – fixed income | 25,595,554 | 35,211,943 |
| Interest receivable | 1,144 | 46,438 |
| Total | 28,669,447 | 37,431,845 |
| Interest rate swap agreement and deferred compensation agreement: | | |
| Cash and cash equivalents | 850,000 | 230,000 |
| Mutual funds – equity | 3,999,588 | 3,594,565 |
| Total | 4,849,588 | 3,824,565 |
| Board designated: | | |
| Cash and cash equivalents | 1,609,858 | 1,417,050 |
| U.S. Government and agency obligations | 2,131,340 | 2,367,975 |
| Municipal obligations | 546,646 | 931,126 |
| Corporate bonds | 3,820,887 | 6,807,352 |
| Mortgage backed securities | 3,154,491 | 4,274,718 |
| Mutual funds – fixed income | 39,539,231 | 34,802,879 |
| Mutual funds – balanced | 13,036,733 | 13,697,585 |
| Mutual funds – equity | 62,165,678 | 47,663,621 |
| Mutual funds – international equity | 33,284,341 | 37,747,146 |

Continued

2. Investments, Continued

Assets Limited as to Use, Continued

| | 2018 | 2017 |
|---|---|---|
| Board designated, continued: | | |
| Equity securities – common stock | $ 17,988,771 | $ 15,479,307 |
| Equity securities – international | 1,060,408 | 1,101,745 |
| Equity securities – preferred stock | 6,906,315 | 5,484,829 |
| Interest receivable | 84,264 | 142,565 |
| Total | 185,328,963 | 171,917,898 |
| Total assets limited as to use | 218,847,998 | 213,174,308 |
| Less amounts required for current liabilities | 2,182,796 | 2,173,446 |
| Total | $ 216,665,202 | $ 211,000,862 |

Investment income and gains (losses) for assets limited as to use, cash equivalents, and investments are comprised of the following for the years ending June 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Income: | | |
| Interest income and dividends | $ 5,492,231 | $ 4,387,178 |
| Realized gain on sales of securities | 1,989,191 | 818,825 |
| Total | $ 7,481,422 | $ 5,206,003 |
| Other changes in unrestricted net assets: | | |
| Changes in unrealized gains and on investments, net | $ 4,707,777 | $ 13,009,315 |

Continued

2. Investments, Continued

Assets Limited as to Use, Continued

The following table outlines fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2018 and 2017.

| | June 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government and Agency obligations | $ 367,063 | $( 10,952) | $ 1,045,053 | $( 25,035) | $ 1,412,116 | $( 35,987) |
| Municipal obligations | 88,092 | ( 1,374) | 337,563 | ( 18,607) | 425,655 | ( 19,981) |
| Corporate bonds | 1,196,813 | ( 53,328) | 1,903,079 | ( 457,306) | 3,099,892 | ( 510,634) |
| Mortgage backed securities | 78,280 | ( 1,955) | 753,550 | ( 35,692) | 831,830 | ( 37,647) |
| Mutual funds – fixed income | - | - | 37,697,834 | (2,479,624) | 37,697,834 | (2,479,624) |
| Mutual funds – balanced | - | - | 9,000,393 | (4,358,045) | 9,000,393 | (4,358,045) |
| Mutual funds – equity | - | - | 889,287 | ( 11,307) | 889,287 | ( 11,307) |
| Mutual funds – international equity | - | - | 3,895,509 | ( 478,244) | 3,895,509 | ( 478,244) |
| Equity securities - common stock | 766,343 | (167,444) | 305,141 | ( 115,625) | 1,071,484 | ( 283,069) |
| Equity securities – international | 452,370 | ( 34,988) | - | - | 452,370 | ( 34,988) |
| Total | $ 2,948,961 | $(270,041) | $ 55,827,409 | $(7,979,485) | $ 58,776,370 | $(8,249,526) |

Continued

2. Investments, Continued

Assets Limited as to Use, Continued

| | June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government and Agency obligations | $ 686,303 | $( 10,272) | $ - | $ - | $ 686,303 | $( 10,272) |
| Municipal obligations | 193,960 | ( 1,061) | 318,100 | ( 21,802) | 512,060 | ( 22,863) |
| Corporate bonds | 2,766,201 | ( 53,263) | 771,251 | ( 376,308) | 3,537,452 | ( 429,571) |
| Mortgage backed securities | 558,379 | ( 7,642) | 86,427 | ( 1,798) | 644,806 | ( 9,440) |
| Mutual funds – fixed income | 754,026 | ( 20,460) | 19,400,593 | (1,114,070) | 20,154,619 | (1,134,530) |
| Mutual funds – balanced | - | - | 13,605,600 | (3,607,281) | 13,605,600 | (3,607,281) |
| Mutual funds – equity | - | - | 733,080 | ( 69,080) | 733,080 | ( 69,080) |
| Mutual funds – international equity | - | - | 21,445,544 | ( 462,194) | 21,445,544 | ( 462,194) |
| Equity securities – common stock | 115,864 | ( 16,426) | 582,330 | ( 272,610) | 698,194 | ( 289,036) |
| Total | $ 5,074,733 | $(109,124) | $ 56,942,925 | $(5,925,143) | $ 62,017,658 | $(6,034,267) |

- *U.S. Government and agency obligations, Municipal obligations, Mortgage backed securities, and Corporate bonds:* The unrealized losses on these investments were primarily caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost or face value of the obligations. Because the System has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

- *Mutual funds and Equity securities:* For all of these securities with an unrealized loss, such unrealized loss in total was approximately 14% in 2018 and 10% in 2017 of the System's carrying value of the securities in a loss position. The System considers various factors when determining if a decline in the fair value of an equity is other-than-temporary including, but not limited to, the length of time and magnitude of the unrealized loss; the

Continued

2. Investments, Continued

Assets Limited as to Use, Continued

- *Mutual funds and Equity securities, continued:* volatility of the investment; analyst recommendations and price targets; opinions of the System's external investment managers; market liquidity; and the System's intentions to sell or ability to hold the investments. Based on an evaluation of these factors, the System has concluded that the declines in fair values of the System's mutual funds and equity investments at June 30, 2018 are temporary.

The System's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying combined financial statements.

3. Property and Equipment

A summary of property and equipment at June 30, 2018 and 2017 follows:

| | 2018 | 2017 |
|---|---|---|
| Land | $ 14,438,661 | $ 14,413,661 |
| Land improvements | 8,764,177 | 8,393,461 |
| Building and fixed equipment | 318,534,770 | 306,618,219 |
| Major movable equipment | 300,757,419 | 289,532,345 |
| | 642,495,027 | 618,957,686 |
| Less accumulated depreciation | 452,279,677 | 439,168,338 |
| | 190,215,350 | 179,789,348 |
| Construction in progress | 9,191,955 | 17,778,051 |
| Property and equipment, net | $ 199,407,305 | $ 197,567,399 |

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to approximately $23,498,000 and $22,638,000, respectively.

Contracts of approximately $21,300,000 exist for construction of an offsite outpatient campus of SJH. At June 30, 2018, the remaining commitment on these contracts approximated $15,160,000.

Continued

## 4. Goodwill

The System acquired Savannah Oncology Group on July 15, 2009. Savannah Oncology Group includes SJC Oncology Services – Georgia, LLC and SJC Oncology Services – South Carolina, LLC. The goodwill is evaluated annually for impairment.

The changes in the carrying amount of goodwill for the years ended June 30, 2018 and 2017, are as follows:

| | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year: | | |
| Goodwill | $ 60,260,816 | $ 60,379,136 |
| Accumulated impairment losses | (11,658,145) | (11,658,145) |
| | 48,602,671 | 48,720,991 |
| Goodwill acquired during the year | - | - |
| Goodwill disposal | ( 118,319) | ( 118,320) |
| Balance at end of the year: | | |
| Goodwill | 60,142,497 | 60,260,816 |
| Accumulated impairment losses | (11,658,145) | (11,658,145) |
| Balance at end of the year | $ 48,484,352 | $ 48,602,671 |

## 5. Related Organization

Candler Foundation, Inc. and St. Joseph's Foundation of Savannah, Inc. (Foundations) were established to raise funds to support the operations of CH and SJH (Hospitals). The Foundations' bylaws provide that all funds raised, except for funds acquired for the operations of the Foundations, be distributed to or be held for the benefit of the Hospitals. The Foundations' general funds, which represent the Foundations' unrestricted resources, are distributed to the Hospitals in amounts and in periods determined by the Foundations' Boards of Directors, who may also restrict the use of general funds for Hospital plant replacement or expansion or other specific purposes. Plant replacement and expansion funds, specific-purpose funds, and assets obtained from endowment income of the Foundations are distributed to the Hospitals as required to comply with the purpose specified by donors. A summary of the Foundations' assets, liabilities, net assets, results of operations, and changes in net assets follows. The Hospitals' interest in the net assets of the Foundations is reported as a non-current asset in the combined balance sheets.

Continued

5. Related Organization, Continued

Candler Foundation, Inc.

| | 2018 | 2017 |
|---|---|---|
| Assets: | | |
| Cash | $ 231,176 | $ 274,235 |
| Investments | 8,289,049 | 6,799,841 |
| Other assets | 861,952 | 932,928 |
| Total assets | $ 9,382,177 | $ 8,007,004 |
| Liabilities: | | |
| Accounts payable | $ 8,342 | $ 23,261 |
| Due to related parties | 22,351 | 146,694 |
| Total liabilities | 30,693 | 169,955 |
| Net assets: | | |
| Unrestricted | 1,289,982 | 991,839 |
| Temporarily restricted | 7,126,502 | 5,910,210 |
| Permanently restricted | 935,000 | 935,000 |
| Total net assets | 9,351,484 | 7,837,049 |
| Total liabilities and net assets | $ 9,382,177 | $ 8,007,004 |
| Revenue and support | $ 2,742,148 | $ 2,543,545 |
| Expenses | 1,226,333 | 1,548,011 |
| Excess of revenue | 1,515,815 | 995,534 |
| Other changes in net assets | ( 1,380) | 374,230 |
| Net assets, beginning of year | 7,837,049 | 6,467,285 |
| Net assets, end of year | $ 9,351,484 | $ 7,837,049 |

Continued

5. Related Organization, Continued

St. Joseph Foundation of Savannah, Inc.

| | 2018 | 2017 |
|---|---|---|
| Assets: | | |
| Cash | $ 12,773 | $ 26,350 |
| Investments | 1,959,309 | 1,598,064 |
| Other assets | 231,176 | 265,607 |
| Total assets | $ 2,203,258 | $ 1,890,021 |
| Liabilities: | | |
| Accounts payable | $ 3,164 | $ 17,600 |
| Due to related parties | 52,456 | 2,437 |
| Total liabilities | 55,620 | 20,037 |
| Net assets: | | |
| Unrestricted | 654,078 | 618,205 |
| Temporarily restricted | 1,393,560 | 1,151,779 |
| Permanently restricted | 100,000 | 100,000 |
| Total net assets | 2,147,638 | 1,869,984 |
| Total liabilities and net assets | $ 2,203,258 | $ 1,890,021 |
| Revenue and support | $ 1,197,044 | $ 759,788 |
| Expenses | 997,840 | 836,875 |
| Excess of revenue (expenses) | 199,204 | ( 77,087) |
| Other changes in net assets | 78,450 | 95,362 |
| Net assets, beginning of year | 1,869,984 | 1,851,709 |
| Net assets, end of year | $ 2,147,638 | $ 1,869,984 |

Continued

6. Long-Term Debt

The Hospital Authority of Savannah (Authority) issued three series of bonds pursuant to a Bond Trust Indenture dated September 1, 1998, by and between the Authority and the bond trustee, Wachovia Bank, N.A. (formerly known as First Union National Bank). The series are as follows: $38,875,000 principal amount Series A (St. Joseph's Hospital), $75,585,000 principal amount Series B (Candler Hospital), and $25,000,000 principal amount Series C (Taxable) (SJC Properties). The Authority simultaneously entered into a Loan Agreement dated September 1, 1998 by and between the Authority and the System, CH and SJH (Obligated Group). The Obligated Group has used the proceeds (1) to refund the Authority's Revenue Refunding and Improvement Bonds (Candler Hospital) Series 1992 and the Authority's Revenue Bonds (St. Joseph's Hospital Project) Series 1993; (2) to finance the acquisition of equipment and certain existing office buildings and a parking deck, routine capital expenditures for CH and SJH for a 24-month period, and other capital projects; and (3) to pay costs of issuance of the Series 1998 bonds. Series A and B were paid off with the issuance of the 2010 and 2011 Revenue Bonds. In November 2013, Series C was refunded with the issuance of the 2013 Series B Revenue Bonds.

The Authority issued a $45,000,000 principal bond Series 2003 pursuant to a Bond Trust Indenture dated December 1, 2003, by and between the Authority and the bond trustee, Wachovia Bank, N.A. (formerly known as First Union National Bank). The Authority simultaneously entered into a Loan Agreement dated December 1, 2003 by and between the Authority and the Obligated Group. The Obligated Group has used the proceeds (1) to finance the construction of a parking deck and the costs of routine capital expenditures for CH and SJH for a 24-month period, and other capital projects; (2) to pay costs of issuance of the Series 2003 bonds; and (3) to fund the Debt Service Reserve Fund in an amount equal to the reserve requirement. In November 2013, Series 2003 was refunded with the issuance of the 2013 Series A Revenue Bonds.

The Authority issued a $27,640,000 principal bond Series 2010 pursuant to a Bond Trust Indenture dated December 1, 2010, by and between the Authority and the bond trustee, Regions Bank. The Authority simultaneously entered into a Loan Agreement dated December 1, 2010 by and between the Authority and the System. The System has used the proceeds to pay the costs of current refunding of certain outstanding maturities of the Series 1998A and 1998B Revenue Bonds. In November 2013, the Series 2013D Master Note was issued to satisfy, discharge, and replace Series 2010. In July 2016, the Series 2013D Master Note was satisfied and discharged.

Continued

6. Long-Term Debt, Continued

The Authority issued a $31,505,000 principal bond Series 2011-1 pursuant to a Bond Trust Indenture dated December 1, 2011, by and between the Authority and the bond trustee, Regions Bank. The Authority simultaneously entered into a Loan Agreement dated December 1, 2011 by and between the Authority and the System. In November 2013, the Series 2013E Master Note was issued to satisfy, discharge, and replace Series 2011-1. In July 2016, the Series 2013E Master Note was refunded with the issuance of the Series 2016A Revenue Bonds.

The Authority issued a $16,000,000 principal bond Series 2011-2 pursuant to a Bond Trust Indenture dated December 1, 2011, by and between the Authority and the bond trustee, TD Bank, N.A. The Authority simultaneously entered into a Loan Agreement dated December 1, 2011 by and between the Authority and the System. In November 2013, the Series 2013F Master Note was issued to satisfy, discharge, and replace Series 2011-2. In July 2016, the Series 2013F Master Note was refunded with the issuance of the Series 2016A Revenue Bonds.

Proceeds from the 2011 Revenue Bonds have been used to pay the costs of current refunding of all remaining outstanding maturities of the Authority's outstanding Series 1998A and Series 1998B Revenue Bonds.

CH incurred a $31,500,000 taxable term loan pursuant to a Loan Agreement dated December 1, 2011 by and between CH and Regions Bank. In November 2013, the Series 2013G Master Note was issued to satisfy, discharge, and replace this taxable term loan. In July 2016, the Series 2013G Master Note was refunded with the issuance of the Series 2016B Master Note.

CH incurred a $16,000,000 taxable term loan pursuant to a Loan Agreement dated December 1, 2011 by and between CH and TD Bank, N.A. In November 2013, the Series 2013H Master Note was issued to satisfy, discharge, and replace this taxable term loan. In July 2016, the Series 2013H Master Note was refunded with the issuance of the Series 2016B Master Note.

SJH incurred a $1,100,000 real estate, lease, and sponsorship agreement dated June 28, 2012 by and between SJH and SMA. SJH purchased real estate from SMA and leased the property back to SMA. In October 2016, the agreement was satisfied.

The Authority issued a $46,185,000 principal bond Series 2013A pursuant to a Bond Trust Indenture dated November 1, 2013, by and between the Authority and the bond trustee, Regions Bank. The Authority simultaneously entered into a Loan Agreement dated

Continued

6. Long-Term Debt, Continued

November 1, 2013 by and between the Authority and the System, CH, and SJH. Interest will be paid annually through July 2026 by the System to the Authority. Subsequently, principal and interest will be paid through July 2031. Proceeds for the 2013A Revenue Bonds have been used (1) to finance the costs of constructing additions and improvements to, and equipment for, CH and SJH, (2) currently refund the outstanding principal amount of the Series 2003 Bonds, and (3) pay the costs of issuing the bonds and refunding the Series 2003 Bonds.

The Authority issued a $30,025,000 taxable term bond Series 2013B pursuant to a Bond Trust Indenture dated November 1, 2013, by and between the Authority and the bond trustee, Regions Bank. The Authority simultaneously entered into a Loan Agreement dated November 1, 2013 by and between the Authority and the System, CH, and SJH. Interest will be paid annually through July 2023. Subsequently, principal and interest will be paid through July 2027. Proceeds for the 2013B Revenue Bonds have been used (1) to finance the costs of constructing additions and improvements to, and equipment for, CH and SJH, (2) currently refund the outstanding principal amount of the Series 1998C Bonds, and (3) pay the costs of issuing the taxable bonds and refunding the Series 1998C Bonds.

The Authority issued an $87,505,000 principal bond Series 2016A pursuant to a Bond Trust Indenture dated July 1, 2016, by and between the Authority, the System, and the bond trustee, Regions Bank. Principal and interest will be paid monthly through July 2026. The purpose of the Bond is (1) to finance the costs of constructing additions and improvements to, and equipment for, CH and SJH, (2) refund the outstanding principal and interest of the Series 2013E and 2013F bonds, (3) pay the cost of issuing the Series 2016A and refunding the Series 2013E and 2013F bonds, and (4) expansion of services and campuses in neighboring communities. In December 2017, $12,000,000 of this Series was refunded with Series 2017.

CH incurred a $36,000,000 Master Note Series 2016B pursuant to a credit agreement dated July 28, 2016, by and between CH and TD Bank. Principal and interest will be paid monthly through July 2022. The purpose of the Note is (1) to finance the costs of constructing additions and improvements to, and equipment for, CH and SJH, (2) refund the outstanding principal and interest of the Series 2013G and 2013H bonds, and (3) pay the cost of issuing the Series 2016B and refunding the Series 2013G and 2013H bonds.

SJC Properties, Inc. incurred a $2,963,640 noninterest bearing note payable pursuant to a purchase and sale agreement dated March 31, 2017 by and between Pooler Parkway, LLC and SJC Properties, Inc. Principal will be paid annually through March 2020. The purpose of the property located in Pooler, Georgia is for expansion of services and campuses in the neighboring community.

6. Long-Term Debt, Continued

The Authority issued a $12,000,000 principal bond Series 2017 pursuant to a Bond Trust Indenture dated December 27, 2017 by and between the Authority, the System, and the bond trustee, Regions Bank. Principal and interest will be paid monthly through July 2026. The purpose of the Bond is to refund a portion of Series 2016A in order to finance the construction of an additional campus of SJH for outpatient services.

A summary of long-term debt at June 30, 2018 and 2017 follows:

| | 2018 | 2017 |
|---|---|---|
| Hospital Authority of Savannah Revenue Bonds, St. Joseph's/Candler Health System, Inc. | | |
| Issue Series 2016A: | | |
| Variable interest rate based on LIBOR plus a margin based on applicable rating, payable in varying monthly amounts from $11,635 to $674,657 from August 2016 until June 2026 with a balloon payment in July 2026 of $69,202,193. | $ 75,245,371 | $ 87,376,993 |
| Issue Series 2013A: | | |
| 5.50% serial bonds, principal due in varying annual installments beginning in July 2027 to July 2031 | 46,185,000 | 46,185,000 |
| Issue Series 2013B: | | |
| 6.00% term bonds, principal due in varying annual installments beginning in July 2024 to July 2027 | 30,025,000 | 30,025,000 |
| Unamortized premium | 1,665,555 | 1,793,676 |
| Total | 77,875,555 | 78,003,676 |
| Issue Series 2017: | | |
| Variable interest rate based on LIBOR plus a margin based on applicable rating, payable in varying monthly amounts from $1,700 to $6,100 from January 2018 until June 2018 with a balloon payment in July 2026 of $9,511,498. | 11,990,400 | - |

Continued

6. Long-Term Debt, Continued

| | 2018 | 2017 |
|---|---|---|
| Candler Hospital, Inc. taxable (Series 2016B), with a variable interest rate based on LIBOR plus a margin based upon the applicable rating, due in varying monthly installments of $569,365 to $631,554 from August 2016 until July 2022 | $ 22,741,289 | $ 29,736,985 |
| SJC Properties, Inc. noninterest bearing note payable, due in varying annual amounts from $897,500 to $1,085,140 from March 2018 until March 2020 | 2,066,141 | 2,963,640 |
| | 189,918,756 | 198,081,294 |
| Less unamortized debt issue costs | 1,769,019 | 1,930,741 |
| | 188,149,737 | 196,150,553 |
| Less current maturities | 8,431,742 | 8,160,932 |
| Total long-term debt | $ 179,717,995 | $ 187,989,621 |

Premiums and discounts on long-term debt are amortized using the straight-line method over the life of the related bonds which approximates the effective interest method.

Under the terms of the bond indentures, the System is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the accompanying combined balance sheets. The bond indentures also place limits on the incurrence of additional borrowings and require that the System satisfy certain measures of financial performance as long as the bonds are outstanding. Additionally, the bond indentures are secured by gross receipts of the System, CH, and SJH.

The System entered into interest rate swaps in relation to its debt structure. During the years ended June 30, 2018 and 2017, the System recognized approximately $52,000 and $93,000, respectively, which has been recorded as an addition to interest expense in the accompanying combined statements of operations and changes in net assets.

Continued

## 6. Long-Term Debt, Continued

Scheduled principal repayments on long-term debt for the next five years are as follows:

| Year Ending June 30 | Amount |
|---|---|
| 2019 | $ 8,302,863 |
| 2020 | 8,595,532 |
| 2021 | 7,713,123 |
| 2022 | 7,912,768 |
| 2023 | 8,082,008 |
| Thereafter | 147,646,907 |
| Total | $ 188,253,201 |

## 7. Short-Term Debt

A schedule of changes in the System's short-term debt at June 30, 2018 and 2017 follows:

| | Balance June 30, 2017 | Additions | Reductions | Balance June 30, 2018 |
|---|---|---|---|---|
| Line-of-credit: | | | | |
| Regions Bank | $ 4,000,000 | $ 5,000,000 | $ ( 9,000,000) | $ - |

| | Balance June 30, 2016 | Additions | Reductions | Balance June 30, 2017 |
|---|---|---|---|---|
| Line-of-credit: | | | | |
| Regions Bank | $ 14,000,000 | $ 1,000,000 | $(11,000,000) | $ 4,000,000 |

The System has a revolving line-of-credit for general operating and capital purposes. The line-of-credit is secured by the gross receipts of the System, CH and SJH. The terms of the System's line-of-credit during 2018 follows:

- Regions Bank – $15,000,000 line-of-credit with a maturity date of September 22, 2018. Interest is recalculated at a floating rate per annum equal to 30-Day LIBOR plus eighty-five one-hundredths of one percent (85 basis points), which is due monthly. In September 2017, the System amended the agreement to reduce the principal amount to a maximum of $15,000,000. In December 2016, the System further amended the agreement to designate $3,070,000 as letter-of-credit within the funds available for the System's self-insured workers' compensation claims. Subsequent to year end, the System renewed the agreement to extend the maturity date to September 21, 2019.

Continued

## 8. Derivative Financial Instruments

The Series 1998 and 2003 Bonds utilized various interest rate swaps to take advantage of different interest rate positions. The fair market value of the swaps is reported in derivative financial instruments on the combined balance sheets. The critical terms of the swaps are as follows:

| 1998A and 1998B Swap Agreement – Variable to Fixed | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Notional amount | $ 41,635,000 | $ 53,105,000 |
| Fair market swap | $ 352,000 | $( 198,000) |
| Life remaining on swap | 5 Years | 6 Years |

| 1998C and 2003 Swap Agreement – Variable to Variable | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Notional amount | $ 34,255,000 | $ 40,785,000 |
| Fair market swap | $ 262,000 | $ 593,000 |
| Life remaining on swap | 15 Years | 16 Years |

The swaps were issued at market terms so that they had no fair value at their inception. The carrying amount of the swaps has been adjusted to fair value at the end of the year which, because of changes in forecasted levels of LIBOR, resulted in reporting a net asset in 2018 and 2017.

The portion of the swap results not designated as a hedging derivative is included in revenues and gains in excess of expenses and losses. For the years ending June 30, 2018 and 2017, this earnings impact totaled $220,167 and $351,227, respectively.

Certain provisions of the System's interest rate swaps allow the System to receive assets from the counterparty as collateral. The System held approximately $850,000 and $230,000 of the counterparty's assets at June 30, 2018 and 2017, respectively. These assets are included in assets limited as to use restricted under interest rate swap agreement and deferred compensation agreement and the corresponding liability is included in noncurrent liabilities in the accompanying combined balance sheets.

Continued

## 9. Temporarily and Permanently Restricted Net Assets

A summary of the restricted net assets at June 30, 2018 and 2017 follows:

| | 2018 | 2017 |
|---|---|---|
| Temporarily restricted net assets: | | |
| Candler Foundation, Inc. | $ 7,126,502 | $ 5,910,210 |
| St. Joseph's Foundation of Savannah, Inc. | 1,393,560 | 1,151,779 |
| Total | $ 8,520,062 | $ 7,061,989 |
| Permanently restricted net assets: | | |
| Candler Foundation, Inc. | $ 935,000 | $ 935,000 |
| St. Joseph's Foundation of Savannah, Inc. | 100,000 | 100,000 |
| Total | $ 1,035,000 | $ 1,035,000 |

## 10. Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. The System does not believe that there are any significant credit risks associated with receivables due from third-party payors. A summary of the payment agreements with major third-party payors follows:

- Medicare

  Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

  The System is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor (MAC). The System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the System. The System's Medicare cost reports have been audited by the MAC through 2014 for CH and 2015 for SJH.

Continued

10. Patient Service Revenue, Continued

- Medicare, Continued

Revenue from the Medicare program accounted for approximately 45% of the System's patient service revenue for the years ended 2018 and 2017. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined.

The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the federal level including the initiation of the Recovery Audit Contractor (RAC) program. The RAC program was created to review Medicare claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look-back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare program.

- Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary. The System's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 2015 for both CH and SJH.

Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined.

Continued

10. Patient Service Revenue, Continued

- Medicaid, Continued

The System has also entered into contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diems.

The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state level including the initiation of the Medicaid Integrity Contractor (MIC) program. This program was created to review Medicaid claims for medical necessity and coding appropriateness. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program.

The state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient service revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in an increase in payments for Medicaid services to hospitals of approximately 11.88%. Approximately $6,247,000 and $5,831,000 of provider payments relating to the Act are included as a reduction in net patient service revenue in the accompanying combined statements of operations and changes in net assets for the years ended June 30, 2018 and 2017, respectively.

- Other Agreements

The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements include prospectively determined rates per discharge, prospectively determined daily rates, fixed rate fee schedules, and discounts from established charges.

Continued

10. Patient Service Revenue, Continued

- Uninsured Patients

  The System maintains a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (ABG) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the System for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

The System recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its agreed upon rates for services provided. On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

| | Patient Service Revenue (Net of Contractual Allowances and Discounts) | | | | |
|---|---|---|---|---|---|
| | Medicare | Medicaid | Third-Party Payors | Self-Pay | Total All Payors |
| 2018 | $ 225,840,953 | $ 21,102,019 | $ 259,292,187 | $ 43,877,525 | $ 550,112,684 |
| 2017 | $ 222,268,461 | $ 23,594,313 | $ 241,851,670 | $ 21,017,981 | $ 508,732,425 |

11. Uncompensated Services

The System was compensated for services at amounts less than its established rates. Uncompensated care includes charity and indigent services of approximately $142,000,000 and $144,000,000 for 2018 and 2017, respectively. The cost of charity and indigent services provided during 2018 and 2017 was approximately $55,200,000 and $58,500,000, respectively, computed by applying a total cost factor to the charges foregone for uninsured claims and an estimated unreimbursed cost for insured claims.

Continued

11. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2018 and 2017.

| | 2018 | 2017 |
|---|---|---|
| Gross patient charges | $ 2,336,936,231 | $ 2,176,543,559 |
| Uncompensated services: | | |
| Charity and indigent care | 141,774,209 | 143,681,671 |
| Medicare | 972,011,104 | 896,929,938 |
| Medicaid | 155,153,785 | 146,056,648 |
| Other allowances | 517,884,449 | 481,142,877 |
| Bad debts | 34,682,063 | 7,721,240 |
| Total uncompensated care | 1,821,505,610 | 1,675,532,374 |
| Net patient service revenue | $ 515,430,621 | $ 501,011,185 |

12. Pension Plans

The System had a defined benefit pension plan (Plan) covering substantially all of its employees. Effective July 1, 2006, the System approved a plan amendment that effectively froze the Plan for any future service cost. The Plan benefits for retired, terminated and active employees or their beneficiaries were based on years of service and employee compensation during three of the last ten years of covered employment. The Plan is a Church Plan (as defined by ERISA) and is not subject to the Funding Standard Account Requirements of IRC Section 412 or to coverage under Title IV of ERISA. Annual contributions to the Plan are based on the Board's discretion. The funding decisions are made based upon the actuarial valuation as of July 1st. The disclosures are based on projections of actuarial information and actual plan assets as of June 30th.

The projected benefit obligation is the actuarial present value of that portion of the projected benefits attributable to employee service rendered through June 30, 2006. Cumulative net actuarial gains and losses are amortized over the average future service of active participants. Prior service cost is amortized over the remaining average future service of active employees as of the date the prior service cost arose.

Continued

12. Pension Plans, Continued

The following table sets forth the St. Joseph's Plan's funded status and amounts recognized in the combined financial statements at June 30, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Plan assets at fair value as of June 30 | $ 89,360,520 | $ 82,844,998 |
| Projected benefit obligation as of June 30 | 115,406,851 | 114,127,752 |
| Funded status | $( 26,046,331) | $( 31,282,754) |
| Amounts recognized only in unrestricted net assets: | | |
| Unrecognized net loss from past experience different from that assumed | $( 55,570,622) | $( 58,265,693) |
| Prior service cost not yet recognized in net periodic pension cost | 4,291,688 | 5,121,800 |
| Deferred pension cost | $( 51,278,934) | $( 53,143,893) |

Significant assumptions used to determine the accumulated and projected benefit obligations, and net periodic pension cost for the St. Joseph's Plan for the years ended June 30, 2018 and 2017, were as follows:

| | 2018 | 2017 |
|---|---|---|
| Discount rate | Segment Rates of 1.62%, 3.80% and 4.75% | Segment Rates of 1.46%, 3.93% and 4.94% |
| Rate of increase in future compensation levels | 0.00% | 0.00% |
| Expected long-term rate of return on assets | 8.00% | 8.00% |

The assumption for the expected long-term rate of return on assets is an estimate based on historical returns for portfolios heavily weighted toward long-term investments, such as long-term bonds and equity securities.

Continued

12. Pension Plans, Continued

The actuarially computed net periodic pension cost for the St. Joseph's Plan for the years ended June 30, 2018 and 2017 included the following components:

| | 2018 | 2017 |
|---|---|---|
| Interest cost on projected benefit obligation | $ 4,693,555 | $ 4,948,351 |
| Expected return on plan assets | ( 6,593,004) | ( 5,879,176) |
| Amortization of actuarial loss | 3,358,096 | 3,804,573 |
| Amortization of prior service cost | ( 830,112) | ( 830,112) |
| Net periodic pension cost | 628,535 | 2,043,636 |
| Other changes in plan assets and benefit obligations recognized in unrestricted net assets: | | |
| Change in net actuarial loss | 663,026 | ( 5,210,922) |
| Amortization of net actuarial loss | ( 3,358,096) | ( 3,804,573) |
| Amortization of prior service cost | 830,112 | 830,112 |
| Total recognized in unrestricted net assets | ( 1,864,958) | ( 8,185,383) |
| Total recognized in net periodic pension cost and unrestricted net assets | $( 1,236,423) | $( 6,141,747) |

The change in projected benefit obligation for the St. Joseph's Plan for the years ended June 30, 2018 and 2017 included the following components:

| | 2018 | 2017 |
|---|---|---|
| Projected benefit obligation, beginning of year | $ 114,127,752 | $ 115,441,957 |
| Interest cost | 4,693,555 | 4,948,351 |
| Actuarial loss | 2,001,347 | ( 1,273,878) |
| Benefits paid | ( 5,415,803) | ( 4,988,678) |
| Projected benefit obligation, end of year | $ 115,406,851 | $ 114,127,752 |
| Accumulated benefit obligation | $ 115,406,851 | $ 114,127,752 |

Continued

12. Pension Plans, Continued

The change in plan assets for the St. Joseph's Plan for the years ended June 30, 2018 and 2017 included the following components:

| | 2018 | 2017 |
|---|---|---|
| Plan assets at fair value, beginning of year | $ 82,844,998 | $ 74,017,457 |
| Actual return on assets | 7,931,325 | 9,816,219 |
| Employer contributions | 4,000,000 | 4,000,000 |
| Benefits paid | ( 5,415,803) | ( 4,988,678) |
| Plan assets at fair value, end of year | $ 89,360,520 | $ 82,844,998 |

The actuarial loss and prior service cost to be recognized during the next 12 months beginning July 1, 2018 is as follows:

| | |
|---|---|
| Recognized net actuarial loss | $ 3,358,096 |
| Amortization of prior year service costs – SJC | ( 830,112) |
| Total | $ 2,527,984 |

Estimated Contributions

The System plans to contribute approximately $5,732,177 to this plan during fiscal year 2019.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

| Year Ending June 30 | Pension Benefits |
|---|---|
| 2019 | $ 5,732,177 |
| 2020 | $ 6,027,286 |
| 2021 | $ 6,314,991 |
| 2022 | $ 6,409,842 |
| 2023 | $ 6,450,143 |
| 2024 – 2028 | $ 34,176,466 |

The expected benefits to be paid are based on the same assumptions used to measure the System's benefit obligation at June 30, 2018.

Continued

## 12. Pension Plans, Continued

### Plan Assets

The composition of plan assets at June 30, 2018 and 2017 is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Cash and cash equivalents | $ 3,348,811 | 4% | $ 1,233,771 | 2% |
| Mutual funds – fixed income | 10,778,948 | 12% | 9,863,034 | 12% |
| Mutual funds – balanced | 7,951,659 | 9% | 8,250,193 | 10% |
| Mutual funds – equity | 22,619,900 | 25% | 17,598,749 | 21% |
| Mutual funds – international equity | 19,470,024 | 22% | 17,584,711 | 21% |
| Equity securities | 25,191,179 | 28% | 28,314,541 | 34% |
| Total plan assets, at fair value | $ 89,360,521 | 100% | $ 82,844,999 | 100% |

The plan assets are long-term in nature and are intended to generate returns while preserving capital. The System's strategy is to maintain prudent levels of diversification throughout the portfolio to minimize risk. The target allocation for the investments is 68% equity, 29% fixed income/alternative investments and 3% cash and equivalents.

Continued

12. Pension Plans, Continued

Plan Assets, Continued

The fair values of the System's pension plan assets at June 30, 2018 and 2017, by asset category are as follows:

| | Fair Value Measurements at June 30, 2018 | | | |
|---|---|---|---|---|
| Asset Category | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | $ 3,348,811 | $ 3,348,811 | $ - | $ - |
| Mutual funds – fixed income | 10,778,948 | 10,778,948 | - | - |
| Mutual funds – balanced | 7,951,659 | 7,951,659 | - | - |
| Mutual funds – equity | 22,619,900 | 22,619,900 | - | - |
| Mutual funds – international equity | 19,470,024 | 19,470,024 | - | - |
| Equity securities | 25,191,179 | 25,191,179 | - | - |
| Total | $ 89,360,521 | $ 89,360,521 | $ - | $ - |

| | Fair Value Measurements at June 30, 2017 | | | |
|---|---|---|---|---|
| Asset Category | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | $ 1,233,771 | $ 1,233,771 | $ - | $ - |
| Mutual funds – fixed income | 9,863,034 | 9,863,034 | - | - |
| Mutual funds – balanced | 8,250,193 | 8,250,193 | - | - |
| Mutual funds – equity | 17,598,749 | 17,598,749 | - | - |
| Mutual funds – international equity | 17,584,711 | 17,584,711 | - | - |
| Equity securities | 28,314,541 | 28,314,541 | - | - |
| Total | $ 82,844,999 | $ 82,844,999 | $ - | $ - |

Continued

## 12. Pension Plans, Continued

### Plan Assets, Continued

The System created a 401(k) plan effective January 1, 2004. All employees of the System who have reached age 21 and have completed one year of eligible service are eligible to participate in the employer matching program. Employees may deposit a portion of their earnings for each pay period on a pre-tax basis and the System matches 50% of each participant's voluntary contributions up to a maximum of 6% of the employee's annual salary. Matching contribution expenses for the years ended June 30, 2018 and 2017 totaled approximately $3,400,000 and $3,500,000, respectively. Discretionary contribution expense for the years ended June 30, 2018 and 2017 totaled approximately $2,460,000 and $2,500,000, respectively.

The System maintains an unfunded Supplemental Executive Retirement Plan (SERP), which provides retirement benefits to certain officers and select employees. This plan is non-qualified and does not have a minimum funding requirement. The liability for this SERP obligation is included as deferred compensation payable and the assets set aside as a reserve for this liability are included in Board designated assets limited as to use in the accompanying combined balance sheets.

## 13. Self-Insurance Claims

The System insures its professional and general liability on a claims-made basis through Geechee, a wholly-owned subsidiary, with a self-insured retention limit of $7,000,000. The System insures its employed physician professional liability on a claims-made basis through Geechee with a self-insured retention limit of $4,000,000. At June 30, 2018, there are known claims and incidents that may result in additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The System has employed independent actuaries to assist in estimating the ultimate costs, if any, of settlement of such claims that are not covered by commercial insurance.

Accrued malpractice losses have been discounted at 6.00% for both June 30, 2018 and 2017, and in management's opinion, provide an adequate reserve for loss contingencies. The estimate of these potential claims is approximately $19,000,000 at June 30, 2018 and June 30, 2017, and is included in accrued self-insurance claims in the accompanying combined balance sheets. Management was not aware of any asserted or unasserted claims that exceed the System's insurance coverage as of June 30, 2018.

Continued

## 13. Self-Insurance Claims, Continued

The System is self-insured with respect to workers' compensation claims up to a self-insurance retention limit of $750,000 per claim. Workers compensation claims in excess of the self-insurance retention limits are insured with a commercial insurance carrier on a claims-made basis. Management was not aware of any asserted or unasserted claims that exceed the System's excess workers' compensation coverage as of June 30, 2018.

The System is self-insured with respect to employee health insurance claims. The System maintains reinsurance through a commercial excess coverage policy, which covers annual individual employee claims paid in excess of $290,000. Under this self-insurance program, the System paid or accrued approximately $18,400,000 and $17,400,000 during the fiscal years ended June 30, 2018 and 2017, respectively.

## 14. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors, net of contractual adjustments and estimated uncollectibles, for CH and SJH at June 30, 2018 and 2017 was as follows:

| | 2018 | 2017 |
|---|---|---|
| Medicare | 34% | 33% |
| Medicaid | 7% | 8% |
| Managed care | 31% | 33% |
| Commercial and other | 14% | 14% |
| Self-pay | 14% | 12% |
| Total | 100% | 100% |

At June 30, 2018, the System had deposits at major financial institutions which exceeded the $250,000 Federal Depository Insurance limits. Management believes the credit risks related to these deposits is minimal.

Continued

## 15. Functional Expenses

The System provides general health care services primarily to residents within its geographic location. Expenses related to providing these services are as follows:

| | 2018 | 2017 |
|---|---|---|
| Health care services | $ 430,842,996 | $ 421,417,388 |
| General and administrative | 124,963,790 | 121,669,600 |
| Total | $ 555,806,786 | $ 543,086,988 |

## 16. Fair Values of Financial Instruments

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

- *Cash and cash equivalents, accounts payable, accrued expenses, short-term debt, and estimated third-party payor settlements:* The carrying amount reported in the combined balance sheets approximates its fair value, due to the short-term nature of these instruments.

- *Assets limited as to use and derivative financial instruments:* Amounts reported in the combined balance sheets are at fair value. See below for fair value measurement disclosures.

- *Long-term debt:* The fair value of the System's fixed rate long-term debt is estimated based on quoted market value for same or similar debt instruments. The remaining long-term debt carrying amount approximates its fair value. Based on inputs used in determining the estimated fair value, the System's long-term debt would be classified as Level 2 in the fair value hierarchy.

The carrying amounts and fair values of the System's long-term debt at June 30, 2018 and 2017 are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt | $ 189,918,754 | $ 195,516,906 | $ 198,081,294 | $ 206,565,296 |

Continued

## 16. Fair Values of Financial Instruments, Continued

Fair values of assets measured on a recurring basis at June 30, 2018 and 2017 are as follows:

| | | Fair Value Measurements at June 30, 2018 | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Cash and cash equivalents | $ 5,618,015 | $ 3,349,811 | $ 2,268,204 | $ - |
| U.S. Government and Agency obligations | 2,131,340 | 635,712 | 1,495,628 | - |
| Municipal obligations | 546,646 | - | 546,646 | - |
| Corporate bonds | 3,820,887 | - | 3,820,887 | - |
| Mortgage backed securities | 3,154,491 | - | 3,154,491 | - |
| Mutual funds – fixed income | 65,134,785 | 64,077,152 | 1,057,633 | - |
| Mutual funds – balanced | 13,036,733 | 13,036,733 | - | - |
| Mutual funds – equity | 66,165,266 | 62,165,678 | 3,999,588 | - |
| Mutual funds – international equity | 33,284,341 | 33,284,341 | - | - |
| Equity securities – common stock | 17,988,771 | 17,988,771 | - | - |
| Equity securities – international | 1,060,408 | 1,060,408 | - | - |
| Equity securities – preferred stock | 6,906,315 | 6,906,315 | - | - |
| Derivatives | 614,553 | - | 614,553 | - |
| Total assets | $ 219,462,551 | $ 202,504,921 | $ 16,957,630 | $ - |

| | | Fair Value Measurements at June 30, 2017 | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Cash and cash equivalents | $ 4,009,517 | $ 245,366 | $ 3,764,151 | $ - |
| U.S. Government and Agency obligations | 2,367,975 | - | 2,367,975 | - |
| Municipal obligations | 931,126 | - | 931,126 | - |
| Corporate bonds | 6,807,352 | - | 6,807,352 | - |
| Mortgage backed securities | 4,274,718 | - | 4,274,718 | - |
| Mutual funds – fixed income | 70,014,822 | 70,014,822 | - | - |
| Mutual funds – balanced | 13,697,585 | 13,697,585 | - | - |
| Mutual funds – equity | 51,258,186 | 51,258,186 | - | - |
| Mutual funds – international equity | 37,747,146 | 37,747,146 | - | - |
| Equity securities – common stock | 15,479,307 | 15,479,307 | - | - |
| Equity securities – international | 1,101,745 | 1,101,745 | - | - |
| Equity securities – preferred stock | 5,484,829 | 5,484,829 | - | - |
| Derivatives | 394,386 | - | 394,386 | - |
| Total assets | $ 213,568,694 | $ 195,028,986 | $ 18,539,708 | $ - |

Continued

16. Fair Values of Financial Instruments, Continued

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

- *Cash and cash equivalents:* Valued at amortized cost, which approximates fair value.

- *U.S. Government and agency obligations:* U.S. governmental and agency obligations are based on yields currently available on comparable securities of issuers with similar credit ratings.

- *Corporate bonds and municipal obligations:* Certain corporate bonds and municipal obligations are valued at the closing price reported in the active market in which the security is traded. Other corporate bonds and municipal obligations are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

- *Mortgage backed securities:* Mortgage backed securities use valuation techniques that reflect market participants' assumptions and maximize the use of relevant observable inputs including quoted prices for similar assets, benchmark yield curves and market corroborated inputs.

- *Equity securities including mutual funds:* Certain equity securities are valued at the closing price reported on the active market on which the individual securities are traded. Other equity securities are valued based on quoted prices for similar investments in active or inactive markets or valued using observable market data.

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Valuation techniques utilized to determine fair value are consistently applied. These valuation techniques also apply to financial assets held in the Defined Benefit Pension Plan as discussed in Note 12.

Continued

17. Commitments and Contingencies

The System leases buildings and equipment under lease agreements which do not meet the criteria for capitalization. Total rental expense under such leases with nonaffiliates was approximately $5,000,000 and $4,600,000 for the years ended June 30, 2018 and 2017, respectively. Minimum future rentals on existing noncancelable leases for building and equipment from nonaffiliates as of June 30, 2018 are estimated to be as follows:

| Year Ending June 30 | Amount |
|---|---|
| 2019 | $ 3,882,300 |
| 2020 | 2,857,910 |
| 2021 | 736,090 |
| 2022 | 450,770 |
| 2023 | 355,820 |
| Thereafter | 242,920 |
| Total | $ 8,525,810 |

Health Care Reform

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of these provisions are and will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the System.

Compliance Plan

The healthcare industry has been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The System has implemented a compliance plan focusing on such issues. There can be no assurance that the System will not be subjected to future investigations with accompanying monetary damages.

Continued

## 17. Commitments and Contingencies, Continued

### Litigation

The System is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the System's future financial position or results from operations.

## 18. Meaningful Use Incentives

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions to Medicare reimbursements beginning in fiscal year 2015. On July 13, 2010, the Department of Health and Human Services (DHHS) released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages: I, II and III. The final rules specify the initial criteria for physicians and eligible hospitals necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

The final rule set the earliest interim payment date for the incentive payment at May 2011. The first year of the Medicare portion of the program is defined as the federal fiscal year October 1, 2010 to September 30, 2011.

The System recognizes income related to Medicare and Medicaid incentive payments using a grant model based upon when it has determined that it is reasonably assured that the Hospital will be meaningfully using EHR technology for the applicable period and the cost report information is reasonably estimable.

The System successfully demonstrated meeting meaningful use of its certified EHR technology prior to June 30, 2013. The System applied for and received approval from Medicare and Medicaid notifying the System qualified for approximately $-0- in 2018 and $1,600,000 in 2017 from the programs. This was received and is included with other revenue on the combined statements of operations and changes in net assets.

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Member:
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT ON COMBINING INFORMATION

Board of Trustees
St. Joseph's/Candler Health System, Inc.
Savannah, Georgia

We have audited the combined financial statements of St. Joseph's/Candler Health System, Inc. as of and for the years ended June 30, 2018 and 2017, and our report thereon dated October 18, 2018, which expressed an unmodified opinion on those combined financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information included in this report on pages 52 through 71, inclusive, is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual entities, and is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual entities.

The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to Geechee Reinsurance Company, LLC, a wholly-owned subsidiary, is based on the report of other auditors, the combining information is fairly stated in all material respects in relation to the combined financial statements taken a whole.

Draffin & Tucker, LLP
Albany, Georgia
October 18, 2018



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ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING BALANCE SHEETS
June 30, 2018

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 5,763,092 | $ 98,607 | $ 104,964 | $ 102,359 | $ 136,563 |
| Assets limited as to use required for current liabilities | 2,182,796 | - | - | - | - |
| Patient accounts receivable, net | - | 37,791,897 | 29,873,049 | 427,408 | 1,752,152 |
| Other receivables | 3,436,180 | 3,807,548 | 3,931,729 | - | 178,980 |
| Due from affiliates | - | - | 24,732,166 | - | - |
| Inventories | 12,062 | 6,473,018 | 7,983,000 | - | - |
| Prepaid expenses | 4,021,038 | 1,094,982 | 543,285 | 29,223 | 187,557 |
| Estimated third-party settlements | - | 1,736,849 | 1,379,351 | - | 39,290 |
| Total current assets | 15,415,168 | 51,002,901 | 68,547,544 | 558,990 | 2,294,542 |
| Assets limited as to use: | | | | | |
| Held in trust under bond indenture | 26,486,651 | - | - | - | - |
| Restricted under interest rate swap and deferred compensation agreements | 850,000 | 739,792 | 3,259,796 | - | - |
| Board designated | 133,115,831 | - | - | - | 8,031,711 |
| Total assets limited as to use | 160,452,482 | 739,792 | 3,259,796 | - | 8,031,711 |
| Property and equipment, net | 23,907,835 | 73,141,516 | 87,259,241 | 143,964 | 6,007,295 |
| Derivative financial instruments | 262,416 | 231,765 | 120,372 | - | - |
| Other assets: | | | | | |
| Investments in affiliates | 333,402,119 | - | - | - | - |
| Long-term investments | - | 1,974,188 | 51,668 | 6,510 | 23,040 |
| Goodwill on long-term investments | - | 48,323,352 | - | - | 161,000 |
| Beneficial interest in net assets of Foundations | - | 9,351,484 | 2,147,637 | - | - |
| Total other assets | 333,402,119 | 59,649,024 | 2,199,305 | 6,510 | 184,040 |
| Total assets | $ 533,440,020 | $ 184,764,998 | $ 161,386,258 | $ 709,464 | $ 16,517,588 |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $ - | $ 203 | $ 403,807 | $ 3,008,378 | $ - | $ 9,617,973 | $ - | $ 9,617,973 |
| - | - | - | - | - | 2,182,796 | - | 2,182,796 |
| - | - | 287,171 | - | - | 70,131,677 | - | 70,131,677 |
| 27,911 | 716,120 | 22,148 | - | - | 12,120,616 | - | 12,120,616 |
| - | - | - | - | - | 24,732,166 | ( 24,732,166) | - |
| - | 803,217 | - | - | - | 15,271,297 | - | 15,271,297 |
| 6,847 | - | - | - | - | 5,882,932 | - | 5,882,932 |
| - | - | - | - | - | 3,155,490 | - | 3,155,490 |
| 34,758 | 1,519,540 | 713,126 | 3,008,378 | - | 143,094,947 | ( 24,732,166) | 118,362,781 |
| - | - | - | - | - | 26,486,651 | - | 26,486,651 |
| - | - | - | - | - | 4,849,588 | - | 4,849,588 |
| - | - | 1,080,254 | 43,101,167 | - | 185,328,963 | - | 185,328,963 |
| - | - | 1,080,254 | 43,101,167 | - | 216,665,202 | - | 216,665,202 |
| 4,605,652 | 139,834 | 3,273,495 | - | 928,473 | 199,407,305 | - | 199,407,305 |
| - | - | - | - | - | 614,553 | - | 614,553 |
| - | - | - | - | - | 333,402,119 | (333,402,119) | - |
| 200 | 1,348 | - | - | - | 2,056,954 | - | 2,056,954 |
| - | - | - | - | - | 48,484,352 | - | 48,484,352 |
| - | - | - | - | - | 11,499,121 | - | 11,499,121 |
| 200 | 1,348 | - | - | - | 395,442,546 | (333,402,119) | 62,040,427 |
| $ 4,640,610 | $ 1,660,722 | $ 5,066,875 | $ 46,109,545 | $ 928,473 | $ 955,224,553 | $(358,134,285) | $ 597,090,268 |

Continued

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING BALANCE SHEETS, Continued
June 30, 2018

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | | |
| Current liabilities: | | | | | |
| Current maturities of long-term debt | $ 8,431,742 | $ - | $ - | $ - | $ - |
| Accounts payable | 5,309,729 | 11,197,982 | 10,145,842 | 306,329 | 941,929 |
| Accrued employee related expenses | 11,029,801 | 4,221,002 | 3,168,704 | 329,752 | 428,503 |
| Other accrued expenses | 4,385,481 | 1,842,051 | 1,087,001 | - | 585,920 |
| Due to affiliates | 66,036 | 24,253,768 | - | - | - |
| Total current liabilities | 29,222,789 | 41,514,803 | 14,401,547 | 636,081 | 1,956,352 |
| Long-term debt, excluding current maturities | 179,717,995 | - | - | - | - |
| Accrued self-insurance claims | 1,605,144 | - | - | - | - |
| Accrued pension cost | 26,046,331 | - | - | - | - |
| Deferred compensation payable | - | 739,792 | 3,259,796 | - | 6,127,356 |
| Collateral held under interest rate swap agreement | 850,000 | - | - | - | - |
| Total liabilities | 237,442,259 | 42,254,595 | 17,661,343 | 636,081 | 8,083,708 |
| Net assets: | | | | | |
| Common stock | - | - | - | - | 500 |
| Unrestricted net assets | 295,997,761 | 134,448,901 | 142,231,355 | 73,383 | 8,433,380 |
| Temporarily restricted net assets | - | 7,126,502 | 1,393,560 | - | - |
| Permanently restricted net assets | - | 935,000 | 100,000 | - | - |
| Total net assets | 295,997,761 | 142,510,403 | 143,724,915 | 73,383 | 8,433,880 |
| Total liabilities and net assets | $ 533,440,020 | $ 184,764,998 | $ 161,386,258 | $ 709,464 | $ 16,517,588 |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ 8,431,742 | $ - | $ 8,431,742 |
| 32,569 | 199,998 | 128,907 | 99,598 | 51,859 | 28,414,742 | - | 28,414,742 |
| 2,909 | 45,812 | 98,594 | - | 67,627 | 19,392,704 | - | 19,392,704 |
| 39,011 | 16,283 | - | 65,327 | 35,088 | 8,056,162 | - | 8,056,162 |
| - | - | - | 412,362 | - | 24,732,166 | ( 24,732,166) | - |
| 74,489 | 262,093 | 227,501 | 577,287 | 154,574 | 89,027,516 | ( 24,732,166) | 64,295,350 |
| - | - | - | - | - | 179,717,995 | - | 179,717,995 |
| - | - | - | 19,221,487 | - | 20,826,631 | - | 20,826,631 |
| - | - | - | - | - | 26,046,331 | - | 26,046,331 |
| - | - | - | - | - | 10,126,944 | - | 10,126,944 |
| - | - | - | - | - | 850,000 | - | 850,000 |
| 74,489 | 262,093 | 227,501 | 19,798,774 | 154,574 | 326,595,417 | ( 24,732,166) | 301,863,251 |
| 500 | 165,000 | - | 120,000 | - | 286,000 | ( 286,000) | - |
| 4,565,621 | 1,233,629 | 4,839,374 | 26,190,771 | 773,899 | 618,788,074 | (333,116,119) | 285,671,955 |
| - | - | - | - | | 8,520,062 | - | 8,520,062 |
| - | - | - | - | - | 1,035,000 | - | 1,035,000 |
| 4,566,121 | 1,398,629 | 4,839,374 | 26,310,771 | 773,899 | 628,629,136 | (333,402,119) | 295,227,017 |
| $ 4,640,610 | $ 1,660,722 | $ 5,066,875 | $ 46,109,545 | $ 928,473 | $ 955,224,553 | $(358,134,285) | $ 597,090,268 |

See accompanying independent auditor's report on combining information.

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING BALANCE SHEETS
June 30, 2017

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 4,568,571 | $ 50,213 | $ 79,154 | $ 39,870 | $ 157,778 |
| Assets limited as to use required for current liabilities | 2,173,446 | - | - | - | - |
| Patient accounts receivable, net | - | 42,228,726 | 31,278,215 | 653,202 | 1,477,451 |
| Other receivables | 3,901,714 | 3,539,342 | 2,561,635 | - | 98,822 |
| Due from affiliates | 9,884,800 | - | 36,105,278 | - | - |
| Inventories | - | 5,364,571 | 7,416,982 | - | - |
| Prepaid expenses | 3,719,321 | 1,091,562 | 450,494 | 21,110 | 145,016 |
| Estimated third-party settlements | - | 1,329,012 | 1,272,154 | - | 57,238 |
| Total current assets | 24,247,852 | 53,603,426 | 79,163,912 | 714,182 | 1,936,305 |
| Assets limited as to use: | | | | | |
| Held in trust under bond indenture | 35,258,399 | - | - | - | - |
| Restricted under interest rate swap and deferred compensation agreements | 230,000 | 648,198 | 2,946,367 | - | - |
| Board designated | 123,539,567 | - | - | - | 7,480,907 |
| Total assets limited as to use | 159,027,966 | 648,198 | 2,946,367 | - | 7,480,907 |
| Property and equipment, net | 27,274,200 | 78,167,799 | 77,679,525 | 257,427 | 5,507,461 |
| Derivative financial instruments | 592,562 | ( 130,436) | ( 67,740) | - | - |
| Other assets: | | | | | |
| Investments in affiliates | 314,019,949 | - | - | - | - |
| Long-term investments | - | 1,726,532 | 62,607 | 6,510 | 19,604 |
| Goodwill on long-term investments | - | 48,323,352 | 118,319 | - | 161,000 |
| Beneficial interest in net assets of Foundations | - | 7,837,049 | 1,869,984 | - | - |
| Total other assets | 314,019,949 | 57,886,933 | 2,050,910 | 6,510 | 180,604 |
| Total assets | $ 525,162,529 | $ 190,175,920 | $ 161,772,974 | $ 978,119 | $ 15,105,277 |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $ - | $ 2,278 | $ 443,485 | $ 2,776,177 | $ - | $ 8,117,526 | $ - | $ 8,117,526 |
| - | - | - | - | - | 2,173,446 | - | 2,173,446 |
| - | - | 241,829 | - | - | 75,879,423 | - | 75,879,423 |
| 12,541 | 898,625 | 35,518 | - | - | 11,048,197 | - | 11,048,197 |
| - | - | - | - | - | 45,990,078 | ( 45,990,078) | - |
| - | 666,309 | - | - | - | 13,447,862 | - | 13,447,862 |
| 15,872 | - | 1,600 | - | - | 5,444,975 | - | 5,444,975 |
| - | - | - | - | - | 2,658,404 | - | 2,658,404 |
| 28,413 | 1,567,212 | 722,432 | 2,776,177 | - | 164,759,911 | ( 45,990,078) | 118,769,833 |
| - | - | - | - | - | 35,258,399 | - | 35,258,399 |
| - | - | - | - | - | 3,824,565 | - | 3,824,565 |
| - | - | 990,983 | 39,906,441 | - | 171,917,898 | - | 171,917,898 |
| - | - | 990,983 | 39,906,441 | - | 211,000,862 | - | 211,000,862 |
| 4,792,946 | 34,627 | 3,270,499 | - | 582,915 | 197,567,399 | - | 197,567,399 |
| - | - | - | - | - | 394,386 | - | 394,386 |
| - | - | - | - | - | 314,019,949 | (314,019,949) | - |
| 200 | 1,348 | - | - | - | 1,816,801 | - | 1,816,801 |
| - | - | - | - | - | 48,602,671 | - | 48,602,671 |
| - | - | - | - | - | 9,707,033 | - | 9,707,033 |
| 200 | 1,348 | - | - | - | 374,146,454 | (314,019,949) | 60,126,505 |
| $ 4,821,559 | $ 1,603,187 | $ 4,983,914 | $ 42,682,618 | $ 582,915 | $ 947,869,012 | $(360,010,027) | $ 587,858,985 |

Continued

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING BALANCE SHEETS, Continued
June 30, 2017

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | | |
| Current liabilities: | | | | | |
| Current maturities of long-term debt | $ 8,160,932 | $ - | $ - | $ - | $ - |
| Short-term debt | 4,000,000 | - | | | |
| Accounts payable | 4,628,828 | 8,109,179 | 10,564,224 | 289,030 | 713,728 |
| Accrued employee related expenses | 10,685,578 | 5,049,858 | 3,718,204 | 385,013 | 303,746 |
| Other accrued expenses | 4,272,430 | 2,638,472 | 1,638,566 | - | 361,166 |
| Due to affiliates | - | 45,949,046 | - | - | - |
| Total current liabilities | 31,747,768 | 61,746,555 | 15,920,994 | 674,043 | 1,378,640 |
| Long-term debt, excluding current maturities | 187,989,621 | - | - | - | - |
| Accrued self-insurance claims | 2,270,540 | - | - | - | - |
| Accrued pension cost | 31,282,754 | - | - | - | - |
| Deferred compensation payable | - | 648,198 | 2,946,367 | - | 6,233,776 |
| Collateral held under interest rate swap agreement | 230,000 | - | - | - | - |
| Total liabilities | 253,520,683 | 62,394,753 | 18,867,361 | 674,043 | 7,612,416 |
| Net assets: | | | | | |
| Common stock | - | - | - | - | 500 |
| Unrestricted net assets | 271,641,846 | 120,935,957 | 141,653,834 | 304,076 | 7,492,361 |
| Temporarily restricted net assets | - | 5,910,210 | 1,151,779 | - | - |
| Permanently restricted net assets | - | 935,000 | 100,000 | - | - |
| Total net assets | 271,641,846 | 127,781,167 | 142,905,613 | 304,076 | 7,492,861 |
| Total liabilities and net assets | $ 525,162,529 | $ 190,175,920 | $ 161,772,974 | $ 978,119 | $ 15,105,277 |

| | SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|---|
| | $ - | $ - | $ - | $ - | $ - | $ 8,160,932 | $ - | $ 8,160,932 |
| | - | - | - | - | - | 4,000,000 | - | 4,000,000 |
| | 33,889 | 103,556 | 153,422 | - | 172,412 | 24,768,268 | - | 24,768,268 |
| | 5,410 | 45,280 | 142,829 | - | 13,029 | 20,348,947 | - | 20,348,947 |
| | 18,266 | 21,670 | - | 65,624 | - | 9,016,194 | - | 9,016,194 |
| | - | - | - | 41,032 | - | 45,990,078 | ( 45,990,078) | - |
| | 57,565 | 170,506 | 296,251 | 106,656 | 185,441 | 112,284,419 | ( 45,990,078) | 66,294,341 |
| | - | - | - | - | - | 187,989,621 | - | 187,989,621 |
| | - | - | - | 19,123,385 | - | 21,393,925 | - | 21,393,925 |
| | - | - | - | - | - | 31,282,754 | - | 31,282,754 |
| | - | - | - | - | - | 9,828,341 | - | 9,828,341 |
| | - | - | - | - | - | 230,000 | - | 230,000 |
| | 57,565 | 170,506 | 296,251 | 19,230,041 | 185,441 | 363,009,060 | ( 45,990,078) | 317,018,982 |
| | 500 | 165,000 | - | 120,000 | - | 286,000 | ( 286,000) | - |
| | 4,763,494 | 1,267,681 | 4,687,663 | 23,332,577 | 397,474 | 576,476,963 | (313,733,949) | 262,743,014 |
| | - | - | - | - | | 7,061,989 | - | 7,061,989 |
| | - | - | - | - | - | 1,035,000 | - | 1,035,000 |
| | 4,763,994 | 1,432,681 | 4,687,663 | 23,452,577 | 397,474 | 584,859,952 | (314,019,949) | 270,840,003 |
| | $ 4,821,559 | $ 1,603,187 | $ 4,983,914 | $ 42,682,618 | $ 582,915 | $ 947,869,012 | $(360,010,027) | $ 587,858,985 |

See accompanying independent auditor’s report on combining information.

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING STATEMENTS OF EXCESS REVENUES (EXPENSES)
June 30, 2018

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| Unrestricted revenues, gains and other support: | | | | | |
| Patient service revenue (net of contractual allowances and discounts) | $ - | $ 288,075,836 | $ 231,710,786 | $ 9,043,961 | $ 18,463,013 |
| Provision for bad debts | - | ( 15,676,790) | ( 17,486,611) | 40,198 | ( 1,558,860) |
| Net patient service revenue | - | 272,399,046 | 214,224,175 | 9,084,159 | 16,904,153 |
| Other revenue | - | 31,713,199 | 13,517,791 | - | 751,068 |
| Total unrestricted revenues, gains and other support | - | 304,112,245 | 227,741,966 | 9,084,159 | 17,655,221 |
| Expenses: | | | | | |
| Salaries and wages | - | 100,874,576 | 78,434,857 | 6,623,261 | 12,422,343 |
| Employee benefits | - | 20,942,563 | 16,250,119 | 1,121,321 | 1,949,231 |
| Physician and professional fees | - | 28,242,704 | 20,222,222 | 16,806 | 4,010,851 |
| Materials and supplies | - | 75,648,141 | 74,715,225 | 295,798 | 2,009,135 |
| Purchased services | - | 25,550,520 | 10,509,287 | 20,351 | 606,215 |
| Insurance | - | 2,716,150 | 2,110,360 | - | 223,602 |
| Interest | - | 3,267,269 | 2,365,954 | - | - |
| Depreciation and amortization | - | 13,629,968 | 9,009,309 | 115,668 | 475,654 |
| Other | - | 19,509,304 | 12,718,367 | 1,030,303 | 2,666,687 |
| Total expenses | - | 290,381,195 | 226,335,700 | 9,223,508 | 24,363,718 |
| Income (loss) from operations | - | 13,731,050 | 1,406,266 | ( 139,349) | ( 6,708,497) |
| Nonoperating income (loss): | | | | | |
| Investment income | - | 3,410,273 | 1,895,655 | - | 364,936 |
| Change in fair value of derivative instruments | - | 170,716 | 49,451 | - | - |
| Gain on investments in affiliates | 15,411,723 | - | - | - | - |
| Net periodic pension cost | - | ( 364,550) | ( 263,985) | - | - |
| Nonoperating income (loss), net | 15,411,723 | 3,216,439 | 1,681,121 | - | 364,936 |
| Revenues and gains in excess (deficient) of expenses and losses | $ 15,411,723 | $ 16,947,489 | $ 3,087,387 | $( 139,349) | $( 6,343,561) |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $ - | $ - | $ 2,819,088 | $ - | $ - | $ 550,112,684 | $ - | $ 550,112,684 |
| - | - | - | - | - | (34,682,063) | - | (34,682,063) |
| - | - | 2,819,088 | - | - | 515,430,621 | - | 515,430,621 |
| 1,486,706 | 5,657,230 | 282,900 | 3,657,967 | - | 57,066,861 | (8,352,028) | 48,714,833 |
| 1,486,706 | 5,657,230 | 3,101,988 | 3,657,967 | - | 572,497,482 | (8,352,028) | 564,145,454 |
| 87,602 | 821,926 | 1,514,577 | - | 909,042 | 201,688,184 | - | 201,688,184 |
| 8,476 | 149,997 | 393,593 | - | 156,215 | 40,971,515 | - | 40,971,515 |
| 54,541 | 344,662 | 389,328 | 120,902 | 475,226 | 53,877,242 | - | 53,877,242 |
| 852 | 2,100,242 | 113,379 | - | 10,351 | 154,893,123 | - | 154,893,123 |
| 67,630 | 26,954 | 51,633 | - | 7,983 | 36,840,573 | (3,842,959) | 32,997,614 |
| - | - | - | 3,857,967 | - | 8,908,079 | (3,657,967) | 5,250,112 |
| - | - | - | - | - | 5,633,223 | - | 5,633,223 |
| 317,288 | 4,415 | 150,757 | - | 164,487 | 23,867,546 | - | 23,867,546 |
| 769,594 | 117,626 | 321,896 | 1,638 | 343,914 | 37,479,329 | (851,102) | 36,628,227 |
| 1,305,983 | 3,565,822 | 2,935,163 | 3,980,507 | 2,067,218 | 564,158,814 | (8,352,028) | 555,806,786 |
| 180,723 | 2,091,408 | 166,825 | (322,540) | (2,067,218) | 8,338,668 | - | 8,338,668 |
| - | - | 11,906 | 1,798,652 | - | 7,481,422 | - | 7,481,422 |
| - | - | - | - | - | 220,167 | - | 220,167 |
| - | - | - | - | - | 15,411,723 | (15,411,723) | - |
| - | - | - | - | - | (628,535) | - | (628,535) |
| - | - | 11,906 | 1,798,652 | - | 22,484,777 | (15,411,723) | 7,073,054 |
| $ 180,723 | $ 2,091,408 | $ 178,731 | $ 1,476,112 | $(2,067,218) | $ 30,823,445 | $(15,411,723) | $ 15,411,722 |

See accompanying independent auditor's report on combining information.

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING STATEMENTS OF EXCESS REVENUES (EXPENSES)
June 30, 2017

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| Unrestricted revenues, gains and other support: | | | | | |
| Patient service revenue (net of contractual allowances and discounts) | $ - | $ 270,748,344 | $ 208,080,341 | $ 10,812,930 | $ 16,293,981 |
| Provision for bad debts | - | ( 3,328,743) | ( 3,409,844) | 207,236 | ( 1,189,889) |
| Net patient service revenue | - | 267,419,601 | 204,670,497 | 11,020,166 | 15,104,092 |
| Other revenue | - | 30,373,712 | 14,071,056 | 554 | 499,715 |
| Total unrestricted revenues, gains and other support | - | 297,793,313 | 218,741,553 | 11,020,720 | 15,603,807 |
| Expenses: | | | | | |
| Salaries and wages | - | 101,133,643 | 79,387,953 | 8,341,834 | 11,387,139 |
| Employee benefits | - | 19,595,426 | 14,875,824 | 1,084,458 | 2,210,767 |
| Physician and professional fees | - | 22,362,335 | 16,808,746 | 343,533 | 3,541,446 |
| Materials and supplies | - | 73,907,847 | 76,878,451 | 384,893 | 1,574,690 |
| Purchased services | - | 25,154,376 | 10,487,539 | 288,893 | 493,303 |
| Insurance | - | 3,333,675 | 2,638,513 | - | 213,632 |
| Interest | - | 3,267,514 | 2,366,131 | - | - |
| Depreciation and amortization | - | 13,620,242 | 8,318,889 | 132,935 | 434,538 |
| Other | - | 19,294,088 | 12,382,973 | 1,117,582 | 2,272,320 |
| Total expenses | - | 281,669,146 | 224,145,019 | 11,694,128 | 22,127,835 |
| Income (loss) from operations | - | 16,124,167 | ( 5,403,466) | ( 673,408) | ( 6,524,028) |
| Nonoperating income (loss): | | | | | |
| Investment income | - | 2,884,768 | 1,358,590 | - | 232,812 |
| Change in fair value of derivative instruments | - | 284,310 | 66,917 | - | - |
| Gain on investments in affiliates | 8,970,218 | - | - | - | - |
| Net periodic pension cost | - | ( 1,185,309) | ( 858,327) | - | - |
| Nonoperating income (loss), net | 8,970,218 | 1,983,769 | 567,180 | - | 232,812 |
| Revenues and gains in excess (deficient) of expenses and losses | $ 8,970,218 | $ 18,107,936 | $( 4,836,286) | $( 673,408) | $( 6,291,216) |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $ - | $ - | $ 2,796,829 | $ - | $ - | $ 508,732,425 | $ - | $ 508,732,425 |
| - | - | - | - | - | ( 7,721,240) | - | ( 7,721,240) |
| - | - | 2,796,829 | - | - | 501,011,185 | - | 501,011,185 |
| 1,488,904 | 5,331,041 | 247,503 | 4,693,585 | - | 56,706,070 | (9,173,643) | 47,532,427 |
| 1,488,904 | 5,331,041 | 3,044,332 | 4,693,585 | - | 557,717,255 | (9,173,643) | 548,543,612 |
| 120,237 | 810,499 | 1,531,595 | - | 140,187 | 202,853,087 | - | 202,853,087 |
| 17,498 | 145,663 | 333,200 | - | 8,343 | 38,271,179 | - | 38,271,179 |
| 23,182 | 340,615 | 374,788 | 127,243 | 607,514 | 44,529,402 | - | 44,529,402 |
| 1,166 | 1,822,590 | 132,856 | - | 2,597 | 154,705,090 | - | 154,705,090 |
| 72,974 | 16,473 | 57,094 | - | 1,748 | 36,572,400 | (3,662,027) | 32,910,373 |
| - | - | - | 4,329,282 | - | 10,515,102 | (4,693,584) | 5,821,518 |
| - | - | - | - | - | 5,633,645 | - | 5,633,645 |
| 346,865 | 7,133 | 138,990 | - | 251 | 22,999,843 | - | 22,999,843 |
| 668,567 | 21,027 | 394,819 | 1,677 | 27,830 | 36,180,883 | ( 818,032) | 35,362,851 |
| 1,250,489 | 3,164,000 | 2,963,342 | 4,458,202 | 788,470 | 552,260,631 | (9,173,643) | 543,086,988 |
| 238,415 | 2,167,041 | 80,990 | 235,383 | (788,470) | 5,456,624 | - | 5,456,624 |
| - | - | 15,513 | 714,320 | - | 5,206,003 | - | 5,206,003 |
| - | - | - | - | - | 351,227 | - | 351,227 |
| - | - | - | - | - | 8,970,218 | (8,970,218) | - |
| - | - | - | - | - | ( 2,043,636) | - | ( 2,043,636) |
| - | - | 15,513 | 714,320 | - | 12,483,812 | (8,970,218) | 3,513,594 |
| $ 238,415 | $ 2,167,041 | $ 96,503 | $ 949,703 | $(788,470) | $ 17,940,436 | $(8,970,218) | $ 8,970,218 |

See accompanying independent auditor's report on combining information.

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING STATEMENTS OF CASH FLOWS
June 30, 2018

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Increase (decrease) in net assets | $ 24,355,915 | $ 14,729,236 | $ 819,302 | $(230,693) | $ 941,019 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | | | | |
| Change in fair value of derivative instruments | 330,146 | ( 362,201) | ( 188,112) | - | - |
| Beneficial interest in net assets of Foundations, net | - | ( 1,514,435) | ( 277,653) | - | - |
| Net realized and unrealized (gains) losses on investments other than trading securities | ( 4,107,002) | - | - | - | ( 403,971) |
| Depreciation and amortization | - | 13,629,968 | 9,009,309 | 115,668 | 475,654 |
| Contributions for property | - | ( 244,833) | ( 334,536) | - | - |
| Changes in: | | | | | |
| Patient accounts receivable | - | 4,436,829 | 1,405,166 | 225,794 | ( 274,701) |
| Other receivables | 465,534 | ( 268,206) | (1,370,094) | - | ( 80,158) |
| Inventories | ( 12,062) | ( 1,108,447) | ( 566,018) | - | - |
| Prepaid expenses | ( 301,717) | ( 3,420) | ( 92,791) | ( 8,113) | ( 42,541) |
| Accounts payable | 680,901 | 3,088,803 | ( 418,382) | 17,299 | 228,201 |
| Accrued liabilities | 457,274 | ( 1,625,277) | (1,101,065) | ( 55,261) | 349,511 |
| Estimated third-party payor settlements | - | ( 407,837) | ( 107,197) | - | 17,948 |
| Accrued self-insurance claims | ( 665,396) | - | - | - | - |
| Accrued pension costs, net | ( 5,236,423) | - | - | - | - |
| Deferred compensation payable | - | 91,594 | 313,429 | - | ( 106,420) |
| Net cash provided by (used in) operating activities | 15,967,170 | 30,441,774 | 7,091,358 | 64,694 | 1,104,542 |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $(197,873) | $( 34,052) | $ 151,711 | $ 2,858,194 | $ 376,425 | $ 43,769,184 | $(19,382,170) | $ 24,387,014 |
| - | - | - | - | - | ( 220,167) | - | ( 220,167) |
| - | - | - | - | - | ( 1,792,088) | - | ( 1,792,088) |
| - | - | ( 77,364) | (2,108,638) | - | ( 6,696,975) | - | ( 6,696,975) |
| 317,288 | 4,415 | 150,757 | - | 164,487 | 23,867,546 | - | 23,867,546 |
| - | - | ( 31,100) | - | - | ( 610,469) | - | ( 610,469) |
| - | - | ( 45,342) | - | - | 5,747,746 | - | 5,747,746 |
| ( 15,370) | 182,505 | 13,370 | - | - | ( 1,072,419) | - | ( 1,072,419) |
| - | (136,908) | - | - | - | ( 1,823,435) | - | ( 1,823,435) |
| 9,025 | - | 1,600 | - | - | ( 437,957) | - | ( 437,957) |
| ( 1,320) | 96,442 | ( 24,515) | 99,598 | (120,553) | 3,646,474 | - | 3,646,474 |
| 18,244 | ( 4,855) | ( 44,235) | ( 297) | 89,686 | ( 1,916,275) | - | ( 1,916,275) |
| - | - | - | - | - | ( 497,086) | - | ( 497,086) |
| - | - | - | 98,102 | - | ( 567,294) | - | ( 567,294) |
| - | - | - | - | - | ( 5,236,423) | - | ( 5,236,423) |
| - | - | - | - | - | 298,603 | - | 298,603 |
| 129,994 | 107,547 | 94,882 | 946,959 | 510,045 | 56,458,965 | (19,382,170) | 37,076,795 |

Continued

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING STATEMENTS OF CASH FLOWS, Continued
June 30, 2018

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| Cash flows from investing activities: | | | | | |
| Purchases of property and equipment | $ - | $( 6,505,352) | $(16,951,223) | $( 2,205) | $( 975,488) |
| Proceeds from sale of assets limited as to use | 97,837,929 | - | - | - | 2,378 |
| Purchases of assets limited as to use | (95,164,793) | ( 91,594) | ( 313,429) | - | ( 149,211) |
| Proceeds (payments) on pledged collateral | 620,000 | - | - | - | - |
| Investment in affiliates | (19,382,170) | - | - | - | - |
| Sales (purchases) of long-term investments, net | - | ( 247,656) | 10,939 | - | ( 3,436) |
| Net cash provided by (used in) investing activities | (16,089,034) | ( 6,844,602) | (17,253,713) | ( 2,205) | (1,125,757) |
| Cash flows from financing activities: | | | | | |
| Repayment of long-term debt | (20,162,537) | - | - | - | - |
| Proceeds from issuance of long-term debt | 11,910,270 | - | - | - | - |
| Repayment of short-term debt | ( 9,000,000) | - | - | - | - |
| Proceeds from issuance of short-term debt | 5,000,000 | - | - | - | - |
| Contributions for property | - | 244,833 | 334,536 | - | - |
| Transfers to (from) affiliates, net | 13,568,652 | (23,793,611) | 9,853,629 | - | - |
| Net cash provided by (used in) financing activities | 1,316,385 | (23,548,778) | 10,188,165 | - | - |
| Net increase (decrease) in cash and cash equivalents | 1,194,521 | 48,394 | 25,810 | 62,489 | ( 21,215) |
| Cash and cash equivalents, beginning of year | 4,568,571 | 50,213 | 79,154 | 39,870 | 157,778 |
| Cash and cash equivalents, end of year | $ 5,763,092 | $ 98,607 | $ 104,964 | $ 102,359 | $ 136,563 |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $(129,994) | $(109,622) | $(153,753) | $ - | $(510,045) | $( 25,337,682) | $ - | $( 25,337,682) |
| - | - | 5,192 | 27,532,144 | | 125,377,643 | - | 125,377,643 |
| - | - | ( 17,099) | (28,618,232) | | (124,354,358) | - | (124,354,358) |
| - | - | - | - | - | 620,000 | | 620,000 |
| - | - | - | - | - | ( 19,382,170) | 19,382,170 | - |
| - | - | - | - | - | ( 240,153) | - | ( 240,153) |
| (129,994) | (109,622) | (165,660) | ( 1,086,088) | (510,045) | ( 43,316,720) | 19,382,170 | ( 23,934,550) |
| - | - | - | - | - | ( 20,162,537) | - | ( 20,162,537) |
| - | - | - | - | - | 11,910,270 | - | 11,910,270 |
| - | - | - | - | - | ( 9,000,000) | - | ( 9,000,000) |
| - | - | - | - | - | 5,000,000 | - | 5,000,000 |
| - | - | 31,100 | - | - | 610,469 | - | 610,469 |
| - | - | - | 371,330 | - | - | - | - |
| - | - | 31,100 | 371,330 | - | ( 11,641,798) | - | ( 11,641,798) |
| - | ( 2,075) | ( 39,678) | 232,201 | - | 1,500,447 | - | 1,500,447 |
| - | 2,278 | 443,485 | 2,776,177 | - | 8,117,526 | - | 8,117,526 |
| $ - | $ 203 | $ 403,807 | $ 3,008,378 | $ - | $ 9,617,973 | $ - | $ 9,617,973 |

See accompanying independent auditor's report on combining information.

ST. JOSEPH'S/CANDLER HEALTH SYSTEM, INC.

COMBINING STATEMENTS OF CASH FLOWS
June 30, 2017

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Increase (decrease) in net assets | $ 33,078,512 | $ 16,580,590 | $(7,111,044) | $( 877,264) | $ 935,005 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | | | | |
| Change in fair value of derivative instruments | 679,856 | ( 678,626) | ( 352,457) | - | - |
| Beneficial interest in net assets of Foundations, net | - | ( 1,369,764) | ( 18,275) | - | - |
| Net realized and unrealized (gains) losses on investments other than trading securities | ( 9,662,783) | - | - | - | (564,090) |
| Depreciation and amortization | - | 13,620,242 | 8,318,889 | 132,935 | 434,538 |
| Contributions for property | - | ( 645,614) | ( 109,200) | - | - |
| Changes in: | | | | | |
| Patient accounts receivable | - | ( 1,936,141) | 2,424,261 | 1,209,005 | (254,996) |
| Other receivables | ( 2,600,940) | ( 159,016) | ( 490,480) | 478 | ( 11,417) |
| Inventories | - | ( 165,132) | ( 806,663) | - | - |
| Prepaid expenses | ( 1,027,361) | 186,233 | 353,202 | ( 3,478) | ( 33,684) |
| Accounts payable | 585,825 | 571,673 | 266,167 | ( 396,292) | 105,435 |
| Accrued liabilities | ( 3,481,401) | ( 510,364) | ( 178,985) | ( 113,250) | 14,812 |
| Estimated third-party payor settlements | - | ( 305,185) | 497,971 | - | 53,307 |
| Accrued self-insurance claims | 58,551 | - | - | - | - |
| Accrued pension costs, net | (10,141,745) | - | - | - | - |
| Deferred compensation payable | - | 87,969 | ( 109,380) | - | 132,789 |
| Net cash provided by (used in) operating activities | 7,488,514 | 25,276,865 | 2,684,006 | ( 47,866) | 811,699 |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $(212,020) | $ 252,717 | $ 72,917 | $ 4,423,423 | $ 397,474 | $ 47,540,310 | $(15,263,641) | $ 32,276,669 |
| - | - | - | - | - | ( 351,227) | - | ( 351,227) |
| - | - | - | - | - | ( 1,388,039) | - | ( 1,388,039) |
| - | - | ( 94,294) | (3,506,973) | - | (13,828,140) | - | (13,828,140) |
| 346,865 | 7,133 | 138,990 | - | 251 | 22,999,843 | - | 22,999,843 |
| - | - | 31,100 | - | - | ( 723,714) | - | ( 723,714) |
| - | - | 946 | - | - | 1,443,075 | - | 1,443,075 |
| 1,424 | (198,424) | 18,450 | - | - | ( 3,439,925) | - | ( 3,439,925) |
| - | 19,851 | - | - | - | ( 951,944) | - | ( 951,944) |
| ( 665) | 10,988 | - | - | - | ( 514,765) | - | ( 514,765) |
| 1,181 | 42,524 | 56,533 | ( 63,546) | 172,412 | 1,341,912 | - | 1,341,912 |
| ( 11,545) | (126,579) | ( 44,871) | 8,749 | 13,029 | ( 4,430,405) | - | ( 4,430,405) |
| - | - | - | - | - | 246,093 | - | 246,093 |
| - | - | - | (1,170,311) | - | ( 1,111,760) | - | ( 1,111,760) |
| - | - | - | - | - | (10,141,745) | - | (10,141,745) |
| - | - | - | - | - | 111,378 | - | 111,378 |
| 125,240 | 8,210 | 179,771 | ( 308,658) | 583,166 | 36,800,947 | (15,263,641) | 21,537,306 |

Continued

## COMBINING STATEMENTS OF CASH FLOWS, Continued
June 30, 2017

| | St. Joseph's/ Candler Health System | Candler Hospital | St. Joseph's Hospital | SJC Home Health | SJC Medical Group |
|---|---|---|---|---|---|
| Cash flows from investing activities: | | | | | |
| Purchases of property and equipment | $( 2,353,142) | $(13,327,074) | $(27,288,279) | $( 60,627) | $( 289,384) |
| Proceeds from sale of assets limited as to use | 164,725,953 | - | 109,380 | - | 3,173,575 |
| Purchases of assets limited as to use | (168,535,513) | ( 87,969) | - | - | (3,844,852) |
| Investment in affiliates | ( 15,263,641) | - | - | - | - |
| Sales (purchases) of long-term investments, net | - | ( 113,088) | 52,793 | - | ( 4,814) |
| Net cash provided by (used in) investing activities | ( 21,426,343) | (13,528,131) | (27,126,106) | ( 60,627) | ( 965,475) |
| Cash flows from financing activities: | | | | | |
| Repayment of long-term debt | ( 6,519,142) | (64,900,772) | (16,578,369) | - | - |
| Proceeds from issuance of long-term debt | 126,468,640 | - | - | - | - |
| Repayment of short-term debt | ( 11,000,000) | - | - | - | - |
| Proceeds from issuance of short-term debt | 1,000,000 | - | - | - | - |
| Contributions for property | - | 645,614 | 109,200 | - | - |
| Transfers to (from) affiliates, net | ( 93,516,349) | 52,536,685 | 40,954,140 | - | - |
| Net cash provided by (used in) financing activities | 16,433,149 | (11,718,473) | 24,484,971 | - | - |
| Net increase (decrease) in cash and cash equivalents | 2,495,320 | 30,261 | 42,871 | (108,493) | ( 153,776) |
| Cash and cash equivalents, beginning of year | 2,073,251 | 19,952 | 36,283 | 148,363 | 311,554 |
| Cash and cash equivalents, end of year | $ 4,568,571 | $ 50,213 | $ 79,154 | $ 39,870 | $ 157,778 |

| SJC Properties | SJC Health Services | Georgia Infirmary | Geechee Reinsurance | Advocate Health Network | Totals | Eliminations | Combined Totals |
|---|---|---|---|---|---|---|---|
| $(125,240) | $(7,761) | $( 86,796) | $ - | $(583,166) | $( 44,121,469) | $ - | $( 44,121,469) |
| - | - | 4,601 | 22,470,278 | | 190,483,787 | - | 190,483,787 |
| - | - | ( 20,114) | (22,178,583) | | (194,667,031) | - | (194,667,031) |
| - | - | - | - | | ( 15,263,641) | 15,263,641 | - |
| - | - | - | - | - | ( 65,109) | - | ( 65,109) |
| (125,240) | (7,761) | (102,309) | 291,695 | (583,166) | ( 63,633,463) | 15,263,641 | ( 48,369,822) |
| - | - | - | - | - | ( 87,998,283) | - | ( 87,998,283) |
| - | - | - | - | - | 126,468,640 | - | 126,468,640 |
| - | - | - | - | - | ( 11,000,000) | - | ( 11,000,000) |
| - | - | - | - | - | 1,000,000 | - | 1,000,000 |
| - | - | ( 31,100) | - | - | 723,714 | - | 723,714 |
| - | - | - | 25,524 | - | - | - | - |
| - | - | ( 31,100) | 25,524 | - | 29,194,071 | - | 29,194,071 |
| - | 449 | 46,362 | 8,561 | - | 2,361,555 | - | 2,361,555 |
| - | 1,829 | 397,123 | 2,767,616 | - | 5,755,971 | - | 5,755,971 |
| $ - | $ 2,278 | $ 443,485 | $ 2,776,177 | $ - | $ 8,117,526 | $ - | $ 8,117,526 |

See accompanying independent auditor's report on combining information.