

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued

June 30, 2018 and 2017

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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued

June 30, 2018 and 2017

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

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued

June 30, 2018 and 2017

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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

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:

	<u>2018</u>	<u>2017</u>
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.	\$ <u>75,245,371</u>	\$ <u>87,376,993</u>
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	<u>1,665,555</u>	<u>1,793,676</u>
Total	<u>77,875,555</u>	<u>78,003,676</u>
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.	<u>11,990,400</u>	<u>-</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

6. Long-Term Debt, Continued

	<u>2018</u>	<u>2017</u>
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	\$ <u>22,741,289</u>	\$ <u>29,736,985</u>
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	<u>2,066,141</u> 189,918,756	<u>2,963,640</u> 198,081,294
Less unamortized debt issue costs	<u>1,769,019</u> 188,149,737	<u>1,930,741</u> 196,150,553
Less current maturities	<u>8,431,742</u>	<u>8,160,932</u>
Total long-term debt	\$ <u>179,717,995</u>	\$ <u>187,989,621</u>

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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

6. Long-Term Debt, Continued

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

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

7. Short-Term Debt

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

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Line-of-credit:				
Regions Bank	\$ <u>4,000,000</u>	\$ <u>5,000,000</u>	\$ (<u>9,000,000</u>)	\$ <u>-</u>
	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Line-of-credit:				
Regions Bank	\$ <u>14,000,000</u>	\$ <u>1,000,000</u>	\$ (<u>11,000,000</u>)	\$ <u>4,000,000</u>

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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

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:

<u>1998A and 1998B Swap Agreement – Variable to Fixed</u>		
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Notional amount	\$ 41,635,000	\$ 53,105,000
Fair market swap	\$ 352,000	\$(198,000)
Life remaining on swap	5 Years	6 Years
<u>1998C and 2003 Swap Agreement – Variable to Variable</u>		
	<u>June 30, 2018</u>	<u>June 30, 2017</u>
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.

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