

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2021 and 20205. Related Organizations, ContinuedSt. Joseph's Foundation of Savannah, Inc.

	<u>2021</u>	<u>2020</u>
Assets:		
Cash	\$ 279,153	\$ 389,847
Investments	2,865,175	2,097,021
Due from related parties	-	73,892
Other assets	<u>203,591</u>	<u>244,487</u>
Total assets	\$ <u>3,347,919</u>	\$ <u>2,805,247</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 3,781	\$ 12,020
Due to related parties	<u>52,404</u>	<u>-</u>
Total liabilities	<u>56,185</u>	<u>12,020</u>
Net assets:		
Without donor restrictions	1,683,350	1,249,167
With donor restrictions:		
Purpose restrictions	1,508,384	1,444,060
Perpetual in nature	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>3,291,734</u>	<u>2,793,227</u>
Total liabilities and net assets	\$ <u>3,347,919</u>	\$ <u>2,805,247</u>
Revenue and support	\$ 1,092,457	\$ 1,261,297
Expenses	<u>593,950</u>	<u>768,848</u>
Change in net assets	498,507	492,449
Net assets, beginning of year	<u>2,793,227</u>	<u>2,300,778</u>
Net assets, end of year	\$ <u>3,291,734</u>	\$ <u>2,793,227</u>

6. Long-Term Debt

The Hospital Authority of Savannah (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 November 1, 2013, by and between the Authority and the System, CH, and SJH (Obligated Group). 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.

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2021 and 20206. Long-Term Debt, Continued

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 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. In November 2019, the Authority issued the Series 2019A bonds and a portion of the proceeds were allocated to refund the Series 2017.

The Authority issued a \$106,960,000 principal bond Series 2019A pursuant to a Bond Trust Indenture dated November 1, 2019, by and between the Authority and the bond trustee, Regions Bank. The Authority simultaneously entered into a Loan Agreement dated November 1, 2019, by and between the Authority and the Obligated Group. The Obligated Group has used the proceeds to (1) pay the costs of issuance of the Series 2019A bonds, (2) refund the outstanding principal amounts of the Series 2016 and 2017 bonds, and (3) fund the Project Fund and the Expense Fund pursuant to the Bond Trust Indenture.

The Authority issued a \$61,625,000 principal bond Series 2019B pursuant to a Bond Trust Indenture dated November 1, 2019, by and between the Authority and the bond trustee, Regions Bank. The Authority simultaneously entered into a Loan Agreement dated November 1, 2019, by and between the Authority and the Obligated Group. The Obligated Group has used the proceeds to (1) pay the costs of issuance of the Series 2019B bonds, (2) fund the Project Fund and the Expense Fund pursuant to the Bond Trust Indenture, and (3) refinance the outstanding principal amounts of the CH Master Note Series 2016B.

The Authority issued a \$19,020,000 principal bond Series 2019C pursuant to a Bond Trust Indenture dated November 1, 2019, by and between the Authority and the bond trustee, Wells Fargo Bank, N.A. The Authority simultaneously entered into a Loan Agreement dated November 1, 2019, by and between the Authority and the Obligated Group. The Obligated Group has used the proceeds to (1) pay the costs of issuance of the Series 2019C bonds and (2) fund the Project Fund and the Expense Fund pursuant to the Bond Trust Indenture.

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2021 and 20206. Long-Term Debt, Continued

A summary of long-term debt at June 30, 2021 and 2020 follows:

	<u>2021</u>	<u>2020</u>
Hospital Authority of Savannah Revenue Bonds, St. Joseph's/Candler Health System, Inc.:		
Issue Series 2013A:		
5.50% serial bonds, principal due in varying annual installments beginning in July 2027 to July 2031.	\$ <u>46,185,000</u>	\$ <u>46,185,000</u>
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>1,281,200</u>	<u>1,409,317</u>
Total	<u>31,306,200</u>	<u>31,434,317</u>
Issue Series 2019A:		
4.00% term bonds, principal due in varying annual installments beginning July 2035 to July 2044 and 3.125% term bonds, principal due in annual installments of \$13,675,000 in July 2043 and \$6,325,000 in July 2044.	<u>106,960,000</u>	<u>106,960,000</u>
Issue Series 2019B:		
3.989% term bonds, principal due in varying annual installments beginning in July 2033 to July 2038.	<u>61,625,000</u>	<u>61,625,000</u>
Issue Series 2019C:		
5.00% term bonds, principal due in annual installments of \$12,080,000 in July 2032 and \$6,940,000 in July 2033.	19,020,000	19,020,000
Unamortized premium	<u>9,799,989</u>	<u>10,443,853</u>
Total	<u>28,819,989</u>	<u>29,463,853</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2021 and 20206. Long-Term Debt, Continued

	<u>2021</u>	<u>2020</u>
Costrini Meadows, LLC - promissory note, 6.00% note, principal due in annual installments of \$400,000 in July 2021 and 2022.	\$ <u>800,000</u>	\$ <u>-</u>
Finance lease liabilities (Note 7)	<u>2,072,976</u>	<u>2,833,078</u>
	277,769,165	278,501,248
Less unamortized debt issue costs	<u>2,615,005</u>	<u>2,931,922</u>
	275,154,160	275,569,326
Less current maturities	1,155,928	751,058
Less current portion of unamortized premiums	<u>771,984</u>	<u>771,983</u>
Total long-term debt	\$ <u>273,226,248</u>	\$ <u>274,046,285</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, 2021 and 2020, the System recognized approximately \$-0- and \$162,000, respectively, which has been recorded as an addition to interest expense in the accompanying combined statements of operations and changes in net assets.

Scheduled principal repayments on long-term debt (excluding finance lease liabilities) for the next five years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2022	\$ 400,000
2023	400,000
2024	-
2025	7,740,000
2026	8,205,000
Thereafter	<u>247,870,000</u>
Total	\$ <u>264,615,000</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2021 and 20207. Leases

The System has operating and finance leases for buildings and equipment. The System determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets. The System has lease agreements which require payments for lease and nonlease components and has elected to account for these as a single lease component.

Right-of-use assets represent the System's right to use an underlying asset during the lease term, and lease liabilities represent the System's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. The System has entered into lease arrangements that contain options to extend or terminate the lease in future periods. These options are included in the lease term used to compute the lease liabilities as presented on the combined balance sheets when it is reasonably certain the option will be exercised.

As most of the System's operating leases do not provide an implicit rate, the System uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The System considers recent debt issuances, as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease amortization expense are recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant to total lease expense.

Operating and finance lease right-of-use assets and lease liabilities as of June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Operating leases:		
Right-of-use assets:		
Operating lease right-of-use assets	\$ <u>11,335,534</u>	\$ <u>13,945,463</u>
Lease liabilities:		
Current portion	\$ 2,285,874	\$ 2,588,510
Long-term	<u>9,270,874</u>	<u>11,413,653</u>
Total operating lease liabilities	\$ <u>11,556,748</u>	\$ <u>14,002,163</u>
Finance leases:		
Right-of-use assets:		
Property and equipment, net	\$ <u>1,965,354</u>	\$ <u>2,749,471</u>
Lease liabilities:		
Current portion	\$ 755,929	\$ 751,058
Long-term	<u>1,317,297</u>	<u>2,082,020</u>
Total finance lease liabilities	\$ <u>2,073,226</u>	\$ <u>2,833,078</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2021 and 20207. Leases, Continued

Operating expenses for the leasing activity of the System as lessee for the years ended June 30, 2021 and 2020 are as follows:

<u>Lease Type</u>	<u>2021</u>	<u>2020</u>
Operating lease cost	\$ 3,045,260	\$ 3,316,736
Finance lease interest	102,134	124,319
Finance lease amortization	791,094	706,675
Short-term lease cost	<u>-</u>	<u>508,266</u>
Total lease cost	\$ <u>3,938,488</u>	\$ <u>4,655,996</u>

Cash paid for amounts included in the measurement of lease liabilities for the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Operating cash flows from operating leases	\$ 2,948,534	\$ 3,194,017
Operating cash flows from finance leases	104,273	115,579
Finance cash flows from finance leases	<u>759,852</u>	<u>668,301</u>
Total	\$ <u>3,812,659</u>	\$ <u>3,977,897</u>

The aggregate future lease payments for operating and finance leases as of June 30, 2021 were as follows:

<u>Year Ending June 30</u>	<u>Finance</u>	<u>Operating</u>
2022	\$ 826,972	\$ 2,695,072
2023	739,647	2,140,306
2024	504,480	1,719,038
2025	134,656	1,329,897
2026	-	1,326,759
Thereafter	<u>-</u>	<u>4,034,878</u>
Total undiscounted cash flows	2,205,755	13,245,950
Less: present value discount	(<u>132,529</u>)	(<u>1,689,202</u>)
Total lease liabilities	\$ <u>2,073,226</u>	\$ <u>11,556,748</u>

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2021 and 20207. Leases, Continued

Average lease terms and discount rates at June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Weighted-average remaining lease term (years):		
Operating leases	6.77	7.28
Finance leases	2.81	3.72
Weighted-average discount rate:		
Operating leases	4.00%	4.00%
Finance leases	4.00%	4.00%

8. Short-Term Debt

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 outstanding balance on the line-of-credit at June 30, 2021 and 2020 was \$-0- with no activity occurring in either year. The terms of the System's line-of-credit during 2021 follows:

- Regions Bank - \$15,000,000 line-of-credit with a maturity date of September 19, 2021. 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 December 2016, the System 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.

9. Derivative Financial Instruments

In 2020, the System entered into a forward starting interest swap to take advantage of different interest rate positions. The fair market value of the swap is reported in derivative financial instruments on the combined balance sheets. The critical terms of the swap are as follows:

	<u>Forward Starting Interest Swap</u>	
	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Notional amount	\$ 46,185,000	\$ 46,185,000
Fair market swap	\$(1,399,000)	\$(3,092,000)
Life remaining on swap	10 Years	11 Years

The swap was issued at market terms so that it had no fair value at its inception. The carrying amount of the swap has been adjusted to fair value at the end of the year which, because of changes in forecasted levels of SIFMA and LIBOR, resulted in reporting a net liability in 2021 and 2020.

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, 2021 and 2020, this earnings impact totaled \$1,692,135 and \$(3,123,606), respectively.

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