

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

COMBINED FINANCIAL STATEMENTS

for the years ended June 30, 2023 and 2022



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2023 and 2022, 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.

In our opinion, based on our audits and the report of the other auditors, the accompanying combined financial statements present fairly, in all material respects, the financial position of St. Joseph's/Candler Health System, Inc. as of June 30, 2023 and 2022, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Geechee Reinsurance Company, LLC, a wholly-owned subsidiary, which statements reflect total assets constituting 6% of combined total assets as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of St. Joseph's/Candler Health System, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of Geechee Reinsurance Company, LLC were not audited in accordance with *Government Auditing Standards*.

Continued

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Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of St. Joseph's/Candler Health System, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about St. Joseph's/Candler Health System, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2023, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Albany, Georgia
October 19, 2023

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

COMBINED BALANCE SHEETS
as of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,017,588	\$ 69,224,699
Assets limited as to use required for current liabilities	6,028,787	6,016,829
Patient accounts receivable, net	119,831,605	105,543,603
Other receivables	16,832,289	14,104,703
Inventories	19,900,580	22,143,548
Prepaid expenses	13,586,490	9,464,330
Estimated third-party payor settlements	<u>-</u>	<u>5,834,254</u>
Total current assets	<u>232,197,339</u>	<u>232,331,966</u>
Assets limited as to use:		
Held in trust under bond indenture	55,670,357	5,837,755
Restricted under deferred compensation agreements	1,105,937	941,513
Board designated	<u>304,192,933</u>	<u>274,420,668</u>
Total assets limited as to use	<u>360,969,227</u>	<u>281,199,936</u>
Property and equipment, net	<u>293,826,708</u>	<u>278,381,097</u>
Derivative financial instruments	<u>-</u>	<u>2,299,685</u>
Other assets:		
Long-term investments	1,847,543	3,313,726
Goodwill on long-term investments	56,577,257	56,577,257
Operating lease right-of-use assets	7,210,436	9,013,205
Beneficial interest in net assets of Foundations	<u>14,412,607</u>	<u>13,657,132</u>
Total other assets	<u>80,047,843</u>	<u>82,561,320</u>
Total assets	<u>\$ 967,041,117</u>	<u>\$ 876,774,004</u>

Continued

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

COMBINED BALANCE SHEETS, Continued
as of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 1,859,654	\$ 1,469,176
Current portion of operating lease liabilities	1,664,175	2,054,524
Accounts payable	39,059,057	30,658,612
Accrued employee related expenses	28,942,809	24,939,921
Other accrued expenses	17,291,205	20,584,985
Estimated third-party payor settlements	2,280,270	-
Medicare advance payments, current portion	-	8,772,407
CARES Act refundable advance	<u>-</u>	<u>7,780,098</u>
Total current liabilities	91,097,170	96,259,723
Long-term debt, excluding current maturities	327,399,075	272,061,557
Operating lease liabilities, excluding current portion	5,817,422	7,214,713
Accrued self-insurance claims	29,439,843	29,381,230
Accrued pension cost	-	4,626,965
Deferred compensation payable	<u>7,186,572</u>	<u>6,787,143</u>
Total liabilities	<u>460,940,082</u>	<u>416,331,331</u>
Net assets:		
St. Joseph's/Candler Health System, Inc. net assets:		
Without donor restrictions	488,563,284	442,154,613
With donor restrictions:		
Purpose restrictions	9,190,915	9,060,007
Perpetual in nature	<u>1,035,000</u>	<u>1,035,000</u>
Total St. Joseph's/Candler Health System, Inc. net assets	498,789,199	452,249,620
Noncontrolling interest in joint ventures	<u>7,311,836</u>	<u>8,193,053</u>
Total net assets	<u>506,101,035</u>	<u>460,442,673</u>
Total liabilities and net assets	<u>\$ 967,041,117</u>	<u>\$ 876,774,004</u>

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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenues, gains and other support:		
Net patient service revenue	\$ 803,230,604	\$ 767,151,134
Other revenue	<u>83,956,177</u>	<u>81,295,478</u>
Total revenues, gains and other support	<u>887,186,781</u>	<u>848,446,612</u>
Expenses:		
Salaries and wages	323,172,031	307,723,374
Employee benefits	56,953,350	45,799,469
Physician and professional fees	77,085,505	63,575,681
Materials and supplies	258,062,733	250,547,498
Purchased services	51,185,475	48,889,042
Insurance	10,410,535	9,104,477
Interest	11,344,713	10,582,974
Depreciation and amortization	30,970,263	29,321,106
Other	<u>53,887,200</u>	<u>54,407,968</u>
Total expenses	<u>873,071,805</u>	<u>819,951,589</u>
Income from operations	<u>14,114,976</u>	<u>28,495,023</u>
Nonoperating income (loss):		
Investment income	14,444,737	11,733,121
Unrealized gains (losses) on securities	19,424,479	(60,752,689)
Increase (decrease) in fair value of derivative instruments	(4,356)	3,699,628
Net periodic pension cost	(47,953,082)	(919,554)
Other nonoperating gains	<u>1,476,011</u>	<u>357,040</u>
Nonoperating loss, net	<u>(12,612,211)</u>	<u>(45,882,454)</u>
Revenues and gains in excess (deficient) of expenses and losses	1,502,765	(17,387,431)
Net gain attributable to noncontrolling interest in joint ventures	<u>(1,031,403)</u>	<u>(3,562,448)</u>
Revenues and gains in excess (deficient) of expenses and losses after noncontrolling interest	471,362	(20,949,879)

Continued

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

COMBINED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS, Continued
for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net assets without donor restrictions:		
Increase (decrease) in beneficial interest in net assets of Foundations	\$ 624,567	\$(1,833,557)
Contributions for property	92,815	120,375
Change in actuarial loss on defined benefit pension plan	-	(4,225,726)
Amortization of actuarial loss on defined benefit pension plan	-	3,693,559
Amortization of prior service cost on defined benefit pension plan	(971,236)	(830,116)
Recognition of prior net losses on defined benefit pension plan	<u>46,191,163</u>	<u>-</u>
Increase (decrease) in net assets without donor restrictions	46,408,671	(24,025,344)
Net assets with donor restrictions:		
Increase (decrease) in beneficial interest in net assets of Foundations, net	<u>130,908</u>	<u>(33,642)</u>
Increase (decrease) in St. Joseph's/Candler Health System, Inc. net assets	46,539,579	(24,058,986)
Net assets, beginning of year	<u>452,249,620</u>	<u>476,308,606</u>
Net assets, end of year	\$ <u>498,789,199</u>	\$ <u>452,249,620</u>
Noncontrolling interest in joint ventures:		
Net income	\$ 1,031,403	\$ 3,562,448
Purchase of noncontrolling interest	-	615,899
Distributions to partners	<u>(1,912,620)</u>	<u>(2,802,670)</u>
Increase (decrease) in noncontrolling interest	(881,217)	1,375,677
Noncontrolling interest in joint ventures, beginning of year	<u>8,193,053</u>	<u>6,817,376</u>
Noncontrolling interest in joint ventures, end of year	\$ <u>7,311,836</u>	\$ <u>8,193,053</u>

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

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

COMBINED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Increase (decrease) in net assets including noncontrolling interest	\$ 45,658,362	\$(22,683,309)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Change in fair value of derivative instruments	4,356	(3,699,628)
Beneficial interest in net assets of Foundations, net	(755,475)	1,867,199
Net realized and unrealized (gains) losses on investments	(23,963,105)	59,105,152
Depreciation and amortization	30,970,263	29,321,106
Amortization of bond premium/issuance cost	(771,983)	(467,498)
Distributions to partners	1,912,620	2,802,670
Contributions for property	(92,815)	(120,375)
Changes in:		
Patient accounts receivable	(14,288,002)	(11,162,728)
Other receivables	(2,727,586)	(2,918,943)
Inventories	2,242,968	2,287,612
Prepaid expenses	(4,122,160)	103,830
Accounts payable	8,400,445	(6,749,905)
Accrued liabilities	709,108	(6,914,652)
Estimated third-party payor settlements and Medicare advance payments	(657,877)	(49,956,743)
CARES Act refundable advance	(7,780,104)	1,002,154
Accrued self-insurance claims	58,613	3,340,790
Accrued pension costs	(4,626,965)	(1,718,163)
Deferred compensation payable	<u>399,429</u>	<u>(5,257,563)</u>
Net cash provided (used) by operating activities	<u>30,570,092</u>	<u>(11,818,994)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(46,687,937)	(35,682,624)
Proceeds from sale of assets limited as to use	81,290,482	141,016,615
Purchases of assets limited as to use	(80,217,510)	(154,458,573)
Interest rate swap termination	2,295,329	-
Sales of long-term investments, net	<u>1,466,183</u>	<u>1,136,923</u>
Net cash used by investing activities	<u>(41,853,453)</u>	<u>(47,987,659)</u>

Continued

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

COMBINED STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from financing activities:		
Repayment of long-term debt	\$(291,999)	\$(400,000)
Proceeds from issuance of long-term debt	57,305,172	-
Payments on finance lease liabilities	(697,192)	(755,929)
Contributions for property	92,815	120,375
Distributions to partners	(<u>1,912,620</u>)	(<u>2,802,670</u>)
Net cash provided (used) by financing activities	<u>54,496,176</u>	(<u>3,838,224</u>)
Net increase (decrease) in cash and cash equivalents	43,212,815	(63,644,877)
Cash and cash equivalents, beginning of year	<u>77,081,980</u>	<u>140,726,857</u>
Cash and cash equivalents, end of year	\$ <u>120,294,795</u>	\$ <u>77,081,980</u>
Reconciliation of cash and cash equivalents to the combined balance sheets:		
Cash and cash equivalents in current assets	\$ 56,017,588	\$ 69,224,699
Cash and cash equivalents in assets limited as to use	<u>64,277,207</u>	<u>7,857,281</u>
Total	\$ <u>120,294,795</u>	\$ <u>77,081,980</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ <u>11,896,751</u>	\$ <u>12,709,900</u>

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2023 and 2022

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 384-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, Candler ENT Practice, LLC, and SJ/SC Cardiology, 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 330-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, SJC Electrophysiology, 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.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Organization, Continued

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 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 interests 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. (SJCVC) 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 SJCVC are presented separately.

SJC Medical Group, Inc. (SJCMI) is a for-profit corporation which owns, operates, and manages physician practices, in addition to performing billing services, of which SJCVC is the sole shareholder. SJCMI maintains a controlling interest in Chatham Hospitalists, LLC.

SJC Properties, Inc. (Properties) is a for-profit corporation, wholly owned by SJCVC, 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 SJCVC, organized to further the health care delivery of the System. Health Services maintains a controlling interest in SJC/Wayne Medical Oncology, LLC and St. Joseph's/Candler Urgent Care Centers, LLC.

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.

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

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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 net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions - net assets available for use in general operations and not subject to donor imposed restrictions. The Board of Trustees has discretionary control over these resources. Designated amounts represent those net assets that the Board has set aside for a particular purpose. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net assets with donor restrictions - net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing, purpose of the related expenditures, or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Pension Cost

The System sponsored 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.

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, which are all classified as trading securities, are measured at fair value in the combined balance sheets. For investments in equity securities without a readily determinable fair value that do not qualify for the net asset value (NAV) practical expedient in ASC 820-10-35-59, an entity is permitted to elect a practicability exception to fair value measurement, under which the investment will be measured at cost, less impairment, plus or minus observable price changes (in orderly transactions) of an identical or similar investment of the same issuer. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in excess revenues unless the income or loss is restricted by donor or law.

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, 2023 and 2022.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

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. Finance lease assets are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. 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 increases in net assets without donor restrictions, 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 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 increases in net assets with donor restrictions. 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.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Goodwill, Continued

The System considered certain factors such as whether macroeconomic conditions, industry considerations, cost factors, and the sequence of events during the COVID-19 pandemic constituted a triggering event. The System's evaluation determined it is not more likely than not that the reporting unit's fair value is less than its' carrying value.

As of June 30, 2023 and 2022, the System had goodwill of \$56,577,257. 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 2023.

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 net assets without donor restrictions which are excluded from revenues and gains in excess of expenses and losses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, adjustments to pension obligations, 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).

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are included in the determination of the estimated transaction price and adjusted in future periods as 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.

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 Infirmery are generally exempt from federal and state income taxes under Section 501(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 Infirmery 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.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

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, 2023 and 2022 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 liabilities generated from future taxable income. At June 30, 2023, NOL carryforwards expiring through 2043 amounted to approximately \$80,976,000 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, 2023 and 2022.

Refundable Advance

A refundable advance arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 19 for additional information.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

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.

Recently Adopted Accounting Pronouncements

In October 2020, the FASB issued Accounting Standards Update (ASU) 2020-08, *Codification Improvements to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs*. The Update states that an entity should reevaluate whether a callable debt security is within the scope of Paragraph 310-20-35-33 for each reporting period. The System adopted the new guidance as of July 1, 2022 and the adoption did not have a material impact on the financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, to simplify various aspects related to accounting for income taxes. The System adopted the new guidance as of July 1, 2022 and the adoption did not have a material impact on the financial statements.

In January 2020, the FASB issued ASU No. 2020-01, the ASU explains that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, *Investments - Equity Method and Joint Ventures*, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. Also, the update states that when determining the accounting for certain forward contracts and purchased options, a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. The System adopted the new guidance as of July 1, 2022 and the adoption did not have a material impact on the financial statements.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

In October 2020, the FASB issued a new standard that is designed to provide incremental improvements to its Accounting Standards Codification. Accounting Standards Update No. 2020-10, *Codification Improvements*, describes the changes. The standard is part of a standing FASB project designed to address minor improvements to GAAP that are deemed necessary by the FASB Board. The project makes it possible to update the codification for technical corrections such as conforming amendments, clarifications to guidance, simplifications to wording or structure of guidance, and other minor changes. The System adopted the new guidance as of July 1, 2022 and the adoption did not have a material impact on the financial statements.

Accounting Pronouncements Not Yet Adopted

In January 2017, the FASB issued Accounting Standards Update (ASU) No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 is intended to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The standard is effective for the System as of July 1, 2023. The System is continuing to evaluate the impact the standard will have on the combined financial statements.

In June 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. ASU 2016-13 adds an impairment model to GAAP known as the current expected credit loss (CECL) model, which is based on expected losses rather than incurred losses. The amendments require a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected through an allowance for credit losses account. For available for sale debt securities, credit losses should be presented as an allowance. The standard is effective for the System as of July 1, 2023. The System is continuing to evaluate the impact the standard will have on the combined financial statements.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2022 combined financial statements to conform to the fiscal year 2023 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 19, 2023, the date the combined financial statements were issued.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

2. Investments

Assets Limited as to Use

The composition of assets limited as to use at June 30, 2023 and 2022 is set forth in the following table. Investments are stated at fair value.

	<u>2023</u>	<u>2022</u>
Held in trust under bond indenture:		
Cash and cash equivalents	\$ 61,699,140	\$ 6,020,639
Mutual funds - fixed income	<u>4</u>	<u>5,833,945</u>
Total	<u>61,699,144</u>	<u>11,854,584</u>
Restricted under deferred compensation agreements:		
Mutual funds - equity	<u>1,105,937</u>	<u>941,513</u>
Total	<u>1,105,937</u>	<u>941,513</u>
Board designated:		
Cash and cash equivalents	2,578,067	1,836,642
Mutual funds - fixed income	91,114,692	76,029,418
Mutual funds - equity	152,192,690	133,641,809
Mutual funds - international equity	34,120,237	43,110,114
Equity securities - common stock	23,619,882	19,723,702
Equity securities - international	378,170	-
Interest receivable	<u>189,195</u>	<u>78,983</u>
Total	<u>304,192,933</u>	<u>274,420,668</u>
Total assets limited as to use	366,998,014	287,216,765
Less amounts required for current liabilities	<u>6,028,787</u>	<u>6,016,829</u>
Total	\$ <u>360,969,227</u>	\$ <u>281,199,936</u>

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

2. Investments, Continued

Assets Limited as to Use, Continued

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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Income:		
Interest income and dividends	\$ 10,746,677	\$ 10,085,584
Realized gains on sales of securities	<u>4,538,622</u>	<u>1,647,537</u>
Total investment income net of investment expense	<u>\$ 15,285,299</u>	<u>\$ 11,733,121</u>
Unrealized gains (losses) on securities	<u>\$ 19,424,479</u>	<u>\$ (60,752,689)</u>

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, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 31,350,358	\$ 30,330,185
Land improvements	10,744,992	10,683,799
Building and fixed equipment	419,551,933	399,898,050
Major movable equipment	356,979,313	381,692,922
Finance lease right-of-use assets	<u>550,745</u>	<u>1,216,154</u>
	819,177,341	823,821,110
Less accumulated depreciation	<u>538,618,330</u>	<u>555,050,168</u>
	280,559,011	268,770,942
Construction-in-progress	<u>13,267,697</u>	<u>9,610,155</u>
Property and equipment, net	<u>\$ 293,826,708</u>	<u>\$ 278,381,097</u>

Depreciation expense for the years ended June 30, 2023 and 2022 amounted to approximately \$30,013,000 and \$28,528,000, respectively.

Amortization expense on finance lease right-of-use assets for the years ended June 30, 2023 and 2022 was approximately \$665,000 and \$750,000, respectively.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

3. Property and Equipment, Continued

Construction contracts exist for various projects at year end with a total commitment of approximately \$31.7 million. At June 30, 2023, the remaining commitment on these contracts approximated \$17.4 million.

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 System, through a joint venture in which Health Services maintains a controlling interest, acquired a portfolio of urgent care centers to form St. Joseph's/Candler Urgent Care Centers, LLC on May 1, 2019. The goodwill is evaluated annually for impairment.

The changes in the carrying amount of goodwill for the years ended June 30, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year:		
Goodwill	\$ 68,235,402	\$ 68,235,402
Accumulated impairment losses	(11,658,145)	(11,658,145)
	<u>56,577,257</u>	<u>56,577,257</u>
Goodwill acquired during the year	-	-
Impairment losses	<u>-</u>	<u>-</u>
Balance at end of the year:		
Goodwill	68,235,402	68,235,402
Accumulated impairment losses	(11,658,145)	(11,658,145)
Balance at end of the year	<u>\$ 56,577,257</u>	<u>\$ 56,577,257</u>

5. Related Organizations

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' undesignated 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.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

5. Related Organizations, Continued

A summary of the Foundations' assets, liabilities, net assets, and changes in net assets follows. The Hospitals' interest in the net assets of the Foundations is reported as a noncurrent asset in the combined balance sheets.

Candler Foundation, Inc.

	<u>2023</u>	<u>2022</u>
Assets:		
Cash	\$ 567,494	\$ 16,623
Investments	10,962,003	10,136,818
Other assets	136,175	236,219
Due from related parties	<u>-</u>	<u>548,460</u>
Total assets	<u>\$ 11,665,672</u>	<u>\$ 10,938,120</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 11,819	\$ 8,519
Due to related parties	<u>142,994</u>	<u>-</u>
Total liabilities	<u>154,813</u>	<u>8,519</u>
Net assets:		
Without donor restrictions	2,748,370	2,227,133
With donor restrictions:		
Purpose restrictions	7,827,489	7,767,468
Perpetual in nature	<u>935,000</u>	<u>935,000</u>
Total net assets	<u>11,510,859</u>	<u>10,929,601</u>
Total liabilities and net assets	<u>\$ 11,665,672</u>	<u>\$ 10,938,120</u>
Revenue and support	\$ 2,459,544	\$ 110,783
Expenses	<u>1,878,286</u>	<u>1,413,780</u>
Change in net assets	581,258	(1,302,997)
Net assets, beginning of year	<u>10,929,601</u>	<u>12,232,598</u>
Net assets, end of year	<u>\$ 11,510,859</u>	<u>\$ 10,929,601</u>

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

5. Related Organizations, Continued

St. Joseph's Foundation of Savannah, Inc.

	<u>2023</u>	<u>2022</u>
Assets:		
Cash	\$ 158,247	\$ 7,538
Investments	2,689,207	2,480,983
Due from related parties	-	131,915
Other assets	<u>81,799</u>	<u>114,382</u>
Total assets	\$ <u>2,929,253</u>	\$ <u>2,734,818</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 3,026	\$ 7,287
Due to related parties	<u>24,479</u>	<u>-</u>
Total liabilities	<u>27,505</u>	<u>7,287</u>
Net assets:		
Without donor restrictions	1,438,322	1,334,992
With donor restrictions:		
Purpose restrictions	1,363,426	1,292,539
Perpetual in nature	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>2,901,748</u>	<u>2,727,531</u>
Total liabilities and net assets	\$ <u>2,929,253</u>	\$ <u>2,734,818</u>
Revenue and support	\$ 958,806	\$ 203,015
Expenses	<u>784,589</u>	<u>767,218</u>
Change in net assets	174,217	(564,203)
Net assets, beginning of year	<u>2,727,531</u>	<u>3,291,734</u>
Net assets, end of year	\$ <u>2,901,748</u>	\$ <u>2,727,531</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

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

6. Long-Term Debt, Continued

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. Subsequent to year end, the Authority refinanced the Series 2013 bonds by entering into an indenture with Bank of America Securities, Inc.

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.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

6. Long-Term Debt, Continued

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.

The Authority issued a \$55,500,000 principal bond Series 2023 pursuant to a Bond Trust Indenture dated May 1, 2023, by and between the Authority and the bond trustee, Regions Bank. The Authority simultaneously entered into a Loan Agreement dated May 1, 2023, 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 2023 bonds, and (2) fund the Project Fund and Expense Fund pursuant to the Bond Trust Indenture. Interest will be paid semi-annually through July 2025. Subsequently, principal and interest will be paid through July 2053.

A summary of long-term debt at June 30, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</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>1,024,959</u>	<u>1,153,080</u>
Total	<u>31,049,959</u>	<u>31,178,080</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>

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

6. Long-Term Debt, Continued

	<u>2023</u>	<u>2022</u>
Hospital Authority of Savannah Revenue Bonds, St. Joseph's/Candler Health System, Inc., continued:		
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>8,512,261</u>	<u>9,156,125</u>
Total	<u>27,532,261</u>	<u>28,176,125</u>
Issue Series 2023:		
3.77% term bonds, principal due in varying annual installments beginning in July 2025 to July 2053.	<u>55,500,000</u>	<u>-</u>
Executive Court Partnership, LLP - promissory note, 0.00% note, principal due in annual installments of \$475,000 in September 2023 through 2026.	<u>1,900,000</u>	<u>-</u>
The Sturgess Clan, LLC - promissory note, 0.00% note, principal due in annual installments of \$125,000 in March 2024 and 2025.	<u>250,000</u>	<u>-</u>
Costrini Meadows, LLC - promissory note, 6.00% note, principal due in annual installments of \$400,000 in July 2021 and 2022.	<u>-</u>	<u>400,000</u>
Finance lease liabilities (<i>Note 7</i>)	<u>620,104</u>	<u>1,317,297</u>
	331,622,324	275,841,502
Less unamortized debt issue costs	<u>2,363,595</u>	<u>2,310,769</u>
	329,258,729	273,530,733
Less current maturities	1,087,670	1,097,192
Less current portion of unamortized premiums	<u>771,984</u>	<u>371,984</u>
Total long-term debt	\$ <u>327,399,075</u>	\$ <u>272,061,557</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.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

6. Long-Term Debt, Continued

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.

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>
2024	\$ 600,000
2025	8,845,000
2026	9,215,000
2027	9,740,000
2028	9,815,000
Thereafter	<u>283,250,000</u>
Total	\$ <u>321,465,000</u>

7. 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 combined 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

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

7. Leases, Continued

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, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Operating leases:		
Right-of-use assets:		
Operating lease right-of-use assets	\$ <u>7,210,436</u>	\$ <u>9,013,205</u>
Lease liabilities:		
Current portion	\$ 1,664,175	\$ 2,054,524
Long-term	<u>5,817,422</u>	<u>7,214,713</u>
Total operating lease liabilities	\$ <u>7,481,597</u>	\$ <u>9,269,237</u>
Finance leases:		
Right-of-use assets:		
Property and equipment, net	\$ <u>550,745</u>	\$ <u>1,216,154</u>
Lease liabilities:		
Current portion	\$ 487,670	\$ 697,192
Long-term	<u>132,434</u>	<u>620,105</u>
Total finance lease liabilities	\$ <u>620,104</u>	\$ <u>1,317,297</u>

Operating expenses for the leasing activity of the System as lessee for the years ended June 30, 2023 and 2022 are as follows:

<u>Lease Type</u>	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 2,481,780	\$ 3,053,172
Finance lease interest	42,454	71,043
Finance lease amortization	<u>665,410</u>	<u>749,199</u>
Total lease cost	\$ <u>3,189,644</u>	\$ <u>3,873,414</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

7. Leases, Continued

Cash paid for amounts included in the measurement of lease liabilities for the years ended June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Operating cash flows from operating leases	\$ 2,465,020	\$ 2,940,884
Operating cash flows from finance leases	44,771	73,269
Financing cash flows from finance leases	<u>697,192</u>	<u>755,929</u>
Total	<u>\$ 3,206,983</u>	<u>\$ 3,770,082</u>

The aggregate future lease payments for operating and finance leases as of June 30, 2023 were as follows:

<u>Year Ending June 30</u>	<u>Finance</u>	<u>Operating</u>
2024	\$ 504,480	\$ 1,920,894
2025	134,655	1,552,216
2026	-	1,472,567
2027	-	1,358,216
2028	-	1,073,932
Thereafter	<u>-</u>	<u>875,784</u>
Total undiscounted cash flows	639,135	8,253,609
Less: present value discount	(<u>19,031</u>)	(<u>772,012</u>)
Total lease liabilities	<u>\$ 620,104</u>	<u>\$ 7,481,597</u>

Average lease terms and discount rates at June 30, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Weighted-average remaining lease term (years):		
Operating leases	5.16	5.54
Finance leases	1.07	1.94
Weighted-average discount rate:		
Operating leases	3.97%	4.00%
Finance leases	4.00%	4.00%

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

8. 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 swap was terminated in 2023.

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, 2023 and 2022, this earnings impact totaled \$(4,356) and \$3,699,628, respectively. Upon termination, the swap counterparty paid the System approximately \$2.3 million.

9. Net Assets with Donor Restrictions

A summary of the net assets with donor restrictions at June 30, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions that are subject to expenditure for a specified purpose:		
Candler Foundation, Inc.	\$ 7,827,489	\$ 7,767,468
St. Joseph's Foundation of Savannah, Inc.	<u>1,363,426</u>	<u>1,292,539</u>
Total	\$ <u>9,190,915</u>	\$ <u>9,060,007</u>
Net assets with donor restrictions that are perpetual in nature:		
Candler Foundation, Inc.	\$ 935,000	\$ 935,000
St. Joseph's Foundation of Savannah, Inc.	<u>100,000</u>	<u>100,000</u>
Total	\$ <u>1,035,000</u>	\$ <u>1,035,000</u>

10. Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patient services. The System measures the performance obligation from admission into the hospital to the point when it is no longer

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

10. Patient Service Revenue, Continued

required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation and have a duration of less than one year. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the System does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

The System has arrangements with third-party payors that provide for payments to the System at amounts different from its established rates. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by the System. The System determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent the difference between amounts billed and the estimated consideration the System expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements 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.

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

10. Patient Service Revenue, Continued

• Medicare, Continued

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 2019 and 2020 for CH and SJH, respectively.

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.

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 2020 for CH and SJH.

During 2022, Medicaid implemented the Medicaid CMOs Direct Payment Program (DPP). Under the DPP, eligible hospitals will receive increased Medicaid funding via an annual lump sum direct payment. The direct payment will be based on the difference between Medicare reimbursement and Medicaid payments using UPL calculations. The direct payment is made to the CMOs and the CMOs are required to transfer the payment to the hospital. The net amount of DPP payment adjustments recognized in net patient service revenue was approximately \$2,227,000 during 2023.

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

10. Patient Service Revenue, Continued

• Medicaid, Continued

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.

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 \$8,252,000 and \$8,104,000 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, 2023 and 2022, 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.

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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 (AGB) 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.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2023 or 2022.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the years ending June 30, 2023 and 2022. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2023 and 2022 was not significant.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles).

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

10. Patient Service Revenue, Continued

Net patient service revenue by major payor source, facility, and timing of revenue recognition for the years ended June 30, 2023 and 2022 is as follows:

Net Patient Service Revenue					
	<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
2023	\$ <u>333,664,602</u>	\$ <u>36,814,055</u>	\$ <u>411,448,112</u>	\$ <u>21,303,835</u>	\$ <u>803,230,604</u>
2022	\$ <u>301,575,043</u>	\$ <u>36,070,670</u>	\$ <u>413,652,710</u>	\$ <u>15,852,711</u>	\$ <u>767,151,134</u>
				Net Patient Service Revenue	
				<u>2023</u>	<u>2022</u>
Candler Hospital				\$ 441,011,906	\$ 415,501,087
St. Joseph's Hospital				300,555,311	290,110,119
SJC Home Health				9,638,151	8,574,372
SJC Medical Group				31,972,007	31,969,658
SJC Health Services				16,779,596	17,827,591
Georgia Infirmary				<u>3,273,633</u>	<u>3,168,307</u>
Timing of revenue and recognition:					
Services transferred over time				\$ <u>803,230,604</u>	\$ <u>767,151,134</u>

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the System's diagnostic and surgical equipment, and emergency care services. Performance obligations for the hospitals, home health, and other ancillary patient services are satisfied over time as the patient simultaneously receives and consumes the benefits the System performs. Requirements to recognize revenue for inpatient services are generally satisfied over periods that average approximately four days and for outpatient services are generally satisfied over a period of less than one day. Retail pharmacy, reference lab, and other point-of-sale revenues' performance obligations are satisfied at a point in time when the goods and services are provided. These revenues are recorded in other revenue on the combined statement of operations and changes in net assets.

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

10. Patient Service Revenue, Continued

The System has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the System otherwise would have recognized is one year or less in duration.

11. Uncompensated Services

Net patient service revenue includes amounts, representing the transaction price, based on standard charges reduced by variable considerations such as contractual adjustments, discounts, and implicit price concessions. Uncompensated care includes charity and indigent services of approximately \$117,000,000 and \$145,000,000 for 2023 and 2022, respectively. The cost of charity and indigent services provided during 2023 and 2022 was approximately \$34,000,000 and \$36,000,000, respectively, computed by applying a total cost factor to the charges foregone for uninsured claims and an estimated unreimbursed cost for insured claims.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Gross patient charges	\$ <u>3,463,985,730</u>	\$ <u>3,321,675,074</u>
Uncompensated services:		
Charity and indigent care	117,138,917	144,854,436
Medicare	1,487,136,186	1,403,909,880
Medicaid	203,362,738	201,622,015
Other third-party payors	799,142,546	754,628,477
Price concessions	<u>53,974,739</u>	<u>49,509,132</u>
Total uncompensated care	<u>2,660,755,126</u>	<u>2,554,523,940</u>
Net patient service revenue	\$ <u>803,230,604</u>	\$ <u>767,151,134</u>

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 Plan was terminated effective June 30, 2022 through a Plan Amendment and the Plan was subsequently liquidated in 2023. The disclosures are based on projections of actuarial information and actual plan assets as of June 30, 2022.

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

12. Pension Plans, Continued

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. As of June 30, 2023, all actuarial gains and losses and prior service cost are recognized in the combined statement of operations and changes in net assets.

The following table sets forth the Plan's funded status and amounts recognized in the combined financial statements at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Plan assets at fair value as of June 30	\$ -	\$ 98,110,713
Projected benefit obligation as of June 30	<u>-</u>	<u>102,737,678</u>
Funded status	\$ <u>-</u>	\$(<u>4,626,965</u>)
Amounts recognized only in net assets without donor restrictions:		
Unrecognized net loss from past experience different from that assumed	\$ -	\$(46,191,163)
Prior service cost not yet recognized in net periodic pension cost	<u>-</u>	<u>971,236</u>
Deferred pension cost	\$ <u>-</u>	\$(<u>45,219,927</u>)

Significant assumptions used to determine the accumulated and projected benefit obligations, and net periodic pension cost for the Plan for the year ended June 30, 2022, were as follows:

	<u>2022</u>
Discount rate	Flat Rate of 4.35%
Rate of increase in future compensation levels	0.00%
Expected long-term rate of return on assets	4.25%

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.

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

12. Pension Plans, Continued

The actuarially computed net periodic pension cost for the Plan for the years ended June 30, 2023 and 2022 included the following components:

	<u>2023</u>	<u>2022</u>
Interest cost on projected benefit obligation	\$ -	\$ 3,131,480
Expected return on plan assets	-	(5,075,369)
Actual loss on plan assets	2,733,155	-
Recognition of prior net losses on defined benefit pension plan	46,191,163	3,693,559
Amortization of prior service cost	<u>(971,236)</u>	<u>(830,116)</u>
Net periodic pension cost	<u>47,953,082</u>	<u>919,554</u>
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Change in net actuarial loss	-	4,225,726
Recognition of prior net losses on defined benefit pension plan	(46,191,163)	(3,693,559)
Amortization of prior service cost	<u>971,236</u>	<u>830,116</u>
Total recognized in net assets without donor restrictions	<u>(45,219,927)</u>	<u>1,362,283</u>
Total recognized in net periodic pension cost and net assets without donor restrictions	\$ <u>2,733,155</u>	\$ <u>2,281,837</u>

The change in projected benefit obligation for the Plan for the years ended June 30, 2023 and 2022 included the following components:

	<u>2023</u>	<u>2022</u>
Projected benefit obligation, beginning of year	\$ 102,737,678	\$ 126,755,166
Interest cost	-	3,131,480
Actuarial loss (gain)	-	(20,970,916)
Benefits paid	<u>(102,737,678)</u>	<u>(6,178,052)</u>
Projected benefit obligation, end of year	\$ <u>-</u>	\$ <u>102,737,678</u>
Accumulated benefit obligation	\$ <u>-</u>	\$ <u>102,737,678</u>

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

12. Pension Plans, Continued

The change in plan assets for the Plan for the years ended June 30, 2023 and 2022 included the following components:

	<u>2023</u>	<u>2022</u>
Plan assets at fair value, beginning of year	\$ 98,110,713	\$ 120,410,038
Actual return on assets	(2,733,155)	(20,121,273)
Employer contributions	7,360,120	4,000,000
Benefits paid	<u>(102,737,678)</u>	<u>(6,178,052)</u>
Plan assets at fair value, end of year	\$ <u>-</u>	\$ <u>98,110,713</u>

Plan Assets

The composition of plan assets at June 30, 2022 is as follows:

	<u>2022</u>	
	<u>Amount</u>	<u>Percentage</u>
Cash and cash equivalents	\$ 2,234,098	2%
Mutual funds - fixed income	76,231,471	78%
Mutual funds - balanced	<u>19,645,144</u>	<u>20%</u>
Total plan assets, at fair value	\$ <u>98,110,713</u>	<u>100%</u>

The fair values of the plan assets at June 30, 2022, by asset category are as follows:

<u>Fair Value Measurements at June 30, 2022</u>				
<u>Asset Category</u>	<u>Fair Value</u>	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	\$ 2,234,098	\$ 2,234,098	\$ -	\$ -
Mutual funds - fixed income	76,231,471	76,231,471	-	-
Mutual funds - equity	<u>19,645,144</u>	<u>19,645,144</u>	<u>-</u>	<u>-</u>
Total	\$ <u>98,110,713</u>	\$ <u>98,110,713</u>	\$ <u>-</u>	\$ <u>-</u>

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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, 2023 and 2022 totaled approximately \$4,042,000 and \$3,985,000, respectively. Discretionary contribution expense for the years ended June 30, 2023 and 2022 totaled \$-0- in both years.

The System maintains an unfunded Supplemental Executive Retirement Plan (SERP), which provides retirement benefits to certain officers and select employees. This plan is nonqualified 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, 2023, 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, 2023 and 2022, and in management's opinion, provide an adequate reserve for loss contingencies. The estimate of these potential claims is approximately \$28,000,000 at June 30, 2023 and 2022 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, 2023.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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, 2023.

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 \$400,000. Under this self-insurance program, the System paid or accrued approximately \$26,833,848 and \$22,829,000 during the fiscal years ended June 30, 2023 and 2022, 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 net accounts receivable from patients and third-party payors for CH and SJH at June 30, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Medicare	29%	33%
Medicaid	6%	8%
Managed care	40%	38%
Commercial and other	14%	13%
Patients	<u>11%</u>	<u>8%</u>
Total	<u>100%</u>	<u>100%</u>

At June 30, 2023, 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

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

15. Functional Expenses

The System provides general health care services primarily to residents within its geographic location. Expenses related to providing these services in 2023 and 2022 are as follows:

	2023				
	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined Total</u>
Salaries and wages	\$ 249,097,947	\$ 74,074,084	\$ 323,172,031	\$ -	\$ 323,172,031
Employee benefits	40,879,529	16,073,821	56,953,350	-	56,953,350
Physician and professional fees	54,135,259	27,816,810	81,952,069	(4,866,564)	77,085,505
Materials and supplies	250,890,685	7,172,048	258,062,733	-	258,062,733
Purchased services	30,370,130	26,288,779	56,658,909	(5,473,434)	51,185,475
Insurance	8,934,994	7,956,545	16,891,539	(6,481,004)	10,410,535
Interest	11,344,713	-	11,344,713	-	11,344,713
Depreciation and amortization	11,906,843	19,063,420	30,970,263	-	30,970,263
Other	<u>27,624,186</u>	<u>27,913,628</u>	<u>55,537,814</u>	<u>(1,650,614)</u>	<u>53,887,200</u>
Total	<u>\$ 685,184,286</u>	<u>\$ 206,359,135</u>	<u>\$ 891,543,421</u>	<u>\$(18,471,616)</u>	<u>\$ 873,071,805</u>
	2022				
	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>	<u>Eliminations</u>	<u>Combined Total</u>
Salaries and wages	\$ 238,224,949	\$ 69,498,425	\$ 307,723,374	\$ -	\$ 307,723,374
Employee benefits	35,361,212	10,438,257	45,799,469	-	45,799,469
Physician and professional fees	46,281,789	21,152,420	67,434,209	(3,858,528)	63,575,681
Materials and supplies	237,115,692	13,431,806	250,547,498	-	250,547,498
Purchased services	27,890,292	26,087,803	53,978,095	(5,089,053)	48,889,042
Insurance	7,928,479	7,074,049	15,002,528	(5,898,051)	9,104,477
Interest	10,558,974	24,000	10,582,974	-	10,582,974
Depreciation and amortization	21,840,967	7,480,139	29,321,106	-	29,321,106
Other	<u>25,516,161</u>	<u>30,463,504</u>	<u>55,979,665</u>	<u>(1,571,697)</u>	<u>54,407,968</u>
Total	<u>\$ 650,718,515</u>	<u>\$ 185,650,403</u>	<u>\$ 836,368,918</u>	<u>\$(16,417,329)</u>	<u>\$ 819,951,589</u>

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

15. Functional Expenses, Continued

The combined financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest expense, and other occupancy costs, are allocated to a function based on a square footage basis. Benefit expense is allocated consistent with salaries.

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, estimated third-party payor settlements, refundable advances, and Medicare advance payments:* 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, 2023 and 2022 are as follows:

	2023		2022	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$ <u>331,002,220</u>	\$ <u>316,380,423</u>	\$ <u>274,524,205</u>	\$ <u>265,448,630</u>

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

16. Fair Values of Financial Instruments, Continued

Fair values of assets measured on a recurring basis at June 30, 2023 and 2022 are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at June 30, 2023</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 64,277,207	\$ 64,277,207	\$ -	\$ -
Mutual funds - fixed income	91,114,696	91,114,696	-	-
Mutual funds - equity	153,298,627	152,192,690	1,105,937	-
Mutual funds - international equity	34,120,237	34,120,237	-	-
Equity securities - common stock	23,619,882	23,619,882	-	-
Equity securities - international	378,170	378,170	-	-
Interest receivable	<u>189,195</u>	<u>189,195</u>	<u>-</u>	<u>-</u>
Total assets	\$ <u>366,998,014</u>	\$ <u>365,892,077</u>	\$ <u>1,105,937</u>	\$ <u>-</u>

	<u>Fair Value</u>	<u>Fair Value Measurements at June 30, 2022</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Cash and cash equivalents	\$ 7,857,281	\$ 7,857,281	\$ -	\$ -
Mutual funds - fixed income	81,863,363	81,863,363	-	-
Mutual funds - equity	134,583,322	133,641,809	941,513	-
Mutual funds - international equity	43,110,114	43,110,114	-	-
Equity securities - common stock	19,723,702	19,723,702	-	-
Interest receivable	78,983	78,983	-	-
Derivatives	<u>2,299,685</u>	<u>-</u>	<u>2,299,685</u>	<u>-</u>
Total assets	\$ <u>289,516,450</u>	\$ <u>286,275,252</u>	\$ <u>3,241,198</u>	\$ <u>-</u>

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, 2023 and 2022.

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

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

16. Fair Values of Financial Instruments, Continued

- *Forward starting interest swap*: Measured using a credit-adjusted mid-market valuation computed using a zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

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.

17. Commitments and Contingencies

Health Care Reform

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of health care 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.

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.

Continued

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

18. Liquidity and Availability

As of June 30, 2023 and 2022, the System has working capital of approximately \$141,100,000 and \$136,072,000, respectively.

Financial assets available for general expenditures within one year of June 30, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 56,017,588	\$ 69,224,699
Patient accounts receivable, net	119,831,605	105,543,603
Other receivables	16,832,289	14,104,703
Estimated third-party payor settlements	-	5,834,254
Assets limited as to use - board designated	<u>304,192,933</u>	<u>274,420,668</u>
	496,874,415	469,127,927
Less: conditional CARES Act refundable advance	<u>-</u>	<u>7,780,098</u>
Total financial assets available	<u>\$ 496,874,415</u>	<u>\$ 461,347,829</u>

CARES Act refundable advances restricted for healthcare-related expenses or lost revenue attributable to COVID-19 are excluded from the table above. No other financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The System estimates that approximately 100% of the Board designated funds are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The System has other assets whose use is limited for other purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. The System structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

19. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the System's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local and federal governments, and impact on the System's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the System's financial position or results of operations is uncertain. The federal Public Health Emergency for COVID-19 expired on May 11, 2023.

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

19. Coronavirus (COVID-19), Continued

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. On March 11, 2021, the *American Rescue Plan Act* (ARP) was passed. This Act provides additional funding to replenish and supplement key programs, including funds to hospitals and other providers that serve patients living in rural areas. The CARES Act funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of the funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. The System reports restricted contributions, whose restrictions are met in the same period in which they are recognized (simultaneous release), as net assets without donor restrictions. The System received approximately \$28,000,000 in provider relief funds in fiscal years 2020, 2021 and 2022, of which approximately \$14,000,000 was recognized as revenue in fiscal year 2020, \$6,000,000 was recognized as revenue in fiscal year 2022, and \$8,000,000 was recognized as revenue in fiscal year 2023. Recognized revenue is reported as other operating revenue in the combined statements of operations and changes in net assets.

Provider relief funding may be subject to audits. While the System currently believes its use of the funds is in compliance with applicable terms and conditions, there is a possibility payments could be recouped based on changes in reporting requirements or audit results.

On April 10, 2020, the System received payments in the amount of approximately \$66.25 million under the Accelerated and Advance Payment Program expansion as part of the CARES Act. The program provides emergency funding and addresses cash flow difficulties when there are disruptions in claims submission and/or claims processing. Centers for Medicare and Medicaid Services (CMS) expanded the program for all Medicare providers throughout the country. In October 2020, a Continuing Resolution was passed which allows providers to defer repayment of these funds for up to 29 months before interest starts accruing. The System repaid the entire amount over the interest free period with final payment occurring in September 2022.



INDEPENDENT AUDITOR'S REPORT ON COMBINING INFORMATION

The 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, 2023 and 2022, and our report thereon dated October 19, 2023, which expressed an unmodified opinion on those combined financial statements, appears on pages 1 through 3. 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 50 through 69, 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, the combining information, which insofar as it relates to Geechee Reinsurance Company, LLC, a wholly-owned subsidiary, is based on the report of other auditors, is fairly stated in all material respects in relation to the combined financial statements taken a whole.

Draffin & Tucker, LLP

Albany, Georgia
October 19, 2023

Let's Think Together.®

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

COMBINING BALANCE SHEETS
June 30, 2023

	<u>St. Joseph's/ Candler Health System</u>	<u>Candler Hospital</u>	<u>St. Joseph's Hospital</u>	<u>SJC Home Health</u>	<u>SJC Medical Group</u>	<u>SJC Properties</u>
Assets						
Current assets:						
Cash and cash equivalents	\$ 39,640,439	\$ 2,165,697	\$ 249,007	\$ 163,561	\$ 519,461	\$ -
Assets limited as to use required for current liabilities	6,028,787	-	-	-	-	-
Patient accounts receivable, net	-	62,762,568	51,283,186	898,288	3,769,020	-
Other receivables	3,624,228	9,598,201	2,353,590	-	104,577	6,643
Due from (to) affiliates	-	32,069,983	(23,944,823)	-	-	-
Inventories	579,623	10,041,136	8,726,655	-	-	-
Prepaid expenses	<u>9,963,296</u>	<u>2,018,348</u>	<u>1,262,127</u>	<u>5,347</u>	<u>278,993</u>	<u>12,279</u>
Total current assets	<u>59,836,373</u>	<u>118,655,933</u>	<u>39,929,742</u>	<u>1,067,196</u>	<u>4,672,051</u>	<u>18,922</u>
Assets limited as to use:						
Held in trust under bond indenture	55,670,357	-	-	-	-	-
Restricted under deferred compensation agreements Board designated	<u>244,858,841</u>	<u>1,105,937</u>	<u>-</u>	<u>-</u>	<u>11,099,203</u>	<u>-</u>
Total assets limited as to use	<u>300,529,198</u>	<u>1,105,937</u>	<u>-</u>	<u>-</u>	<u>11,099,203</u>	<u>-</u>
Property and equipment, net	<u>20,364,763</u>	<u>129,690,235</u>	<u>121,097,153</u>	<u>87,196</u>	<u>7,635,975</u>	<u>11,834,345</u>
Other assets:						
Investments in affiliates	483,310,784	-	-	-	-	-
Long-term investments	-	2,066,546	(2,223,030)	4,610	33,655	1,964,414
Goodwill on long-term investments	-	48,323,352	-	-	161,000	-
Operating lease right-of-use assets	14,041	1,047,914	64,634	-	707,942	710,393
Beneficial interest in net assets of Foundations	<u>-</u>	<u>11,510,859</u>	<u>2,901,748</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other assets	<u>483,324,825</u>	<u>62,948,671</u>	<u>743,352</u>	<u>4,610</u>	<u>902,597</u>	<u>2,674,807</u>
Total assets	<u>\$ 864,055,159</u>	<u>\$ 312,400,776</u>	<u>\$ 161,770,247</u>	<u>\$ 1,159,002</u>	<u>\$ 24,309,826</u>	<u>\$ 14,528,074</u>

Continued

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

COMBINING BALANCE SHEETS, Continued
June 30, 2023

	<u>SJC Health Services</u>	<u>Georgia Infirmary</u>	<u>Geechee Reinsurance</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Combined Totals</u>
Assets, Continued						
Current assets:						
Cash and cash equivalents	\$ 4,216,024	\$ 691,174	\$ 8,372,225	\$ 56,017,588	\$ -	\$ 56,017,588
Assets limited as to use required for current liabilities	-	-	-	6,028,787	-	6,028,787
Patient accounts receivable, net	1,007,176	111,367	-	119,831,605	-	119,831,605
Other receivables	1,090,825	54,225	-	16,832,289	-	16,832,289
Due from (to) affiliates	-	-	-	8,125,160	(8,125,160)	-
Inventories	553,166	-	-	19,900,580	-	19,900,580
Prepaid expenses	<u>40,488</u>	<u>5,612</u>	<u>-</u>	<u>13,586,490</u>	<u>-</u>	<u>13,586,490</u>
Total current assets	<u>6,907,679</u>	<u>862,378</u>	<u>8,372,225</u>	<u>240,322,499</u>	<u>(8,125,160)</u>	<u>232,197,339</u>
Assets limited as to use:						
Held in trust under bond indenture	-	-	-	55,670,357	-	55,670,357
Restricted under deferred compensation agreements	-	-	-	1,105,937	-	1,105,937
Board designated	<u>-</u>	<u>1,412,595</u>	<u>46,822,294</u>	<u>304,192,933</u>	<u>-</u>	<u>304,192,933</u>
Total assets limited as to use	<u>-</u>	<u>1,412,595</u>	<u>46,822,294</u>	<u>360,969,227</u>	<u>-</u>	<u>360,969,227</u>
Property and equipment, net	<u>329,151</u>	<u>2,787,890</u>	<u>-</u>	<u>293,826,708</u>	<u>-</u>	<u>293,826,708</u>
Other assets:						
Investments in affiliates	-	-	-	483,310,784	(483,310,784)	-
Long-term investments	1,348	-	-	1,847,543	-	1,847,543
Goodwill on long-term investments	8,092,905	-	-	56,577,257	-	56,577,257
Operating lease right-of-use assets	4,665,512	-	-	7,210,436	-	7,210,436
Beneficial interest in net assets of Foundations	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,412,607</u>	<u>-</u>	<u>14,412,607</u>
Total other assets	<u>12,759,765</u>	<u>-</u>	<u>-</u>	<u>563,358,627</u>	<u>(483,310,784)</u>	<u>80,047,843</u>
Total assets	<u>\$ 19,996,595</u>	<u>\$ 5,062,863</u>	<u>\$ 55,194,519</u>	<u>\$ 1,458,477,061</u>	<u>\$(491,435,944)</u>	<u>\$ 967,041,117</u>

Continued

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

COMBINING BALANCE SHEETS, Continued
June 30, 2023

	<u>St. Joseph's/ Candler Health System</u>	<u>Candler Hospital</u>	<u>St. Joseph's Hospital</u>	<u>SJC Home Health</u>	<u>SJC Medical Group</u>	<u>SJC Properties</u>
Liabilities and Net Assets						
Current liabilities:						
Current maturities of long-term debt	\$ 1,026,431	\$ 709,434	\$ 123,789	\$ -	\$ -	\$ -
Current portion of operating lease liabilities	12,438	248,215	62,283	-	385,582	193,896
Accounts payable	6,985,141	15,052,706	15,430,750	194,305	925,270	27,115
Accrued employee related expenses	17,092,710	5,872,241	4,364,149	366,212	957,384	24,681
Other accrued expenses	8,123,777	3,809,981	2,022,461	-	2,402,147	27,662
Due to affiliates	5,112,123	-	-	-	-	-
Estimated third-party payor settlements	-	(3,571,604)	5,851,880	(6)	-	-
Total current liabilities	38,352,620	22,120,973	27,855,312	560,511	4,670,383	273,354
Long-term debt, excluding current maturities	325,849,075	1,550,000	-	-	-	-
Operating lease liabilities, excluding current portion	745	802,126	3,150	-	341,330	539,844
Accrued self-insurance claims	1,063,525	-	-	-	-	-
Deferred compensation payable	-	1,105,937	-	-	6,080,635	-
Total liabilities	365,265,965	25,579,036	27,858,462	560,511	11,092,348	813,198
Net assets:						
St. Joseph's/Candler Health System, Inc. net assets:						
Common stock	-	-	-	-	500	500
Without donor restrictions	498,789,194	277,575,909	132,448,359	598,491	12,793,512	13,714,376
With donor restrictions:						
Purpose restrictions	-	7,827,489	1,363,426	-	-	-
Perpetual in nature	-	935,000	100,000	-	-	-
Total St. Joseph's/Candler Health System, Inc. net assets	498,789,194	286,338,398	133,911,785	598,491	12,794,012	13,714,876
Noncontrolling interest in joint ventures	-	483,342	-	-	423,466	-
Total net assets	498,789,194	286,821,740	133,911,785	598,491	13,217,478	13,714,876
Total liabilities and net assets	\$ 864,055,159	\$ 312,400,776	\$ 161,770,247	\$ 1,159,002	\$ 24,309,826	\$ 14,528,074

Continued

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

COMBINING BALANCE SHEETS, Continued
June 30, 2023

	<u>SJC Health Services</u>	<u>Georgia Infirmary</u>	<u>Geechee Reinsurance</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Combined Totals</u>
Liabilities and Net Assets, Continued						
Current liabilities:						
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ 1,859,654	\$ -	\$ 1,859,654
Current portion of operating lease liabilities	761,761	-	-	1,664,175	-	1,664,175
Accounts payable	145,344	37,782	260,644	39,059,057	-	39,059,057
Accrued employee related expenses	114,612	150,820	-	28,942,809	-	28,942,809
Other accrued expenses	821,093	-	84,084	17,291,205	-	17,291,205
Due (from) to affiliates	-	-	3,013,037	8,125,160	(8,125,160)	-
Estimated third-party payor settlements	-	-	-	<u>2,280,270</u>	<u>-</u>	<u>2,280,270</u>
Total current liabilities	1,842,810	188,602	3,357,765	99,222,330	(8,125,160)	91,097,170
Long-term debt, excluding current maturities	-	-	-	327,399,075	-	327,399,075
Operating lease liabilities, excluding current portion	4,130,227	-	-	5,817,422	-	5,817,422
Accrued self-insurance claims	-	-	28,376,318	29,439,843	-	29,439,843
Deferred compensation payable	-	-	-	<u>7,186,572</u>	<u>-</u>	<u>7,186,572</u>
Total liabilities	<u>5,973,037</u>	<u>188,602</u>	<u>31,734,083</u>	<u>469,065,242</u>	<u>(8,125,160)</u>	<u>460,940,082</u>
Net assets:						
St. Joseph's/Candler Health System, Inc. net assets:						
Common stock	165,000	-	120,000	286,000	(286,000)	-
Without donor restrictions	7,453,530	4,874,261	23,340,436	971,588,068	(483,024,784)	488,563,284
With donor restrictions:						
Purpose restrictions	-	-	-	9,190,915	-	9,190,915
Perpetual in nature	-	-	-	<u>1,035,000</u>	<u>-</u>	<u>1,035,000</u>
Total St. Joseph's/Candler Health System, Inc. net assets	7,618,530	4,874,261	23,460,436	982,099,983	(483,310,784)	498,789,199
Noncontrolling interest in joint ventures	<u>6,405,028</u>	<u>-</u>	<u>-</u>	<u>7,311,836</u>	<u>-</u>	<u>7,311,836</u>
Total net assets	<u>14,023,558</u>	<u>4,874,261</u>	<u>23,460,436</u>	<u>989,411,819</u>	<u>(483,310,784)</u>	<u>506,101,035</u>
Total liabilities and net assets	<u>\$ 19,996,595</u>	<u>\$ 5,062,863</u>	<u>\$ 55,194,519</u>	<u>\$ 1,458,477,061</u>	<u>\$(491,435,944)</u>	<u>\$ 967,041,117</u>

See accompanying independent auditor's report on combining information.

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

COMBINING BALANCE SHEETS
June 30, 2022

	<u>St. Joseph's/ Candler Health System</u>	<u>Candler Hospital</u>	<u>St. Joseph's Hospital</u>	<u>SJC Home Health</u>	<u>SJC Medical Group</u>	<u>SJC Properties</u>
Assets						
Current assets:						
Cash and cash equivalents	\$ 54,303,286	\$ 1,134,690	\$ 542,618	\$ 326,232	\$ 623,023	\$ -
Assets limited as to use required for current liabilities	6,016,829	-	-	-	-	-
Patient accounts receivable, net	-	54,217,513	45,592,487	945,596	3,627,313	-
Other receivables	249,886	7,911,386	4,451,037	-	346,013	37,833
Due from affiliates	-	35,375,060	1,680,121	-	-	-
Inventories	1,462,154	12,174,090	8,155,771	-	-	-
Prepaid expenses	6,064,567	2,107,109	938,941	7,799	270,609	13,949
Estimated third-party payor settlements	-	4,368,476	1,461,110	-	4,668	-
Total current assets	<u>68,096,722</u>	<u>117,288,324</u>	<u>62,822,085</u>	<u>1,279,627</u>	<u>4,871,626</u>	<u>51,782</u>
Assets limited as to use:						
Held in trust under bond indenture	5,837,755	-	-	-	-	-
Restricted under deferred compensation agreements	-	941,513	-	-	-	-
Board designated	<u>216,982,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,913,235</u>	<u>-</u>
Total assets limited as to use	<u>222,820,204</u>	<u>941,513</u>	<u>-</u>	<u>-</u>	<u>9,913,235</u>	<u>-</u>
Property and equipment, net	<u>17,188,328</u>	<u>122,450,617</u>	<u>116,436,147</u>	<u>86,430</u>	<u>7,789,328</u>	<u>10,968,439</u>
Derivative financial instruments	<u>2,299,685</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other assets:						
Investments in affiliates	487,919,126	-	-	-	-	-
Long-term investments	-	1,238,470	69,129	6,510	33,655	1,964,614
Goodwill on long-term investments	-	48,323,352	-	-	161,000	-
Operating lease right-of-use assets	175,506	1,367,003	230,665	-	849,954	968,147
Beneficial interest in net assets of Foundations	<u>-</u>	<u>10,929,601</u>	<u>2,727,531</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other assets	<u>488,094,632</u>	<u>61,858,426</u>	<u>3,027,325</u>	<u>6,510</u>	<u>1,044,609</u>	<u>2,932,761</u>
Total assets	<u>\$ 798,499,571</u>	<u>\$ 302,538,880</u>	<u>\$ 182,285,557</u>	<u>\$ 1,372,567</u>	<u>\$ 23,618,798</u>	<u>\$ 13,952,982</u>

Continued

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

COMBINING BALANCE SHEETS, Continued
June 30, 2022

	<u>SJC Health Services</u>	<u>Georgia Infirmary</u>	<u>Geechee Reinsurance</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Combined Totals</u>
Assets, Continued						
Current assets:						
Cash and cash equivalents	\$ 6,435,498	\$ 794,217	\$ 5,065,135	\$ 69,224,699	\$ -	\$ 69,224,699
Assets limited as to use required for current liabilities	-	-	-	6,016,829	-	6,016,829
Patient accounts receivable, net	1,120,720	39,974	-	105,543,603	-	105,543,603
Other receivables	1,045,650	62,898	-	14,104,703	-	14,104,703
Due from affiliates	-	-	-	37,055,181	(37,055,181)	-
Inventories	351,533	-	-	22,143,548	-	22,143,548
Prepaid expenses	57,961	3,395	-	9,464,330	-	9,464,330
Estimated third-party payor settlements	-	-	-	5,834,254	-	5,834,254
Total current assets	<u>9,011,362</u>	<u>900,484</u>	<u>5,065,135</u>	<u>269,387,147</u>	<u>(37,055,181)</u>	<u>232,331,966</u>
Assets limited as to use:						
Held in trust under bond indenture	-	-	-	5,837,755	-	5,837,755
Restricted under deferred compensation agreements	-	-	-	941,513	-	941,513
Board designated	-	1,339,849	46,185,135	274,420,668	-	274,420,668
Total assets limited as to use	<u>-</u>	<u>1,339,849</u>	<u>46,185,135</u>	<u>281,199,936</u>	<u>-</u>	<u>281,199,936</u>
Property and equipment, net	<u>506,037</u>	<u>2,955,771</u>	<u>-</u>	<u>278,381,097</u>	<u>-</u>	<u>278,381,097</u>
Derivative financial instruments	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,299,685</u>	<u>-</u>	<u>2,299,685</u>
Other assets:						
Investments in affiliates	-	-	-	487,919,126	(487,919,126)	-
Long-term investments	1,348	-	-	3,313,726	-	3,313,726
Goodwill on long-term investments	8,092,905	-	-	56,577,257	-	56,577,257
Operating lease right-of-use assets	5,421,930	-	-	9,013,205	-	9,013,205
Beneficial interest in net assets of Foundations	-	-	-	13,657,132	-	13,657,132
Total other assets	<u>13,516,183</u>	<u>-</u>	<u>-</u>	<u>570,480,446</u>	<u>(487,919,126)</u>	<u>82,561,320</u>
Total assets	<u>\$ 23,033,582</u>	<u>\$ 5,196,104</u>	<u>\$ 51,250,270</u>	<u>\$ 1,401,748,311</u>	<u>\$(524,974,307)</u>	<u>\$ 876,774,004</u>

Continued

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

COMBINING BALANCE SHEETS, Continued
June 30, 2022

	<u>St. Joseph's/ Candler Health System</u>	<u>Candler Hospital</u>	<u>St. Joseph's Hospital</u>	<u>SJC Home Health</u>	<u>SJC Medical Group</u>	<u>SJC Properties</u>
Liabilities and Net Assets						
Current liabilities:						
Current maturities of long-term debt	\$ 616,471	\$ 212,421	\$ 240,284	\$ -	\$ -	\$ 400,000
Current portion of operating lease liabilities	173,053	317,886	168,198	-	414,719	257,844
Accounts payable	4,762,748	11,461,198	13,145,543	115,762	870,150	56,887
Accrued employee related expenses	13,921,953	5,496,002	3,919,697	380,041	922,614	7,475
Other accrued expenses	10,531,589	4,099,713	2,382,348	-	2,426,297	20,695
Due to affiliates	36,900,749	-	-	-	-	-
Medicare advance payments, current portion	-	2,751,167	6,021,240	-	-	-
CARES Act refundable advance	-	<u>3,765,542</u>	<u>2,668,630</u>	<u>171,330</u>	<u>986,682</u>	<u>-</u>
Total current liabilities	66,906,563	28,103,929	28,545,940	667,133	5,620,462	742,901
Medicare advance payments, excluding current portion	-	-	-	-	-	-
Long-term debt, excluding current maturities	271,828,334	109,434	123,789	-	-	-
Operating lease liabilities, excluding current portion	7,521	1,050,342	65,433	-	466,860	733,741
Accrued self-insurance claims	1,181,839	-	-	-	-	-
Accrued pension cost	4,626,965	-	-	-	-	-
Deferred compensation payable	-	941,513	-	-	5,845,630	-
Derivative financial instruments	-	-	-	-	-	-
Total liabilities	<u>344,551,222</u>	<u>30,205,218</u>	<u>28,735,162</u>	<u>667,133</u>	<u>11,932,952</u>	<u>1,476,642</u>
Net assets:						
St. Joseph's/Candler Health System, Inc. net assets:						
Common stock	-	-	-	-	500	500
Without donor restrictions	453,948,349	263,170,137	152,157,856	705,434	11,261,880	12,475,840
With donor restrictions:						
Purpose restrictions	-	7,767,468	1,292,539	-	-	-
Perpetual in nature	-	<u>935,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total St. Joseph's/Candler Health System, Inc. net assets	453,948,349	271,872,605	153,550,395	705,434	11,262,380	12,476,340
Noncontrolling interest in joint ventures	-	<u>461,057</u>	<u>-</u>	<u>-</u>	<u>423,466</u>	<u>-</u>
Total net assets	<u>453,948,349</u>	<u>272,333,662</u>	<u>153,550,395</u>	<u>705,434</u>	<u>11,685,846</u>	<u>12,476,340</u>
Total liabilities and net assets	<u>\$ 798,499,571</u>	<u>\$ 302,538,880</u>	<u>\$ 182,285,557</u>	<u>\$ 1,372,567</u>	<u>\$ 23,618,798</u>	<u>\$ 13,952,982</u>

Continued

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

COMBINING BALANCE SHEETS, Continued
June 30, 2022

	<u>SJC Health Services</u>	<u>Georgia Infirmary</u>	<u>Geechee Reinsurance</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Combined Totals</u>
Liabilities and Net Assets, Continued						
Current liabilities:						
Current maturities of long-term debt	\$ -	\$ -	\$ -	\$ 1,469,176	\$ -	\$ 1,469,176
Current portion of operating lease liabilities	722,824	-	-	2,054,524	-	2,054,524
Accounts payable	206,276	40,048	-	30,658,612	-	30,658,612
Accrued employee related expenses	138,572	153,567	-	24,939,921	-	24,939,921
Other accrued expenses	1,027,442	-	96,901	20,584,985	-	20,584,985
Due to affiliates	-	-	154,432	37,055,181	(37,055,181)	-
Medicare advance payments, current portion	-	-	-	8,772,407	-	8,772,407
CARES Act refundable advance	<u>187,914</u>	<u>-</u>	<u>-</u>	<u>7,780,098</u>	<u>-</u>	<u>7,780,098</u>
Total current liabilities	2,283,028	193,615	251,333	133,314,904	(37,055,181)	96,259,723
Medicare advance payments, excluding current portion	-	-	-	-	-	-
Long-term debt, excluding current maturities	-	-	-	272,061,557	-	272,061,557
Operating lease liabilities, excluding current portion	4,890,816	-	-	7,214,713	-	7,214,713
Accrued self-insurance claims	-	-	28,199,391	29,381,230	-	29,381,230
Accrued pension cost	-	-	-	4,626,965	-	4,626,965
Deferred compensation payable	-	-	-	6,787,143	-	6,787,143
Derivative financial instruments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,173,844</u>	<u>193,615</u>	<u>28,450,724</u>	<u>453,386,512</u>	<u>(37,055,181)</u>	<u>416,331,331</u>
Net assets:						
St. Joseph's/Candler Health System, Inc. net assets:						
Common stock	165,000	-	120,000	286,000	(286,000)	-
Without donor restrictions	8,386,208	5,002,489	22,679,546	929,787,739	(487,633,126)	442,154,613
With donor restrictions:						
Purpose restrictions	-	-	-	9,060,007	-	9,060,007
Perpetual in nature	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,035,000</u>	<u>-</u>	<u>1,035,000</u>
Total St. Joseph's/Candler Health System, Inc. net assets	8,551,208	5,002,489	22,799,546	940,168,746	(487,919,126)	452,249,620
Noncontrolling interest in joint ventures	<u>7,308,530</u>	<u>-</u>	<u>-</u>	<u>8,193,053</u>	<u>-</u>	<u>8,193,053</u>
Total net assets	<u>15,859,738</u>	<u>5,002,489</u>	<u>22,799,546</u>	<u>948,361,799</u>	<u>(487,919,126)</u>	<u>460,442,673</u>
Total liabilities and net assets	<u>\$ 23,033,582</u>	<u>\$ 5,196,104</u>	<u>\$ 51,250,270</u>	<u>\$ 1,401,748,311</u>	<u>\$(524,974,307)</u>	<u>\$ 876,774,004</u>

See accompanying independent auditor's report on combining information.

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

COMBINING STATEMENTS OF EXCESS REVENUES (EXPENSES)
June 30, 2023

	St. Joseph's/ Candler Health System	Candler Hospital	St. Joseph's Hospital	SJC Home Health	SJC Medical Group	SJC Properties
Revenues, gains and other support:						
Net patient service revenue	\$ -	\$ 441,011,906	\$ 300,555,311	\$ 9,638,151	\$ 31,972,007	\$ -
Other revenue	-	<u>57,538,428</u>	<u>20,473,916</u>	<u>171,528</u>	<u>8,744,492</u>	<u>1,964,326</u>
Total revenues, gains and other support	-	<u>498,550,334</u>	<u>321,029,227</u>	<u>9,809,679</u>	<u>40,716,499</u>	<u>1,964,326</u>
Expenses:						
Salaries and wages	-	155,099,325	119,496,845	6,501,275	30,605,595	393,941
Employee benefits	-	28,327,180	21,211,065	1,117,292	4,526,894	126,337
Physician and professional fees	-	47,604,837	25,974,924	12,500	6,898,378	16,257
Materials and supplies	-	150,410,464	101,707,279	371,645	2,393,721	21,379
Purchased services	-	35,271,112	17,596,670	19,342	2,172,867	105,655
Insurance	-	5,665,240	3,990,759	-	565,969	-
Interest	-	6,804,522	4,540,191	-	-	-
Depreciation and amortization	-	15,990,312	13,532,917	18,212	664,037	400,140
Other	-	<u>27,231,662</u>	<u>20,230,691</u>	<u>910,460</u>	<u>2,884,414</u>	<u>1,354,911</u>
Total expenses	-	<u>472,404,654</u>	<u>328,281,341</u>	<u>8,950,726</u>	<u>50,711,875</u>	<u>2,418,620</u>
Income (loss) from operations	-	<u>26,145,680</u>	<u>(7,252,114)</u>	<u>858,953</u>	<u>(9,995,376)</u>	<u>(454,294)</u>
Nonoperating income (loss):						
Investment income	-	8,996,931	1,956,807	-	485,619	-
Unrealized gains on securities	-	9,555,374	6,370,250	-	700,349	-
Decrease in fair value of derivative instruments	-	(2,614)	(1,742)	-	-	-
Gain on investments in affiliates	471,362	-	-	-	-	-
Net periodic pension cost	-	(28,771,849)	(19,181,233)	-	-	-
Other nonoperating gains (losses)	-	<u>21,276</u>	<u>(164,863)</u>	-	<u>(765)</u>	<u>1,620,363</u>
Nonoperating income (loss), net	<u>471,362</u>	<u>(10,200,882)</u>	<u>(11,020,781)</u>	-	<u>1,185,203</u>	<u>1,620,363</u>
Revenues and gains in excess (deficient) of expenses and losses	471,362	15,944,798	(18,272,895)	858,953	(8,810,173)	1,166,069
Net (gain) loss attributable to noncontrolling interest in joint ventures	-	<u>(41,266)</u>	-	-	-	-
Revenues and gains in excess (deficient) of expenses and losses after noncontrolling interest	\$ <u>471,362</u>	\$ <u>15,903,532</u>	\$ <u>(18,272,895)</u>	\$ <u>858,953</u>	\$ <u>(8,810,173)</u>	\$ <u>1,166,069</u>

Continued

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

COMBINING STATEMENTS OF EXCESS REVENUES (EXPENSES), Continued
June 30, 2023

	SJC Health Services	Georgia Infirmary	Geehee Reinsurance	Totals	Eliminations	Combined Totals
Revenues, gains and other support:						
Net patient service revenue	\$ 16,779,596	\$ 3,273,633	\$ -	\$ 803,230,604	\$ -	\$ 803,230,604
Other revenue	<u>6,754,893</u>	<u>299,206</u>	<u>6,481,004</u>	<u>102,427,793</u>	<u>(18,471,616)</u>	<u>83,956,177</u>
Total revenues, gains and other support	<u>23,534,489</u>	<u>3,572,839</u>	<u>6,481,004</u>	<u>905,658,397</u>	<u>(18,471,616)</u>	<u>887,186,781</u>
Expenses:						
Salaries and wages	8,874,219	2,200,831	-	323,172,031	-	323,172,031
Employee benefits	1,160,574	484,008	-	56,953,350	-	56,953,350
Physician and professional fees	1,159,952	153,201	132,020	81,952,069	(4,866,564)	77,085,505
Materials and supplies	3,078,263	79,982	-	258,062,733	-	258,062,733
Purchased services	1,466,499	26,764	-	56,658,909	(5,473,434)	51,185,475
Insurance	284,430	1,443	6,383,698	16,891,539	(6,481,004)	10,410,535
Interest	-	-	-	11,344,713	-	11,344,713
Depreciation and amortization	193,879	170,766	-	30,970,263	-	30,970,263
Other	<u>2,638,149</u>	<u>285,420</u>	<u>2,107</u>	<u>55,537,814</u>	<u>(1,650,614)</u>	<u>53,887,200</u>
Total expenses	<u>18,855,965</u>	<u>3,402,415</u>	<u>6,517,825</u>	<u>891,543,421</u>	<u>(18,471,616)</u>	<u>873,071,805</u>
Income (loss) from operations	<u>4,678,524</u>	<u>170,424</u>	<u>(36,821)</u>	<u>14,114,976</u>	<u>-</u>	<u>14,114,976</u>
Nonoperating income (loss):						
Investment income	33,427	17,979	2,953,974	14,444,737	-	14,444,737
Unrealized gains on securities	-	54,767	2,743,739	19,424,479	-	19,424,479
Decrease in fair value of derivative instruments	-	-	-	(4,356)	-	(4,356)
Gain on investments in affiliates	-	-	-	471,362	(471,362)	-
Net periodic pension cost	-	-	-	(47,953,082)	-	(47,953,082)
Other nonoperating gains (losses)	-	-	-	<u>1,476,011</u>	<u>-</u>	<u>1,476,011</u>
Nonoperating income (loss), net	<u>33,427</u>	<u>72,746</u>	<u>5,697,713</u>	<u>(12,140,849)</u>	<u>(471,362)</u>	<u>(12,612,211)</u>
Revenues and gains in excess (deficient) of expenses and losses	4,711,951	243,170	5,660,892	1,974,127	(471,362)	1,502,765
Net (gain) loss attributable to noncontrolling interest in joint ventures	<u>(990,137)</u>	<u>-</u>	<u>-</u>	<u>(1,031,403)</u>	<u>-</u>	<u>(1,031,403)</u>
Revenues and gains in excess (deficient) of expenses and losses after noncontrolling interest	<u>\$ 3,721,814</u>	<u>\$ 243,170</u>	<u>\$ 5,660,892</u>	<u>\$ 942,724</u>	<u>\$ (471,362)</u>	<u>\$ 471,362</u>

See accompanying independent auditor's report on combining information.

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

COMBINING STATEMENTS OF EXCESS REVENUES (EXPENSES)
June 30, 2022

	St. Joseph's/ Candler Health System	Candler Hospital	St. Joseph's Hospital	SJC Home Health	SJC Medical Group	SJC Properties
Revenues, gains and other support:						
Net patient service revenue	\$ -	\$ 415,501,087	\$ 290,110,119	\$ 8,574,372	\$ 31,969,658	\$ -
Other revenue	-	<u>51,931,076</u>	<u>17,885,041</u>	-	<u>6,933,685</u>	<u>1,883,667</u>
Total revenues, gains and other support	-	<u>467,432,163</u>	<u>307,995,160</u>	<u>8,574,372</u>	<u>38,903,343</u>	<u>1,883,667</u>
Expenses:						
Salaries and wages	67,448	143,850,526	117,928,037	6,041,300	28,278,870	142,155
Employee benefits	-	22,580,711	17,100,104	993,472	3,454,795	25,275
Physician and professional fees	-	38,289,829	20,518,684	14,523	6,931,216	14,750
Materials and supplies	-	142,920,434	101,475,058	287,871	2,035,493	17,465
Purchased services	(67,448)	32,727,273	17,580,428	11,638	2,069,184	87,057
Insurance	-	4,838,110	3,686,452	-	427,562	-
Interest	-	6,120,309	4,438,665	-	-	24,000
Depreciation and amortization	-	14,671,428	13,255,235	20,564	695,837	318,841
Other	-	<u>27,309,607</u>	<u>20,150,299</u>	<u>856,061</u>	<u>3,459,683</u>	<u>1,249,828</u>
Total expenses	-	<u>433,308,227</u>	<u>316,132,962</u>	<u>8,225,429</u>	<u>47,352,640</u>	<u>1,879,371</u>
Income (loss) from operations	-	<u>34,123,936</u>	<u>(8,137,802)</u>	<u>348,943</u>	<u>(8,449,297)</u>	<u>4,296</u>
Nonoperating income (loss):						
Investment income	-	5,141,050	3,187,568	-	497,608	-
Unrealized losses on securities	-	(27,391,806)	(19,835,446)	-	(2,150,886)	-
Increase in fair value of derivative instruments	-	2,145,784	1,553,844	-	-	-
Loss on investments in affiliates	(20,949,879)	-	-	-	-	-
Net periodic pension cost	-	(533,341)	(386,213)	-	-	-
Other nonoperating gains	-	<u>147,321</u>	<u>107,281</u>	-	<u>30,206</u>	<u>72,232</u>
Nonoperating income (loss), net	<u>(20,949,879)</u>	<u>(20,490,992)</u>	<u>(15,372,966)</u>	-	<u>(1,623,072)</u>	<u>72,232</u>
Revenues and gains in excess (deficient) of expenses and losses	(20,949,879)	13,632,944	(23,510,768)	348,943	(10,072,369)	76,528
Net (gain) loss attributable to noncontrolling interest in joint ventures	-	<u>154,840</u>	-	-	-	-
Revenues and gains in excess (deficient) of expenses and losses after noncontrolling interest	<u>\$(20,949,879)</u>	<u>\$ 13,787,784</u>	<u>\$(23,510,768)</u>	<u>\$ 348,943</u>	<u>\$(10,072,369)</u>	<u>\$ 76,528</u>

Continued

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

COMBINING STATEMENTS OF EXCESS REVENUES (EXPENSES), Continued
June 30, 2022

	SJC Health Services	Georgia Infirmary	Geehee Reinsurance	Totals	Eliminations	Combined Totals
Revenues, gains and other support:						
Net patient service revenue	\$ 17,827,591	\$ 3,168,307	\$ -	\$ 767,151,134	\$ -	\$ 767,151,134
Other revenue	<u>12,803,401</u>	<u>377,886</u>	<u>5,898,051</u>	<u>97,712,807</u>	<u>(16,417,329)</u>	<u>81,295,478</u>
Total revenues, gains and other support	<u>30,630,992</u>	<u>3,546,193</u>	<u>5,898,051</u>	<u>864,863,941</u>	<u>(16,417,329)</u>	<u>848,446,612</u>
Expenses:						
Salaries and wages	9,372,805	2,042,233	-	307,723,374	-	307,723,374
Employee benefits	1,191,133	453,979	-	45,799,469	-	45,799,469
Physician and professional fees	1,368,673	153,540	142,994	67,434,209	(3,858,528)	63,575,681
Materials and supplies	3,746,669	64,508	-	250,547,498	-	250,547,498
Purchased services	1,540,374	29,589	-	53,978,095	(5,089,053)	48,889,042
Insurance	246,520	5,993	5,797,891	15,002,528	(5,898,051)	9,104,477
Interest	-	-	-	10,582,974	-	10,582,974
Depreciation and amortization	180,093	179,108	-	29,321,106	-	29,321,106
Other	<u>2,687,737</u>	<u>264,123</u>	<u>2,327</u>	<u>55,979,665</u>	<u>(1,571,697)</u>	<u>54,407,968</u>
Total expenses	<u>20,334,004</u>	<u>3,193,073</u>	<u>5,943,212</u>	<u>836,368,918</u>	<u>(16,417,329)</u>	<u>819,951,589</u>
Income (loss) from operations	<u>10,296,988</u>	<u>353,120</u>	<u>(45,161)</u>	<u>28,495,023</u>	<u>-</u>	<u>28,495,023</u>
Nonoperating income (loss):						
Investment income	-	179,285	2,727,610	11,733,121	-	11,733,121
Unrealized losses on securities	-	(398,360)	(10,976,191)	(60,752,689)	-	(60,752,689)
Increase in fair value of derivative instruments	-	-	-	3,699,628	-	3,699,628
Loss on investments in affiliates	-	-	-	(20,949,879)	20,949,879	-
Net periodic pension cost	-	-	-	(919,554)	-	(919,554)
Other nonoperating gains	<u>-</u>	<u>-</u>	<u>-</u>	<u>357,040</u>	<u>-</u>	<u>357,040</u>
Nonoperating income (loss), net	<u>-</u>	<u>(219,075)</u>	<u>(8,248,581)</u>	<u>(66,832,333)</u>	<u>20,949,879</u>	<u>(45,882,454)</u>
Revenues and gains in excess (deficient) of expenses and losses	10,296,988	134,045	(8,293,742)	(38,337,310)	20,949,879	(17,387,431)
Net (gain) loss attributable to noncontrolling interest in joint ventures	<u>(3,717,288)</u>	<u>-</u>	<u>-</u>	<u>(3,562,448)</u>	<u>-</u>	<u>(3,562,448)</u>
Revenues and gains in excess (deficient) of expenses and losses after noncontrolling interest	<u>\$ 6,579,700</u>	<u>\$ 134,045</u>	<u>\$ (8,293,742)</u>	<u>\$ (41,899,758)</u>	<u>\$ 20,949,879</u>	<u>\$ (20,949,879)</u>

See accompanying independent auditor's report on combining information.

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

COMBINING STATEMENTS OF CASH FLOWS
June 30, 2023

	<u>St. Joseph's/ Candler Health System</u>	<u>Candler Hospital</u>	<u>St. Joseph's Hospital</u>	<u>SJC Home Health</u>	<u>SJC Medical Group</u>	<u>SJC Properties</u>
Cash flows from operating activities:						
Increase (decrease) in net assets including noncontrolling interest	\$ 44,840,849	\$ 17,141,569	\$(17,869,616)	\$ 858,952	\$(8,810,173)	\$ 1,166,069
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:						
Change in fair value of derivative instruments	4,356	-	-	-	-	-
Beneficial interest in net assets of Foundations, net	-	(581,258)	(174,217)	-	-	-
Net realized and unrealized gains on investments	(19,908,915)	(164,424)	-	-	(783,619)	-
Depreciation and amortization	-	15,990,312	13,532,917	18,212	664,037	400,140
Amortization of bond premium/issuance cost	(771,983)	-	-	-	-	-
Distributions to partners	-	-	-	-	-	-
Contributions of property	-	(92,815)	-	-	-	-
Changes in:						
Patient accounts receivable	-	(8,545,055)	(5,690,699)	47,308	(141,707)	-
Other receivables	(3,374,342)	(1,686,815)	2,097,447	-	241,436	31,190
Inventories	882,531	2,132,954	(570,884)	-	-	-
Prepaid expenses	(3,898,731)	88,762	(323,185)	2,452	(8,384)	1,670
Accounts payable	2,222,393	3,591,508	2,285,207	78,543	55,120	(29,772)
Accrued liabilities	762,945	86,507	84,565	(13,829)	10,620	24,173
Medicare advance payments	-	(1,954,295)	1,291,750	-	4,668	-
CARES Act refundable advance	-	(3,765,542)	(2,668,630)	(171,336)	(986,682)	-
Accrued self-insurance claims	(118,314)	-	-	-	-	-
Accrued pension costs, net	(4,626,965)	-	-	-	-	-
Deferred compensation payable	-	164,424	-	-	235,005	-
Net cash provided (used) by operating activities	<u>16,013,824</u>	<u>22,405,832</u>	<u>(8,005,345)</u>	<u>820,302</u>	<u>(9,519,679)</u>	<u>1,593,470</u>
Cash flows from investing activities:						
Purchases of property and equipment	(3,081,713)	(23,228,728)	(18,196,090)	(18,978)	(523,340)	(1,666,137)
Proceeds from sale of assets limited as to use	64,675,095	-	-	-	3,648,984	-
Purchases of assets limited as to use	(65,647,354)	-	-	-	(4,066,524)	-
Interest rate swap termination	2,295,329	-	-	-	-	-
Investment in affiliates	4,608,340	-	-	-	-	-
Sales (purchases) of long-term investments, net	-	(828,076)	2,292,159	1,900	-	200
Net cash provided (used) by investing activities	<u>2,849,697</u>	<u>(24,056,804)</u>	<u>(15,903,931)</u>	<u>(17,078)</u>	<u>(940,880)</u>	<u>(1,665,937)</u>

Continued

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

COMBINING STATEMENTS OF CASH FLOWS, Continued
June 30, 2023

	SJC Health Services	Georgia Infirmary	Geechee Reinsurance	Totals	Eliminations	Combined Totals
Cash flows from operating activities:						
Increase (decrease) in net assets including noncontrolling interest	\$ 2,818,311	\$ 243,171	\$ 660,890	\$ 41,050,022	\$ 4,608,340	\$ 45,658,362
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:						
Change in fair value of derivative instruments	-	-	-	4,356	-	4,356
Beneficial interest in net assets of Foundations, net	-	-	-	(755,475)	-	(755,475)
Net realized and unrealized gains on investments	-	(54,767)	(3,051,380)	(23,963,105)	-	(23,963,105)
Depreciation and amortization	193,879	170,766	-	30,970,263	-	30,970,263
Amortization of bond premium/issuance cost	-	-	-	(771,983)	-	(771,983)
Distributions to partners	1,912,620	-	-	1,912,620	-	1,912,620
Contributions of property	-	-	-	(92,815)	-	(92,815)
Changes in:						
Patient accounts receivable	113,544	(71,393)	-	(14,288,002)	-	(14,288,002)
Other receivables	(45,175)	8,673	-	(2,727,586)	-	(2,727,586)
Inventories	(201,633)	-	-	2,242,968	-	2,242,968
Prepaid expenses	17,473	(2,217)	-	(4,122,160)	-	(4,122,160)
Accounts payable	(60,932)	(2,266)	260,644	8,400,445	-	8,400,445
Accrued liabilities	(230,309)	(2,747)	(12,817)	709,108	-	709,108
Medicare advance payments	-	-	-	(657,877)	-	(657,877)
CARES Act refundable advance	(187,914)	-	-	(7,780,104)	-	(7,780,104)
Accrued self-insurance claims	-	-	176,927	58,613	-	58,613
Accrued pension costs, net	-	-	-	(4,626,965)	-	(4,626,965)
Deferred compensation payable	-	-	-	399,429	-	399,429
Net cash provided (used) by operating activities	<u>4,329,864</u>	<u>289,220</u>	<u>(1,965,736)</u>	<u>25,961,752</u>	<u>4,608,340</u>	<u>30,570,092</u>
Cash flows from investing activities:						
Purchases of property and equipment	17,773	9,276	-	(46,687,937)	-	(46,687,937)
Proceeds from sale of assets limited as to use	-	6,786	12,959,617	81,290,482	-	81,290,482
Purchases of assets limited as to use	-	(24,765)	(10,478,867)	(80,217,510)	-	(80,217,510)
Interest rate swap termination	-	-	-	2,295,329	-	2,295,329
Investment in affiliates	-	-	-	4,608,340	(4,608,340)	-
Sales (purchases) of long-term investments, net	-	-	-	1,466,183	-	1,466,183
Net cash provided (used) by investing activities	<u>17,773</u>	<u>(8,703)</u>	<u>2,480,750</u>	<u>(37,245,113)</u>	<u>(4,608,340)</u>	<u>(41,853,453)</u>

Continued

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

COMBINING STATEMENTS OF CASH FLOWS, Continued
June 30, 2023

	<u>St. Joseph's/ Candler Health System</u>	<u>Candler Hospital</u>	<u>St. Joseph's Hospital</u>	<u>SJC Home Health</u>	<u>SJC Medical Group</u>	<u>SJC Properties</u>
Cash flows from financing activities:						
Repayment of long-term debt	\$(291,999)	\$ -	\$ -	\$ -	\$ -	\$ -
Proceeds from issuance of long-term debt	55,155,172	2,150,000	-	-	-	-
Payments on finance lease liabilities	(244,487)	(212,421)	(240,284)	-	-	-
Contributions for property	-	92,815	-	-	-	-
Distributions to partners	-	-	-	-	-	-
Transfers to (from) affiliates, net	<u>(31,788,626)</u>	<u>651,585</u>	<u>23,855,949</u>	<u>(965,895)</u>	<u>10,341,805</u>	<u>72,467</u>
Net cash provided (used) by financing activities	<u>22,830,060</u>	<u>2,681,979</u>	<u>23,615,665</u>	<u>(965,895)</u>	<u>10,341,805</u>	<u>72,467</u>
Net increase (decrease) in cash and cash equivalents	41,693,581	1,031,007	(293,611)	(162,671)	(118,754)	-
Cash and cash equivalents, beginning of year	<u>61,198,676</u>	<u>1,134,690</u>	<u>542,618</u>	<u>326,232</u>	<u>767,755</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 102,892,257</u>	<u>\$ 2,165,697</u>	<u>\$ 249,007</u>	<u>\$ 163,561</u>	<u>\$ 649,001</u>	<u>\$ -</u>

Continued

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

COMBINING STATEMENTS OF CASH FLOWS, Continued
June 30, 2023

	<u>SJC Health Services</u>	<u>Georgia Infirmary</u>	<u>Geechee Reinsurance</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Combined Totals</u>
Cash flows from financing activities:						
Repayment of long-term debt	\$ -	\$ -	\$ -	\$(291,999)	\$ -	\$(291,999)
Proceeds from issuance of long-term debt	-	-	-	57,305,172	-	57,305,172
Payments on finance lease liabilities	-	-	-	(697,192)	-	(697,192)
Contributions for property	-	-	-	92,815	-	92,815
Distributions to partners	(1,912,620)	-	-	(1,912,620)	-	(1,912,620)
Transfers to (from) affiliates, net	<u>(4,654,491)</u>	<u>(371,399)</u>	<u>2,858,605</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(6,567,111)</u>	<u>(371,399)</u>	<u>2,858,605</u>	<u>54,496,176</u>	<u>-</u>	<u>54,496,176</u>
Net increase (decrease) in cash and cash equivalents	(2,219,474)	(90,882)	3,373,619	43,212,815	-	43,212,815
Cash and cash equivalents, beginning of year	<u>6,435,498</u>	<u>816,449</u>	<u>5,860,062</u>	<u>77,081,980</u>	<u>-</u>	<u>77,081,980</u>
Cash and cash equivalents, end of year	<u>\$ 4,216,024</u>	<u>\$ 725,567</u>	<u>\$ 9,233,681</u>	<u>\$ 120,294,795</u>	<u>\$ -</u>	<u>\$ 120,294,795</u>

See accompanying independent auditor's report on combining information.

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

COMBINING STATEMENTS OF CASH FLOWS
June 30, 2022

	<u>St. Joseph's/ Candler Health System</u>	<u>Candler Hospital</u>	<u>St. Joseph's Hospital</u>	<u>SJC Home Health</u>	<u>SJC Medical Group</u>	<u>SJC Properties</u>
Cash flows from operating activities:						
Increase (decrease) in net assets including noncontrolling interest	\$(24,229,544)	\$ 10,924,098	\$(25,579,559)	\$ 5,334	\$(2,324,767)	\$ 1,508,302
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:						
Change in fair value of derivative instruments	(3,699,628)	-	-	-	-	-
Beneficial interest in net assets of Foundations, net	-	1,302,996	564,203	-	-	-
Net realized and unrealized losses on Investments	46,319,083	-	-	-	2,103,880	-
Depreciation and amortization	-	14,671,428	13,255,235	20,564	695,837	318,841
Amortization of bond premium/issuance cost	(467,498)	-	-	-	-	-
Distributions to partners	-	-	-	-	-	-
Contributions of property	(64,356)	(56,019)	-	-	-	-
Changes in:						
Patient accounts receivable	-	(4,440,141)	(6,751,293)	232,953	(243,966)	-
Other receivables	2,223,086	(2,445,252)	(1,709,556)	-	(184,779)	88,436
Inventories	1,307,560	(646,661)	1,475,064	-	-	-
Prepaid expenses	(613,824)	758,797	2,646	(4,054)	(55,655)	1,416
Accounts payable	(1,877,725)	(4,364,829)	(292,581)	(59,955)	(156,280)	4,474
Accrued liabilities	(3,050,983)	(1,375,754)	(1,808,000)	(40,141)	(329,221)	24,031
Estimated third-party payor settlements and Medicare advance payments	-	(26,623,430)	(22,440,332)	-	(818,545)	-
CARES Act refundable advance	-	(750,493)	1,663,441	171,330	986,682	-
Accrued self-insurance claims	(601,794)	-	-	-	-	-
Accrued pension costs, net	(1,718,163)	-	-	-	-	-
Deferred compensation payable	-	(208,275)	(4,324,265)	-	(725,023)	-
Net cash provided (used) by operating activities	<u>13,526,214</u>	<u>(13,253,535)</u>	<u>(45,944,997)</u>	<u>326,031</u>	<u>(1,051,837)</u>	<u>1,945,500</u>
Cash flows from investing activities:						
Purchases of property and equipment	(584,311)	(22,706,824)	(10,913,554)	-	(357,708)	(856,125)
Proceeds from sale of assets limited as to use	118,197,490	208,275	4,324,265	-	4,181	-
Purchases of assets limited as to use	(141,299,229)	-	-	-	(456,644)	-
Investment in affiliates	32,931,616	-	-	-	-	-
Sales (purchases) of long-term investments, net	-	<u>1,776,249</u>	<u>40,049</u>	-	-	<u>(689,375)</u>
Net cash provided (used) by investing activities	<u>9,245,566</u>	<u>(20,722,300)</u>	<u>(6,549,240)</u>	<u>-</u>	<u>(810,171)</u>	<u>(1,545,500)</u>

Continued

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

COMBINING STATEMENTS OF CASH FLOWS, Continued
June 30, 2022

	<u>SJC Health Services</u>	<u>Georgia Infirmary</u>	<u>Geechee Reinsurance</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Combined Totals</u>
Cash flows from operating activities:						
Increase (decrease) in net assets including noncontrolling interest	\$ 2,664,145	\$(289,192)	\$(18,293,742)	\$(55,614,925)	\$ 32,931,616	\$(22,683,309)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:						
Change in fair value of derivative instruments	-	-	-	(3,699,628)	-	(3,699,628)
Beneficial interest in net assets of Foundations, net	-	-	-	1,867,199	-	1,867,199
Net realized and unrealized losses on investments	-	242,871	10,439,318	59,105,152	-	59,105,152
Depreciation and amortization	180,093	179,108	-	29,321,106	-	29,321,106
Amortization of bond premium/issuance cost	-	-	-	(467,498)	-	(467,498)
Distributions to partners	2,802,670	-	-	2,802,670	-	2,802,670
Contributions of property	-	-	-	(120,375)	-	(120,375)
Changes in:						
Patient accounts receivable	23,564	16,155	-	(11,162,728)	-	(11,162,728)
Other receivables	(852,589)	(38,289)	-	(2,918,943)	-	(2,918,943)
Inventories	151,649	-	-	2,287,612	-	2,287,612
Prepaid expenses	17,899	(3,395)	-	103,830	-	103,830
Accounts payable	184,066	(58,228)	(128,847)	(6,749,905)	-	(6,749,905)
Accrued liabilities	(316,518)	(21,893)	3,827	(6,914,652)	-	(6,914,652)
Estimated third-party payor settlements and Medicare advance payments	(74,436)	-	-	(49,956,743)	-	(49,956,743)
CARES Act refundable advance	(1,068,806)	-	-	1,002,154	-	1,002,154
Accrued self-insurance claims	-	-	3,942,584	3,340,790	-	3,340,790
Accrued pension costs, net	-	-	-	(1,718,163)	-	(1,718,163)
Deferred compensation payable	-	-	-	(5,257,563)	-	(5,257,563)
Net cash provided (used) by operating activities	<u>3,711,737</u>	<u>27,137</u>	<u>(4,036,860)</u>	<u>(44,750,610)</u>	<u>32,931,616</u>	<u>(11,818,994)</u>
Cash flows from investing activities:						
Purchases of property and equipment	(68,365)	(195,737)	-	(35,682,624)	-	(35,682,624)
Proceeds from sale of assets limited as to use	-	7,927	18,274,477	141,016,615	-	141,016,615
Purchases of assets limited as to use	-	(37,119)	(12,665,581)	(154,458,573)	-	(154,458,573)
Investment in affiliates	-	-	-	32,931,616	(32,931,616)	-
Sales (purchases) of long-term investments, net	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>1,136,923</u>	<u>-</u>	<u>1,136,923</u>
Net cash provided (used) by investing activities	<u>(58,365)</u>	<u>(224,929)</u>	<u>5,608,896</u>	<u>(15,056,043)</u>	<u>(32,931,616)</u>	<u>(47,987,659)</u>

Continued

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

COMBINING STATEMENTS OF CASH FLOWS, Continued
June 30, 2022

	<u>St. Joseph's/ Candler Health System</u>	<u>Candler Hospital</u>	<u>St. Joseph's Hospital</u>	<u>SJC Home Health</u>	<u>SJC Medical Group</u>	<u>SJC Properties</u>
Cash flows from financing activities:						
Repayment of long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$(400,000)
Payments on finance lease liabilities	(234,916)	(255,336)	(265,677)	-	-	-
Contributions for property	64,356	56,019	-	-	-	-
Distributions to partners	-	-	-	-	-	-
Transfers to (from) affiliates, net	<u>(87,125,478)</u>	<u>34,389,479</u>	<u>53,184,744</u>	<u>(531,561)</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(87,296,038)</u>	<u>34,190,162</u>	<u>52,919,067</u>	<u>(531,561)</u>	<u>-</u>	<u>(400,000)</u>
Net increase (decrease) in cash and cash equivalents	(64,524,258)	214,327	424,830	(205,530)	(1,862,008)	-
Cash and cash equivalents, beginning of year	<u>125,722,934</u>	<u>920,363</u>	<u>117,788</u>	<u>531,762</u>	<u>2,629,763</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 61,198,676</u>	<u>\$ 1,134,690</u>	<u>\$ 542,618</u>	<u>\$ 326,232</u>	<u>\$ 767,755</u>	<u>\$ -</u>

Continued

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

COMBINING STATEMENTS OF CASH FLOWS, Continued
June 30, 2022

	<u>SJC Health Services</u>	<u>Georgia Infirmary</u>	<u>Geechee Reinsurance</u>	<u>Totals</u>	<u>Eliminations</u>	<u>Combined Totals</u>
Cash flows from financing activities:						
Repayment of long-term debt	\$ -	\$ -	\$ -	\$(400,000)	\$ -	\$(400,000)
Payments on finance lease liabilities	-	-	-	(755,929)	-	(755,929)
Contributions for property	-	-	-	120,375	-	120,375
Distributions to partners	(2,802,670)	-	-	(2,802,670)	-	(2,802,670)
Transfers to (from) affiliates, net	<u>-</u>	<u>-</u>	<u>82,816</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>(2,802,670)</u>	<u>-</u>	<u>82,816</u>	<u>(3,838,224)</u>	<u>-</u>	<u>(3,838,224)</u>
Net increase (decrease) in cash and cash equivalents	850,702	(197,792)	1,654,852	(63,644,877)	-	(63,644,877)
Cash and cash equivalents, beginning of year	<u>5,584,796</u>	<u>1,014,241</u>	<u>4,205,210</u>	<u>140,726,857</u>	<u>-</u>	<u>140,726,857</u>
Cash and cash equivalents, end of year	<u>\$ 6,435,498</u>	<u>\$ 816,449</u>	<u>\$ 5,860,062</u>	<u>\$ 77,081,980</u>	<u>\$ -</u>	<u>\$ 77,081,980</u>

See accompanying independent auditor's report on combining information.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of St. Joseph's/Candler Health System, Inc., which comprise the combined balance sheet as of June 30, 2023, and the related combined statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 19, 2023.

Our report includes a reference to other auditors who audited the financial statements of Geechee Reinsurance Company, LLC, a wholly-owned subsidiary, as described in our report on the System's combined financial statements. The financial statements of Geechee Reinsurance Company, LLC, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Geechee Reinsurance Company, LLC.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Draffin & Tucker, LLP

Albany, Georgia
October 19, 2023