

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.

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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>

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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 (Note 7)	<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.

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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%

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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

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