

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2020 and 20196. Related Organizations, ContinuedSt. Joseph's Foundation of Savannah, Inc.

	<u>2020</u>	<u>2019</u>
Assets:		
Cash	\$ 389,847	\$ 35,954
Investments	2,097,021	2,034,776
Due from related parties	73,892	15,099
Other assets	<u>244,487</u>	<u>217,021</u>
Total assets	\$ <u>2,805,247</u>	\$ <u>2,302,850</u>
Liabilities:		
Accounts payable and accrued expenses	\$ <u>12,020</u>	\$ <u>2,072</u>
Total liabilities	<u>12,020</u>	<u>2,072</u>
Net assets:		
Without donor restrictions	1,249,167	777,793
With donor restrictions:		
Purpose restrictions	1,444,060	1,422,985
Perpetual in nature	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>2,793,227</u>	<u>2,300,778</u>
Total liabilities and net assets	\$ <u>2,805,247</u>	\$ <u>2,302,850</u>
Revenue and support	\$ 1,261,297	\$ 1,219,421
Expenses	<u>768,848</u>	<u>774,570</u>
Excess revenue	492,449	444,851
Other changes in net assets	-	(291,711)
Net assets, beginning of year	<u>2,300,778</u>	<u>2,147,638</u>
Net assets, end of year	\$ <u>2,793,227</u>	\$ <u>2,300,778</u>

7. Long-Term Debt

The Hospital Authority of Savannah (Authority) issued a \$46,185,000 principal bond Series 2013A pursuant to a Bond Trust Indenture dated November 1, 2013, by and between the Authority and the bond trustee, Regions Bank. The Authority simultaneously entered into a Loan Agreement dated November 1, 2013, by and between the Authority and the System, CH, and SJH (Obligated Group). Interest will be paid annually through July 2026 by the System to the Authority. Subsequently, principal and interest will be paid through July 2031. Proceeds for the 2013A Revenue Bonds have been used (1) to finance the costs of constructing

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2020 and 2019

7. Long-Term Debt, Continued

additions and improvements to, and equipment for, CH and SJH, (2) currently refund the outstanding principal amount of the Series 2003 Bonds, and (3) pay the costs of issuing the bonds and refunding the Series 2003 Bonds.

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

The Authority issued an \$87,505,000 principal bond Series 2016A pursuant to a Bond Trust Indenture dated July 1, 2016, by and between the Authority, the System, and the bond trustee, Regions Bank. Principal and interest will be paid monthly through July 2026. The purpose of the Bond is (1) to finance the costs of constructing additions and improvements to, and equipment for, CH and SJH, (2) refund the outstanding principal and interest of the Series 2013E and 2013F bonds, (3) pay the cost of issuing the Series 2016A and refunding the Series 2013E and 2013F bonds, and (4) expansion of services and campuses in neighboring communities. In December 2017, \$12,000,000 of this Series was refunded with Series 2017. In November 2019, the remaining outstanding balance was refunded with the issuance Series 2019A bonds.

CH incurred a \$36,000,000 Master Note Series 2016B pursuant to a credit agreement dated July 1, 2016, by and between CH and TD Bank. Principal and interest will be paid monthly through July 2022. The purpose of the Note is (1) to finance the costs of constructing additions and improvements to, and equipment for, CH and SJH, (2) refund the outstanding principal and interest of the Series 2013G and 2013H bonds, and (3) pay the cost of issuing the Series 2016B and refunding the Series 2013G and 2013H bonds. In November 2019, the Series 2019B was issued and a portion of the proceeds were allocated to refinance the Master Note Series 2016B.

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

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.

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2020 and 2019

7. Long-Term Debt, Continued

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

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

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

A summary of long-term debt at June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Hospital Authority of Savannah Revenue Bonds, St. Joseph's/Candler Health System, Inc.:		
Issue Series 2016A:		
Variable interest rate based on LIBOR plus a margin based on applicable rating, payable in varying monthly amounts from \$11,635 to \$674,657 from August 2016 until June 2026 with a balloon payment in July 2026 of \$69,202,193.	\$ <u>-</u>	\$ <u>75,112,384</u>
Issue Series 2013A:		
5.50% serial bonds, principal due in varying annual installments beginning in July 2027 to July 2031.	46,185,000	46,185,000

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2020 and 20197. Long-Term Debt, Continued

	<u>2020</u>	<u>2019</u>
Hospital Authority of Savannah Revenue Bonds, St. Joseph's/Candler Health System, Inc., continued:		
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>1,409,317</u>	<u>1,537,437</u>
Total	<u>77,619,317</u>	<u>77,747,437</u>
Issue Series 2017:		
Variable interest rate based on LIBOR plus a margin based on applicable rating, payable in varying monthly amounts from \$1,700 to \$6,100 from January 2018 until July 2021, increasing to \$90,822 for one year, increasing again to \$92,729 for another year, then decreasing to \$6,000, with a final balloon payment in July 2026 of \$9,511,498.	<u>-</u>	<u>11,970,804</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.	106,960,000	-
Issue Series 2019B:		
3.989% term bonds, principal due in varying annual installments beginning in July 2033 to July 2038.	61,625,000	-
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	
Unamortized premium	<u>10,443,853</u>	<u>-</u>
Total	<u>198,048,853</u>	<u>-</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2020 and 20197. Long-Term Debt, Continued

	<u>2020</u>	<u>2019</u>
Candler Hospital, Inc. taxable (Series 2016B), with a variable interest rate based on LIBOR plus a margin based upon the applicable rating, due in varying monthly installments of \$569,365 to \$631,554 from August 2016 until July 2022.	\$ <u>-</u>	\$ <u>14,962,153</u>
SJC Properties, Inc. noninterest bearing note payable, due in varying annual amounts from \$897,500 to \$1,085,140 from March 2018 until March 2020.	<u>-</u>	<u>1,335,448</u>
Finance lease liabilities (<i>Note 20</i>)	<u>2,833,078</u>	<u>-</u>
	278,501,248	181,128,226
Less unamortized debt issue costs	<u>2,931,922</u>	<u>1,512,341</u>
	275,569,326	179,615,885
Less current maturities	751,058	8,246,265
Less current portion of unamortized premiums	<u>771,983</u>	<u>128,109</u>
Total long-term debt	\$ <u>274,046,285</u>	\$ <u>171,241,511</u>

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

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

The System entered into interest rate swaps in relation to its debt structure. During the years ended June 30, 2020 and 2019, the System recognized approximately \$162,000 and \$292,000, respectively, which has been recorded as an addition to interest expense in the accompanying combined statements of operations and changes in net assets.

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2020 and 20197. Long-Term Debt, Continued

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>
2021	\$ -
2022	-
2023	-
2024	-
2025	7,740,000
Thereafter	<u>256,075,000</u>
Total	\$ <u>263,815,000</u>

8. Short-Term Debt

The System has a revolving line-of-credit for general operating and capital purposes. The line-of-credit is secured by the gross receipts of the System, CH, and SJH. The outstanding balance on the line-of-credit at June 30, 2020 and 2019 was \$-0- with no activity occurring in either year. The terms of the System's line-of-credit during 2020 follows:

- Regions Bank – \$15,000,000 line-of-credit with a maturity date of September 20, 2020. Interest is recalculated at a floating rate per annum equal to 30-Day LIBOR plus eighty-five one-hundredths of one percent (85 basis points), which is due monthly. In December 2016, the System amended the agreement to designate \$3,070,000 as letter-of-credit within the funds available for the System's self-insured workers' compensation claims. Subsequent to year end, the System renewed the agreement to extend the maturity date to September 19, 2021.

9. Derivative Financial Instruments

The Series 1998 and 2003 Bonds utilized various interest rate swaps to take advantage of different interest rate positions. The fair market value of the swaps is reported in derivative financial instruments on the combined balance sheets. Both swaps were terminated in 2020. The critical terms of the swaps were as follows:

<u>1998A and 1998B Swap Agreement – Variable to Fixed</u>		
	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Notional amount	\$ -	\$ 35,485,000
Fair market swap	\$ -	\$ (334,000)
Life remaining on swap	N/A	4 Years

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NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
June 30, 2020 and 20199. Derivative Financial Instruments, Continued

<u>1998C and 2003 Swap Agreement – Variable to Variable</u>		
	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Notional amount	\$ -	\$ 30,685,000
Fair market swap	\$ -	\$ 775,000
Life remaining on swap	N/A	14 Years

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

<u>Forward Starting Interest Swap</u>		
	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Notional amount	\$ 46,185,000	\$ -
Fair market swap	\$(3,092,000)	\$ -
Life remaining on swap	11 Years	N/A

The swaps were issued at market terms so that they had no fair value at their inception. The carrying amount of the swaps has been adjusted to fair value at the end of the year which, because of changes in forecasted levels of SIFMA and LIBOR, resulted in reporting a net liability in 2020 and a net asset in 2019.

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, 2020 and 2019, this earnings impact totaled \$(3,123,606) and \$(173,987), respectively.

Certain provisions of the System's interest rate swaps allow the System to receive assets from the counterparty as collateral. The System held approximately \$-0- and \$850,000 of the counterparty's assets at June 30, 2020 and 2019, respectively. These assets are included in assets limited as to use restricted under interest rate swap agreement and deferred compensation agreement and the corresponding liability is included in noncurrent liabilities in the accompanying combined balance sheets.

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