

Southeast Georgia Health System, Inc.

Consolidated Financial Statements and Supplementary Information

Years Ended April 30, 2020 and 2019

Table of Contents

Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets.....	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8
Supplementary Information:	
Consolidating Balance Sheet	28
Consolidating Statement of Operations and Changes in Net Assets.....	30

Independent Auditors' Report

Board of Directors
Southeast Georgia Health System, Inc.
Brunswick, Georgia

We have audited the accompanying consolidated financial statements of Southeast Georgia Health System, Inc. (the "System"), which comprise the consolidated balance sheets as of April 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of April 30, 2020 and 2019, and the results of its operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Change in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, during the year ended April 30, 2020, the System adopted Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*. As a result of adopting this new standard, the System restated amounts previously reported as of and for the year ended April 30, 2019. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

**Tampa, Florida
August 3, 2020**

Southeast Georgia Health System, Inc.
Consolidated Balance Sheets
April 30, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 66,106	\$ 15,172
Patient accounts receivable	58,554	65,484
Other receivables	3,462	9,227
Supplies and pharmaceutical inventories	11,586	9,838
Assets limited as to use	4,592	3,635
Other current assets	3,944	3,618
	<u>148,244</u>	<u>106,974</u>
Assets limited as to use:		
Held by trustee for debt service	3,839	8,831
Restricted by third-parties for construction	48,162	89,787
Internally designated for self-insurance	6,769	5,183
Internally designated for capital improvements and other purposes	168,853	191,540
	<u>227,623</u>	<u>295,341</u>
Property and equipment, net	<u>310,114</u>	<u>256,741</u>
Other assets:		
Leverage loan receivable	-	9,785
Other assets	2,090	3,064
	<u>2,090</u>	<u>12,849</u>
Total other assets	<u>2,090</u>	<u>12,849</u>
Total assets	<u>\$ 688,071</u>	<u>\$ 671,905</u>

Southeast Georgia Health System, Inc.
Consolidated Balance Sheets
April 30, 2020 and 2019
(in thousands)

(Continued)

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 7,017	\$ 5,963
Accounts payable (including construction-related amounts of \$4,387 and \$2,887, respectively)	18,050	18,891
Accrued salaries and compensated absences	17,121	14,796
Other accrued expenses and deferrals	13,102	13,481
Medicare advance payment liability	48,000	-
Estimated third-party payor settlements	1,609	1,875
	<u>104,899</u>	<u>55,006</u>
Total current liabilities	104,899	55,006
Long-term debt, net of current maturities	260,205	266,199
Notes payable to community development entities	-	13,824
Professional liability claims obligation, net of current	6,769	5,183
	<u>371,873</u>	<u>340,212</u>
Total liabilities	371,873	340,212
Net assets:		
Without donor restrictions	316,198	331,693
	<u>316,198</u>	<u>331,693</u>
Total liabilities and net assets	<u>\$ 688,071</u>	<u>\$ 671,905</u>

See accompanying notes.

Southeast Georgia Health System, Inc.
Consolidated Statements of Operations and Changes in Net Assets
Years Ended April 30, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Net patient service revenue	\$ 410,253	\$ 416,387
Other revenues	13,059	3,474
Total operating revenues	<u>423,312</u>	<u>419,861</u>
Operating expenses:		
Salaries and wages	181,853	174,342
Employee benefits	42,045	44,276
Contract personnel	14,175	12,155
Professional fees	5,799	5,113
Supplies and drugs	82,515	81,385
Physician fees	8,188	9,735
Insurance and utilities	11,575	9,013
Outside services	32,304	32,396
Depreciation and amortization	19,708	19,547
Hospital provider fees and assessments	8,225	7,545
Other	10,347	11,166
Interest expense	5,449	4,820
Total operating expenses	<u>422,183</u>	<u>411,493</u>
Income from operations	<u>1,129</u>	<u>8,368</u>
Non-operating (expenses) revenues:		
Net investment (loss) income	(20,076)	11,141
Other	4,717	686
Total non-operating (expenses) revenues, net	<u>(15,359)</u>	<u>11,827</u>
(Deficit) excess of revenues over expenses	<u>(14,230)</u>	<u>20,195</u>
Other changes in net assets	<u>(1,265)</u>	<u>2,761</u>
(Decrease) increase in net assets	<u>(15,495)</u>	<u>22,956</u>
Net assets, beginning of year	<u>331,693</u>	<u>308,737</u>
Net assets, end of year	<u>\$ 316,198</u>	<u>\$ 331,693</u>

See accompanying notes.

Southeast Georgia Health System, Inc.
Consolidated Statements of Cash Flows
Years Ended April 30, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>(as restated) 2019</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (15,495)	\$ 22,956
Adjustments to reconcile (decrease) increase in net assets to cash provided by operating activities:		
Depreciation and amortization	19,708	19,547
Gain on forgiveness of NMTC notes	(4,039)	-
Net realized and unrealized losses (gains) on investments	25,168	(5,891)
Other	(490)	(1,265)
Changes in operating assets and liabilities:		
Patient accounts receivable	6,930	340
Other receivables	5,765	(4,845)
Accounts payable and accrued expenses	3,070	3,965
Estimated third-party payor settlements	(266)	242
Medicare advance payment liability	48,000	-
Other	(1,479)	(3,774)
Net cash provided by operating activities	<u>86,872</u>	<u>31,275</u>
Cash flows from investing activities:		
Purchases of capital assets	(71,449)	(37,271)
Net change in assets limited as to use	<u>46,487</u>	<u>(3,284)</u>
Net cash used in investing activities	<u>(24,962)</u>	<u>(40,555)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(60,558)	(15,808)
Payments for debt issuance costs	(646)	-
Proceeds from issuance of long-term debt	<u>55,122</u>	<u>9,265</u>
Net cash used in financing activities	<u>(6,082)</u>	<u>(6,543)</u>
Increase (decrease) in cash and cash equivalents	55,828	(15,823)
Cash and cash equivalents, beginning of year	<u>121,206</u>	<u>137,029</u>
Cash and cash equivalents, end of year	<u>\$ 177,034</u>	<u>\$ 121,206</u>

See accompanying notes.

Southeast Georgia Health System, Inc.
Consolidated Statements of Cash Flows
Years Ended April 30, 2020 and 2019
(in thousands)

(Continued)

	<u>2020</u>	<u>(as restated) 2019</u>
Reconciliation of cash and cash equivalents:		
Beginning of year:		
Cash and cash equivalents	\$ 15,172	\$ 14,980
Restricted cash and cash equivalents, included in assets limited as to use	<u>106,034</u>	<u>122,049</u>
Cash and cash equivalents, beginning of year	<u><u>121,206</u></u>	<u><u>137,029</u></u>
End of year:		
Cash and cash equivalents	66,106	15,172
Restricted cash and cash equivalents, included in assets limited as to use	<u>110,928</u>	<u>106,034</u>
Cash and cash equivalents, end of year	<u><u>\$ 177,034</u></u>	<u><u>\$ 121,206</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 9,181</u>	<u>\$ 9,615</u>
Non-cash transactions:		
Equipment acquired under capital lease	<u><u>\$ 1,613</u></u>	<u><u>\$ 1,150</u></u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Reporting Entity

Southeast Georgia Health System, Inc. (the “System”) operates Southeast Georgia Health System Brunswick Campus (the “Brunswick Campus”), which includes a 300-bed acute care hospital, an outpatient care center, and a rehabilitation and wound center; Southeast Georgia Health System Camden Campus (the “Camden Campus”), a 40-bed acute care hospital located in St. Mary’s, Georgia; and two skilled nursing facilities: Senior Care Center-Brunswick, located in Brunswick, Georgia, and Senior Care Center-St. Mary’s, located in St. Mary’s, Georgia.

The System also operates the following controlled affiliates:

- Cooperative Healthcare Services, Inc., doing business as Southeast Georgia Physician Association (“SGPA”), the operations of which consist primarily of various physician practices located in Brunswick, Georgia and the surrounding geographic region
- Southeast Georgia Health System Foundation, Inc. (the “Foundation”), which exists for the sole benefit of the System and receives contributions to support the System and its charitable activities
- Southeast Georgia Health System QALICB I, LLC (“QALICB”), a wholly-owned financing vehicle for the construction of certain qualified projects under the New Market Tax Credit (“NMTC”) program discussed in Note 14

The Glynn-Brunswick Memorial Hospital Authority (the “Authority”), a public body corporate and politic, was established by the governing bodies of Glynn County, Georgia (the “County”), and the City of Brunswick, Georgia (the “City”), on March 1, 1961 under the Hospital Authorities Law of Georgia. The Authority is governed by nine members appointed by the governing bodies of the County and the City. Prior to May 1, 2015, the Authority did business as Southeast Georgia Health System.

Effective May 1, 2015, the Authority undertook a corporate restructuring and executed a lease and transfer agreement with the System, a Georgia not-for-profit corporation (formerly Kings Bay Community Hospital, Inc.), which assumed substantially all of the operations, assets and liabilities of the Authority and agreed to operate the facilities thereof as a community healthcare provider and to perform and abide by all covenants, agreements, and restrictions thereof for an initial period of forty years. Under the agreement, the System makes nominal lease payments to the Authority plus amounts sufficient to make debt service payments on Authority conduit debt obligations as they come due, and assumes all operational, financial, indigent care, and community responsibilities. Because the System’s Board of Directors is self-perpetuating, and the Authority does not have financial accountability for the System, the System and its controlled affiliates are excluded from the Authority’s reporting entity subsequent to the restructuring.

Effective September 1, 2015, the System entered into the Coastal Community Health, Inc. (“Coastal”) Affiliation Agreement with Baptist Health System, Inc., a Florida not-for-profit corporation, and Flagler Hospital, Inc., a Florida not-for-profit corporation, (collectively, the “Health Systems”), in order to pursue potential operational efficiencies in areas such as supply chain management, information systems, and care coordination in the southeast Georgia and northeast Florida regions that the Health Systems serve. Effective September 14, 2018, Flagler Hospital, Inc. withdrew from the Coastal Affiliation Agreement. The Coastal governing board consists of seven individuals, three of whom are appointed by the System’s Board of Directors. Under the affiliation agreement, the Coastal governing board maintains certain reserved powers which could influence specific operational and governance matters of the Health Systems. The reserved powers do not constitute a control relationship over the Health Systems.

2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies consistently applied by management in the preparation of the accompanying consolidated financial statements:

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the System and its controlled affiliates. Material intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The System has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for state or federal income taxes has been presented in the accompanying consolidated financial statements.

The System recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The System has determined that it does not have any material unrecognized tax benefits or obligations.

Cash and Cash Equivalents

The System considers money market funds and all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. The System maintains cash deposits in excess of federally insured limits and requires financial institutions to pledge collateral for the excess uninsured amounts.

Debt Issuance Costs

Debt issuance costs are amortized over the term of the related debt using the interest method and are reported as a reduction in long-term debt.

Assets Limited as to Use

Assets limited as to use include assets set aside by the System Board of Directors for future capital improvements, self-insurance, and other purposes, over which the Board retains control and may at their discretion subsequently use for other purposes; and assets held by trustees under loan agreements for construction and debt service. Amounts required to meet current obligations have been classified as current assets.

Investments in marketable debt and equity securities are reported at fair value in the consolidated balance sheet. Alternative investments are reported using net asset value ("NAV") as a practical expedient for fair value. Interest, dividends and gains and losses, both realized and unrealized, on such investments are reported as non-operating revenues when earned.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, there is at least a reasonable possibility that changes in the values of investment securities will occur in the near term and that these changes could materially affect the amounts reported in the consolidated balance sheets.

Supplies and Pharmaceutical Inventories

Pharmaceutical inventories are valued at lower of cost or market on the first-in, first-out basis. Supplies and storeroom inventories are valued at average cost.

Property and Equipment

Property and equipment are reported at historical cost. Depreciation is computed on the straight-line method and is provided over the estimated useful life of each class of depreciable asset as follows:

Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Information systems, equipment, and furniture	3 to 15 years

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others as services are rendered, including a provision for bad debts (implicit price concessions) and estimated retroactive adjustments under reimbursement agreements. Such amounts are recognized on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. The System's charity care policy follows federal government guidelines in determining which patients qualify for charity care. Charity services are defined as those for which patients have the obligation and willingness to pay but do not have the ability to do so. Charges related to charity services are written off as charity care in accordance with established policies and are not recognized as net patient service revenue.

(Deficit) Excess of Revenues over Expenses

The System's consolidated statements of operations and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues primarily result from exchange transactions associated with providing healthcare services, which is the System's principal activity. Investment income and losses and certain non-exchange revenues are reported as non-operating revenues. Operating expenses include all expenses incurred to provide healthcare services.

Changes in net assets without donor restrictions that are excluded from (deficit) excess of revenues over expenses, consistent with relevant accounting literature and industry practice, include contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets), equity transactions with noncontrolling interests, and certain pension accounting items.

Compensated Absences

The System's team members earn paid time off ("PTO") at varying rates depending on salary and years of service. PTO time accumulates based on years of service and generally any days not used at year-end will carry over to the next fiscal year, subject to a maximum limit. Each year, eligible team members may receive payment for up to 25 percent of their PTO balance, but not more than 100 hours per year. Accrued PTO is paid at the time of termination except that team members hired after June 30, 2019, who subsequently terminate their employment with the System, are eligible to receive payment for their unused accrued PTO only if they have been employed by the System for three years or more. At April 30, 2020 and 2019, the System has accrued liabilities of approximately \$9,564,000 and \$8,943,000, respectively, related to compensated absences.

Reclassifications

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 presentation. These classifications had no effect on the financial position, results of operations, or cash flows of the System.

Subsequent Events

In preparing these consolidated financial statements, the System has evaluated events and transactions for potential recognition or disclosure through August 3, 2020, the date the consolidated financial statements were issued. All significant events have been included in the consolidated financial statements and disclosures.

Adoption of New Accounting Standards Updates

During the year ended April 30, 2020, the System adopted Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*, which requires that the statement of cash flows display the change during the period in total cash and cash equivalents, including restricted cash and cash equivalents. This standard has been adopted on a retrospective basis, and the 2019 statement of cash flows has been updated to reflect the provisions of this standard. The presentation of cash and cash equivalents as of and for the year ended April 30, 2019 has been restated in the statement of cash flows to include restricted cash and cash and cash equivalents that are reported within assets limited to use in the consolidated balance sheet.

3. Net 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 insurer and government programs) and others. A significant portion of the System's net patient service revenues are derived from the third-party payor programs. The System's agreements with third-party payors provide for payments to the System at amounts different from its established rates. Revenues received under third-party arrangements are subject to audit and retroactive adjustment. Generally, the System bills the patients and third-party payors several days after the services are performed 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 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 obligations. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The System measures the performance obligation from admission to the point when it is no longer required to provide services to that patient, which is generally the time of discharge. Revenue for performance obligations satisfied at a point in time generally relate to patients receiving outpatient services or patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) where the System does not provide additional goods beyond the point of service.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

The System has elected the practical expedients available under GAAP related to Topic 606 related to accounting for significant financing components and incremental contract acquisition costs. Management has determined any such amounts are insignificant. In addition, 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 from disclosure of amounts associated with unsatisfied performance obligations at the end of the reporting period. Such unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are typically completed when patients are discharged, which generally occurs within days or weeks of the end of the reporting period. Management has determined that the System has an unconditional right to payment subject only to the passage of time for services provided to these in-house patients through the end of the reporting period. Such amounts are reported within patient accounts receivable in the consolidated balance sheets.

The System determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions such as 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. The System determines its estimates of explicit price concessions for contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Management believes that the financial effects of using this practical expedient are not materially different from an individual contract approach.

The Medicare program pays prospectively determined rates for inpatient and outpatient operating and capital related services. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Revenue for services rendered under Medicare third-party payor programs has been recorded at estimated settlement amounts. Final determination of the settlement amounts is subject to review by appropriate authorities or their agents and to the extent that ultimate settlement amounts differ from amounts previously estimated, related adjustments are reflected in the financial statements in the period of final settlement.

The Medicaid program pays prospectively determined rates for inpatient operating and capital related services, and certain outpatient services. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The remaining outpatient services are paid on a cost reimbursement basis. 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. Beginning June 1, 2006, Georgia Medicaid moved a significant portion of its recipients to managed care companies called Care Management Organizations ("CMO"). Contractual payments are made by the CMO for services provided using the same methodology and payment rates as traditional Medicaid.

The Georgia General Assembly enacted legislation which went into effect in July 2010 which established a healthcare provider tax for the purpose of funding the Medicaid program. The healthcare provider tax legislation expired June 30, 2013, and was replaced with a provider fee arrangement. The provider fee percentage is set by the Georgia Department of Community Health based on the appropriation in the State Medicaid budget. The System paid approximately \$4,757,000 and \$4,830,000 to the State for the years ended April 30, 2020 and 2019, respectively, under this program.

Under the provisions of the Georgia Indigent Care Trust Fund ("ICTF"), Medicaid disproportionate share hospitals ("DSH") contribute funds to be used by the State in the Medicaid program, which may be supplemented by federal funds (combination dollars). Combination dollars are returned to DSH as additional Medicaid inpatient reimbursement. During 2020 and 2019, approximately \$3,408,000 and \$3,845,000 respectively, was recorded as net patient service revenue and approximately \$958,000 and \$1,291,000, respectively, was recorded as inter-governmental transfers relating to ICTF. The federal government does not ensure future ICTF funding.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

Under Georgia Upper Payment Limit Rate (“UPL”) provisions, government owned or operated hospitals and critical access eligible hospitals may contribute funds to be used by the State in the Medicaid program, which may be supplemented by federal funds (combination dollars). Combination dollars are returned in the form of UPL payments and are recorded as additional Medicaid inpatient and outpatient reimbursement. During 2020 and 2019, approximately \$8,513,000 and \$9,261,000, respectively, was recorded as net patient service revenue and approximately \$2,139,000 and \$2,974,000, respectively, was recorded as inter-governmental transfers relating to UPL. The federal government does not ensure future UPL funding.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates may change by a material amount in the near term. The System believes that it is in compliance with all applicable laws and regulations. The System is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the System's consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation. Non-compliance can result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The System also has 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 includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. The System's contracts with commercial and nongovernmental payors also provide for retroactive audit and review of claims.

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, new information becomes available, or as years are settled or are no longer subject to such audits, reviews, and investigations.

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. Net patient service revenue increased approximately \$138,000 and \$51,000 during the years ended April 30, 2020 and April 30, 2019, due to differences in actual settlements of prior period cost reports and other changes in prior estimates.

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). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients. Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The System has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement and timing of when revenue is recognized.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

The System's net patient service revenue for the year ended April 30, 2020 is disaggregated in the following table (in thousands):

	<u>Brunswick Campus</u>	<u>Camden Campus</u>	<u>SGPA</u>	<u>Senior Care Centers</u>	<u>Total</u>	<u>Total %</u>
Medicare						
Inpatient	\$ 82,837	\$ 9,422	\$ -	\$ 3,914	\$ 96,173	23%
Outpatient	46,878	9,888	21,520	-	78,286	19%
Medicaid						
Inpatient	20,363	4,134	-	20,540	45,037	11%
Outpatient	11,139	1,081	7,626	-	19,846	5%
Other third-party						
Inpatient	44,591	7,118	-	573	52,282	12%
Outpatient	70,819	16,915	25,662	-	113,396	28%
Self-pay						
Inpatient	1,286	173	-	910	2,369	1%
Outpatient	791	805	1,268	-	2,864	1%
Total	<u>\$ 278,704</u>	<u>\$ 49,536</u>	<u>\$ 56,076</u>	<u>\$ 25,937</u>	<u>\$ 410,253</u>	<u>100%</u>

The System's net patient service revenue for the year ended April 30, 2019 is disaggregated in the following table (in thousands):

	<u>Brunswick Campus</u>	<u>Camden Campus</u>	<u>SGPA</u>	<u>Senior Care Centers</u>	<u>Total</u>	<u>Total %</u>
Medicare						
Inpatient	\$ 79,694	\$ 9,681	\$ -	\$ 3,655	\$ 93,030	22%
Outpatient	51,669	9,581	15,743	-	76,993	19%
Medicaid						
Inpatient	19,638	5,603	-	17,914	43,155	11%
Outpatient	13,366	2,290	6,455	-	22,111	5%
Other third-party						
Inpatient	40,659	7,468	-	1,770	49,897	12%
Outpatient	71,777	15,874	34,427	-	122,078	29%
Self-pay						
Inpatient	3,336	284	-	1,125	4,745	1%
Outpatient	1,274	1,334	1,770	-	4,378	1%
Total	<u>\$ 281,413</u>	<u>\$ 52,115</u>	<u>\$ 58,395</u>	<u>\$ 24,464</u>	<u>\$ 416,387</u>	<u>100%</u>

Revenue from patient deductibles, copays, and coinsurance are included in the categories presented above based on the primary payor classification.

4. Concentrations of Credit Risk

In the course of providing healthcare services, the System grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of, or is otherwise entitled to receive, patient benefits under governmental and commercial health insurance programs, plans and policies. For the years ended April 30, 2020 and 2019, approximately 58 percent and 57 percent, respectively, of the System's net patient service revenue was derived from the federal Medicare and Medicaid programs.

The System provides healthcare services in Glynn and Camden counties and the surrounding areas in southeast Georgia and, as a result, has a related geographic concentration of credit risk pertaining to patient accounts receivable.

The composition of receivables from patients and third-party payors as of April 30, 2020 and 2019 was as follows:

	2020		2019	
	Gross	Net	Gross	Net
Medicare	28%	24%	34%	30%
Medicaid	7%	6%	8%	7%
Other third-party payors	25%	46%	25%	43%
Self-pay (including patient-responsible balances after third-party payment)	40%	24%	33%	20%
	100%	100%	100%	100%

5. Assets Limited as to Use

Assets limited as to use consist of deposits and investments which are exposed to various risks. The System employs a number of investment managers and has adopted a formal investment policy which endeavors to conform with the Uniform Prudent Investor Act and the Prudent Investor Standard as a means of managing its exposure to risk. Due to the level of risk associated with certain investment securities, there is a reasonable possibility that the values of investment securities will change in the near term by a material amount.

Concentration of credit risk. The System has an investment policy which provides objectives and guidelines for diversification of funds, but places no specific limit on the amount that may be invested in any one issuer.

Interest rate risk. The System has an investment policy that considers investment risks and provides for a prudent approach with regular monitoring and reporting. The investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk. The System has adopted an investment policy that permits specific investments, including debt and equity securities, separate accounts, mutual funds, trusts, partnerships, commingled funds, pooled funds, contracts, and other types of investments. The policy provides guidelines regarding risk tolerance and investment objectives by type, including credit rating, liquidity, market capitalization, region, sector, and investment strategy.

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System secures its deposits through depository insurance, a collateral pool administered under the direction of the State of Georgia Office of Treasury and Fiscal Services, and collateral held by third parties or the respective pledging financial institutions' trust departments in the System's name.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

Assets Limited as to Use

The composition of assets limited as to use at April 30, 2020 and 2019 is summarized as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Held by trustee for debt service:		
Cash depository accounts	\$ <u>8,431</u>	\$ 12,466
Restricted by third-parties for construction:		
Cash depository accounts	43,615	87,454
Money market funds	<u>4,547</u>	<u>2,333</u>
	<u>48,162</u>	<u>89,787</u>
Internally designated for self-insurance:		
Cash depository accounts	14	10
Money market funds	290	285
Mutual funds	<u>6,465</u>	<u>4,888</u>
	<u>6,769</u>	<u>5,183</u>
Internally designated for capital improvements and other purposes:		
Cash depository accounts	338	638
Money market funds	53,693	2,848
Corporate bonds	609	713
Corporate equity securities	7,353	7,332
Mutual funds	82,686	135,610
U.S. agencies mortgage/asset-backed	9,499	5,611
U.S. treasuries	1,745	1,952
Alternative investments	<u>12,930</u>	<u>36,836</u>
	<u>168,853</u>	<u>191,540</u>
	232,215	298,976
Less amounts classified as current	<u>(4,592)</u>	<u>(3,635)</u>
Total	<u>\$ 227,623</u>	<u>\$ 295,341</u>

Investment income and gains and losses for assets limited as to use are comprised of the following for the years ended April 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 5,092	\$ 5,250
Net realized (losses) gains on sales of trading securities	(13,288)	1,809
Net unrealized (losses) gains on sales of trading securities	<u>(11,880)</u>	<u>4,082</u>
	<u>\$ (20,076)</u>	<u>\$ 11,141</u>

During the year ended April 30, 2020, approximately \$12,900,000 in net realized investment losses were attributable to the liquidation of the AllianzGI Structured Alpha 1000 investment.

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The System has categorized its financial instruments into a three-level fair value hierarchy based on the priority of inputs used in related valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within multiple levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis in accordance with the three-level fair value hierarchy follows:

Level One – Values based on unadjusted quoted prices for identical assets or liabilities in an active market that the System has the ability to access.

Level Two – Values based on pricing inputs which are either directly observable or that can be derived or supported from observable data. These inputs may include quoted prices for similar assets or liabilities in nonactive markets or pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level Three – Values based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources.

Level One investments held by the System include common stocks and mutual funds that are traded in active markets. Level Two investments held by the System include U.S. government and corporate obligations which are valued using prices that are determined through observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics. Other than as described in Note 11 for the pension plan investments, the System did not hold any Level Three securities as of April 30, 2020 and 2019.

The System's alternative investments include one private pooled investment fund with underlying investment holdings. At April 30, 2020, approximately \$12,930,000 is invested in a hedge fund through funds of funds structures. The hedge fund achieves diversification by allocating investment funds across various money managers or market groups, using different trading methods, and focusing on different markets worldwide. The fund managers employ a variety of investment strategies and hedging techniques to achieve long-term capital growth, while seeking to reduce volatility.

Alternative investments may have less liquidity, a stale quoted price, or varying prices from independent sources. The System is subject to limitations on redemption of certain investments, whereby redemptions can only occur quarterly with ninety-five days' notice. In addition to a one year lock up period, redemptions are restricted up to twenty-five percent of the System's investment in the fund per redemption period. In accordance with GAAP, alternative investments measured at NAV as a practical expedient for fair value are excluded from the fair level hierarchy.

Fair value estimates are based on pertinent information available to management as of April 30, 2020 and 2019, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of the consolidated financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

The fair value hierarchy of assets limited as to use at April 30, 2020 is summarized as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market mutual funds	\$ 58,531	\$ -	\$ 58,531
Corporate equities	7,353	-	7,353
Mutual funds:			
Equities	51,465	-	51,465
Bonds/fixed income	27,619	-	27,619
Balanced	3,380	-	3,380
Closed end	6,687	-	6,687
U.S. agencies mortgage/asset backed	-	9,499	9,499
U.S. treasuries	-	1,745	1,745
Corporate bonds	-	609	609
	<u>\$ 155,032</u>	<u>\$ 11,853</u>	166,888
Cash depository accounts			52,397
Alternative investments measured at NAV			<u>12,930</u>
Total assets limited as to use			<u>\$ 232,215</u>

The fair value hierarchy of assets limited as to use at April 30, 2019 is summarized as follows (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market mutual funds	\$ 5,466	\$ -	\$ 5,466
Corporate equities	7,332	-	7,332
Mutual funds:			
Equities	65,700	-	65,700
Bonds/fixed income	49,126	-	49,126
Balanced	17,914	-	17,914
Closed end	7,758	-	7,758
U.S. agencies mortgage/asset backed	-	5,611	5,611
U.S. treasuries	-	1,952	1,952
Corporate bonds	-	713	713
	<u>\$ 153,296</u>	<u>\$ 8,276</u>	161,572
Cash depository accounts			100,568
Alternative investments measured at NAV			<u>36,836</u>
Total assets limited as to use			<u>\$ 298,976</u>

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

7. Property and Equipment

Property and equipment is summarized as follows at April 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 33,154	\$ 33,137
Buildings and building improvements	268,285	267,812
Information systems, equipment, and furniture	148,621	135,246
Construction in progress	<u>87,764</u>	<u>32,049</u>
	537,824	468,244
Less accumulated depreciation	<u>(227,710)</u>	<u>(211,503)</u>
Property and equipment, net	<u>\$ 310,114</u>	<u>\$ 256,741</u>

Assets recorded under capital leases at April 30, 2020 and 2019 were approximately \$12,415,000 and \$10,802,000, respectively, with related accumulated depreciation of approximately \$8,826,000 and \$8,253,000, respectively.

During the year ended April 30, 2020, the System capitalized approximately \$3,786,000 of interest.

8. Long-Term Debt

Long-term debt at April 30, 2020 and 2019 is summarized as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Series 2020 fixed rate refunding revenue anticipation certificates, bearing interest at 4.0 percent to 5.0 percent, payable semi-annually on the first day of February and August each year, maturing annually through 2038	\$ 35,715	\$ -
Series 2018 refunding revenue anticipation certificates, bearing interest at 3.35 percent, payable semi-annually on the first day of February and August each year, maturing annually through 2034	8,680	9,120
Series 2017 fixed rate revenue anticipation certificates, bearing interest at 4.0 percent to 5.0 percent, payable semi-annually on the first day of February and August each year, maturing annually beginning in 2039	106,860	106,860
Series 2015 fixed rate refunding revenue anticipation certificates, bearing interest at 3.5 percent to 5.0 percent, payable semi-annually on the first day of February and August each year, maturing annually beginning in 2019	80,310	83,935
Series 2008B variable rate revenue anticipation certificates, bearing interest at rates that reset weekly (1.48 percent at April 30, 2019), payable monthly, refunded in fiscal 2020	-	40,180

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

	<u>2020</u>	<u>2019</u>
Notes payable, bearing interest at rates equal to LIBOR plus .75 percent to 1.25 percent, payable in monthly installments of principal and interest, secured by real property, refinanced in fiscal 2020	\$ -	\$ 16,117
Notes payable, bearing interest at rates equal to 3.10 percent and 2.98 percent, payable in monthly installments of principal and interest, maturing annually through 2029, secured by real property	14,444	-
Capital lease obligations	<u>2,311</u>	<u>1,097</u>
	248,320	257,309
Plus unamortized issuance premiums	20,500	16,519
Less current maturities	(7,017)	(5,963)
Less unamortized issuance costs	<u>(1,598)</u>	<u>(1,666)</u>
Long-term debt, excluding current maturities	<u>\$ 260,205</u>	<u>\$ 266,199</u>
Notes payable to community development entities (see Note 14)	<u>\$ -</u>	<u>\$ 13,824</u>

Scheduled principal repayments on long-term debt and capital lease obligations for years ending April 30 are as follows (in thousands):

2021	7,017
2022	7,121
2023	6,995
2024	6,299
2025	6,815
Thereafter	<u>214,073</u>
	<u>\$ 248,320</u>

Pursuant to the lease and transfer agreement, the System pays the Authority amounts sufficient to pay the principal of, redemption premium and interest on any and all revenue anticipation certificates, bonded indebtedness, loans, borrowings or other conduit debt obligations of the Authority for which the System is the obligor.

In February 2020, the Authority issued the Refunding Revenue Anticipation Certificates ("Series 2020 Certificates") in the amount of \$35,715,000. The purpose of the issuance was to advance refund a portion of the Authority's outstanding Series 2008B Variable Rate Revenue Anticipation Certificates ("Series 2008B Certificates").

In May 2018, the Authority issued the Refunding Revenue Anticipation Certificates ("Series 2018 Certificates") in the amount of \$9,265,000. The purpose of the issuance was to advance refund a portion of the Authority's outstanding Fixed Rate Revenue Anticipation Certificates ("Series 2008A Certificates").

In December 2017, the Authority issued Fixed Rate Revenue Anticipation Certificates ("Series 2017 Certificates") in the amount of \$106,860,000. The purpose of the issuance is to fund renovations and expansion of the Brunswick Campus, including the Emergency Department and the Surgical Platform/Central Sterile Supply Area, and to fund renovations and an upgrade to the central energy plant and infrastructure.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

In April 2015, the Authority issued Refunding Revenue Anticipation Certificates ("Series 2015 Certificates") in the amount of \$83,935,000. The purpose of the issuance was to advance refund a portion of the Authority's outstanding Series 2008A Certificates, as well as to pay costs of issuance. In connection with the issuance of the Series 2015 Certificates, the master trust indenture was amended such that the obligated group consists of the Authority, Camden Campus, SGPA, and Brunswick Campus.

In September 2008, The Authority issued the Series 2008B Certificates in the amount of \$40,570,000. The variable interest rate is reset by the remarketing agent based on investor demand in weekly auctions. The purpose of the issuance was to fund the acquisition, construction, and renovation of certain capital projects and medical equipment; and to refund the Authority's outstanding Series 2004 Certificates.

The outstanding revenue certificates are secured by a first and prior liens on revenues from the operations of the obligated group. Monies in debt service funds are also subject to a lien in favor of the holders of the certificates issued. The Series 2008B Certificates are supported by a letter of credit issued by TD Bank N.A. for \$40,200,000 plus related accrued interest at April 30, 2020. The letter of credit was cancelled in the refunding.

Under the terms of the certificate indentures, the System is required to maintain certain deposits with trustees for debt service and construction purposes. Such deposits are included within assets limited as to use in the consolidated balance sheets. The certificate indentures also contain various restrictive covenants pertaining to certain measures of financial performance. The System is in compliance with these covenants.

The System maintains an open end revolving line of credit of \$6,000,000 at an interest rate equal to LIBOR plus 1.00 percent. The line of credit is unsecured. As of April 30, 2020 and 2019, there were no outstanding advances on the credit line.

The System had two notes payable with Branch Banking and Trust Company with an aggregate initial available amount of \$20,000,000 for the purpose of constructing a medical office building located in Glynn County, Georgia and a medical office building located in Camden County, Georgia. The notes carry an interest rate equal to the sum of one-month LIBOR and 1.25 percent (3.74% at April 30, 2019). Beginning January 21, 2014, the System began making monthly principal payments on the 21st day of each month in an amount equal to 1/360th of the principal loan balance at December 21, 2012. The entire outstanding principal balance and all accrued unpaid interest under the notes was paid in full in November 2019.

In October 2017, the System entered into a promissory note payable with Branch Banking and Trust Company for \$5,000,000 for the purpose of acquiring medical equipment. The note carries a fixed interest rate of 2.98%. Beginning November 4, 2017, the System began making monthly principal and interest payments in an amount equal to \$89,895. The note was paid in full in November 2019.

In November 2019, the System entered into two term loans with Ameris Bank to refinance the notes payable held by Branch Banking and Trust Company. The Ameris Bank loans were issued in the amounts of \$11,400,000 and \$3,300,000, respectively, and carry fixed interest rates of 3.10% and 2.98%, respectively. The System is required to make monthly principal and interest payments through scheduled maturity in November 2029 and March 2023, respectively.

9. Commitments and Contingencies

The System is involved in litigation in the ordinary course of business related to professional liability claims. The System maintains umbrella insurance with a limit of \$20,000,000 each occurrence and \$20,000,000 annual aggregate for professional liability and other general liability claims exceeding self-retained limits of \$2,000,000 individually and \$6,000,000 collectively, on an annual basis. The System is self-insured under these limits. At April 30, 2020, malpractice and other various claimants had filed claims that are in various stages of processing, and some may ultimately be brought to trial.

The System has engaged the services of an independent actuary to perform an annual evaluation of estimated professional liability claims obligations and to determine the reserve requirements at the end of each fiscal year. The discount rate used in actuarial calculations for 2020 and 2019 was 3.5 percent. The current portion of the estimated professional liability claims obligation included in other accrued expenses totaled approximately \$2,256,000 and \$1,728,000 at April 30, 2020 and 2019, respectively, while the non-current obligation totaled approximately \$6,769,000 and \$5,183,000, respectively. Self-insured professional liability claims expense for 2020 and 2019 aggregated approximately \$4,114,000 and \$1,665,000, respectively. Management is of the opinion that the accrual for professional liability claims is adequate for loss contingencies, however, it is possible that actual losses may differ from management's estimates.

The System has designated non-current assets limited as to use of approximately \$6,769,000 and \$5,183,000 at April 30, 2020 and 2019, respectively, for self-insurance reserves.

The System is committed under various non-cancelable operating leases for equipment with expiration dates through 2025, as well as lease agreements for office space with expiration dates through 2025. Future minimum operating lease payments for years ending April 30 are as follows (in thousands):

2021	2,531
2022	2,025
2023	991
2024	614
2025	411
	<hr/>
	<u>\$ 6,572</u>

The System had contractual commitments related to construction and information system projects totaling approximately \$74,991,000 and \$108,174,000 as of April 30, 2020 and 2019, respectively.

10. Employee Benefit Trust and Self-Insurance

The System maintains a plan and trust agreement to provide life insurance, accident and health benefits (including hospitalization, medical, surgical, major medical, and other health benefits), and workers' compensation for its team members. The System maintains excess workers' compensation and employers' liability insurance above self-insured retention limits of \$600,000 per occurrence through the Georgia Self Insurers Guarantee Trust Fund. The System maintains an irrevocable standby letters of credit in the amount of \$2,850,000 for the State of Georgia's worker's compensation program and \$755,000 to fund the security deposit for State of Georgia's unemployment compensation benefits as of April 30, 2020. At April 30, 2020 and 2019, there were no outstanding advances on the letters of credit.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

Life insurance coverage is provided by premiums paid to an independent insurance carrier. Health benefits for team members and their dependents, if elected, are funded entirely by contributions into the plan by the System and its team members. The plan is administered by a third-party administrator.

Claims liabilities related to health benefit and workers' compensation are included in other accrued expenses at April 30, 2020 and 2019 in the amount of \$2,925,000 and \$4,025,000, respectively.

11. Retirement Plans

The Authority sponsors a frozen non-contributory defined benefit pension plan. Benefits in the defined benefit pension plan were frozen in 1998, and participants were offered incentives to transfer their benefit to the 403(b) defined contribution plan. Most participants converted to the defined contribution plan and the Authority funded the remaining pension obligation.

Under the lease and transfer agreement, the System has assumed the plan obligation and has agreed to fund the future benefits of the remaining participants in the frozen pension plan.

The plan will continue in existence as long as benefits are being paid to existing participants. The calculated benefits are based on years of service and the team member's compensation during the last five years of employment.

Assumptions used in the accounting for net periodic pension costs in the System's financial statements for the years ended April 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Weighted average discount rate	2.69%	3.83%
Expected long-term rate of return	2.69%	3.83%

Estimated future benefit payments are as follows for years ending April 30 (in thousands):

2021	\$	970
2022		504
2023		497
2024		483
2025		475
2026-2030		2,099

As of April 30, 2020 and 2019, the plan was approximately 102% funded, with a total pension liability of approximately \$7,172,000 and \$7,416,000, respectively and assets totaling approximately \$7,317,000 and \$7,566,000, respectively.

Plan assets are invested and managed in accordance with the System's investment policy, which provides for a "prudent investor" approach to investment and asset management decisions. Plan assets are held with a life insurance company under a group annuity contract. The Plan assets are classified within the fair value hierarchy as Level Three investments and are measured utilizing contract value, which is the expected redemption price of the investment as of the measurement date.

The System sponsors a 403(b) defined contribution plan. Under the plan, participants receive employer matching contributions based on individual deferral contributions and years of credited service. Employer discretionary contributions are made annually as a percent of each participant's salary. The System administers the plan and can change or alter plan provisions. Contributions to the 403(b) plan aggregated approximately \$6,921,000 and \$6,543,000 during the years ended April 30, 2020 and 2019, respectively.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

12. Charity Care and Community Service

The System is committed to meeting the needs of the communities which it serves. To this end, the System provides care to patients who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured. The amount of support provided for the years ended April 30, 2020 and 2019 is as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Indigent care:		
Based on established rates	\$ 46,095	\$ 47,712
Based on estimated costs of the care provided	15,607	16,756
Implicit price concessions:		
Provision for bad debts, based on established rates	59,672	47,532

The System provides financial support for a variety of programs designed to meet the health and educational needs of the communities which it serves. The amount of direct financial support provided to those community programs for the year ended April 30, 2020 and 2019 was as follows (in thousands):

	<u>2020</u>	<u>2019</u>
College of Coastal Health Professional Education	\$ 55	\$ 74
Athletic trainer support to schools	187	197
Davis Love Foundation	75	38
American Cancer Society	4	11
Coastal Community Health Services	11	-
Emergency & Acute Care Medical Co. Southeast LLC	<u>3,786</u>	<u>3,822</u>
Total	<u>\$ 4,118</u>	<u>\$ 4,142</u>

The System also sponsored and participated in over 94 and 103 other programs during 2020 and 2019, respectively, in support of not-for-profit community organizations, providing direct financial support to those activities in the amount of approximately \$233,000 and \$154,000 during the years ended April 30, 2020 and 2019, respectively.

13. Charitable Remainder Trust

The System is beneficiary to a charitable remainder trust. The trust provides for the payment of distributions over the trust's term to designated beneficiaries, of which the System is the sole remaining beneficiary. The trust indenture provides that, contingent upon approval of the trustee, the remaining trust assets are available to fund permanent additions to the System. In May 2018, the trustee and the System entered into an agreement, whereby the System requested, and the Trustee agreed, to allow the distribution of the entire remainder of the trust funds to the System over a period of five years to help facilitate renovations within the System. During fiscal year 2020, the System received the second distribution of \$950,000. The System recorded approximately \$4,750,000 in contributions from the trust during fiscal year 2019. Amounts remaining to be collected at April 30, 2020 totaled approximately \$2,850,000.

14. New Market Tax Credit

The System participated in the NMTC program offered through the Department of the Treasury in order to finance the renovation and construction of medical facilities in designated areas of Brunswick, Georgia. The NMTC program permits corporate and individual taxpayers to receive a credit against federal income taxes for making qualified equity investments in qualified community development entities ("CDE").

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

The System entered into a NMTC transaction with JPMorgan Chase Bank (the “Bank”) in December 2012, whereby the System made a leverage loan of approximately \$9,785,000 to Chase NMTC Brunswick Investment Fund, LLC (“Investment Fund”). The Investment Fund is a funding vehicle for the CDEs that was capitalized with an equity investment of approximately \$4,473,000 by Chase Community Equity, LLC (“Investor”), the federal tax credit investor under the NMTC program. The Investment Fund made qualified equity investments totaling \$14,250,000 into two CDEs, which loaned to QALICB approximately \$13,824,000 in qualified low-income community investment loans. The QALICB notes payable to the CDEs bear interest only for the first seven years at a rate of 0.65 percent. Beginning in fiscal year 2020, payments of principal and interest totaling approximately \$144,000 are due each month until maturity in 2045. The terms of the System’s leverage loan receivable from the Investment Fund mirror those of the terms of the notes payable to the CDE, except at a rate of .62 percent.

Pursuant to the operating agreement of the NMTC transaction, the System entered into a put/call option agreement with the Bank. In December of 2019, the Bank did not exercise its put option and the System exercised its call option to purchase the equity in the Investment Fund at fair value. Thus the System acquired the Bank’s equity interest in the Investment Fund, at which time it forgave the notes payable from QALICB to the CDEs and the leverage loan receivable from the Investment Fund to the System, which resulted in a gain of \$4,039,000 recorded in other non-operating revenue (expenses).

15. Liquidity and Availability of Resources

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year are reflected in the consolidated balance sheets as current assets and certain assets limited as to use and include the following balances at April 30, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 66,106	\$ 15,172
Patient accounts receivable	58,554	65,484
Other receivables	3,462	9,227
Assets limited as to use:		
Assets limited as to use, current	4,592	3,635
Board-designated	<u>168,853</u>	<u>191,540</u>
Total	<u>\$ 301,567</u>	<u>\$ 285,058</u>

The System has certain assets limited as to use which have been internally designated for future capital improvements and other purposes. Such board-designated amounts may be made available for general expenditure in the normal course of operations and, accordingly, have been included in the table above. The System has other assets limited as to use which are restricted for construction, debt service, and self-insurance and are not available for general expenditure, and, accordingly, which have been excluded from the table above.

As discussed in in Note 8, the System maintains a \$6,000,000 line of credit. As of April 30, 2020 and April 30, 2019, there were no outstanding advances on the line of credit.

The System funds its operations primarily through service charges to patients. At the discretion of management, excess cash not needed for operating expenditures are invested in various investment funds. Management’s goal is to assure liquidity to satisfy all short-term liabilities within seven calendar days by maintaining a portfolio consisting of high quality, actively traded securities.

Southeast Georgia Health System, Inc.
Notes to Consolidated Financial Statements

16. Functional Expenses

The System provides inpatient, outpatient, emergency care services, and long-term care primarily for residents of the Brunswick, Georgia area. Expenses related to providing these services for the year ended April 30, 2020 are as follows (in thousands):

	<u>Healthcare Services</u>	<u>General & Administrative</u>	<u>Total</u>
Salaries and wages	\$ 171,827	\$ 10,026	\$ 181,853
Employee benefits	41,989	56	42,045
Contract personnel	14,093	82	14,175
Professional fees	345	5,454	5,799
Supplies and drugs	82,268	247	82,515
Physician fees	8,134	54	8,188
Insurance and utilities	11,542	33	11,575
Outside services	31,263	1,041	32,304
Depreciation and amortization	19,708	-	19,708
Hospital provider fee	8,225	-	8,225
Other	5,669	4,678	10,347
Interest expense	<u>5,449</u>	<u>-</u>	<u>5,449</u>
Total operating expenses	<u>\$ 400,512</u>	<u>\$ 21,671</u>	<u>\$ 422,183</u>

Functional expenses related to providing these services for the year ended April 30, 2019 are as follows (in thousands):

	<u>Healthcare Services</u>	<u>General & Administrative</u>	<u>Total</u>
Salaries and wages	\$ 165,831	\$ 8,511	\$ 174,342
Employee benefits	44,224	52	44,276
Contract personnel	12,009	146	12,155
Professional fees	527	4,586	5,113
Supplies and drugs	81,169	216	81,385
Physician fees	9,697	38	9,735
Insurance and utilities	8,975	38	9,013
Outside services	31,649	747	32,396
Depreciation and amortization	19,547	-	19,547
Hospital provider fee	7,545	-	7,545
Other	7,382	3,784	11,166
Interest expense	<u>4,820</u>	<u>-</u>	<u>4,820</u>
Total operating expenses	<u>\$ 393,375</u>	<u>\$ 18,118</u>	<u>\$ 411,493</u>

17. COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19, a novel strain of coronavirus, a pandemic, and on March 13, 2020, a national emergency was declared in the United States. In response, state and local governments in the System's service areas have imposed various measures to curtail certain aspects of public life in an effort to control further spreading of COVID-19. These measures include the closures of schools and businesses deemed "nonessential" and the temporary deferral of many of the System's elective procedures and other non-urgent patient services. These measures have created significantly volatility in the System's operations and resulted in reduced patient volumes and operating revenues since March 2020.

The ongoing disruption of the pandemic has resulted in deep and broad economic contraction, sharp increases in unemployment, supply chain shortages, and volatility in the financial markets. The pandemic could also result in an abnormally high demand for health care services, inundating the System with patients in need of intensive care services. The treatment of a highly contagious disease could also result in a temporary shutdown of areas of the facility or diversion of patients or staffing shortages. These conditions may reduce the availability and increase the cost of certain medical supplies and equipment, negatively impact the creditworthiness of the System's patients and payors and their ability to pay, result in shortages of clinical staff, and hurt the performance of the System's investment portfolios.

The System has activated plans to address the risks associated with the pandemic and is operating pursuant to infectious disease protocols and its emergency preparedness plan. The System has also implemented various cost saving measures to attempt to mitigate any adverse financial impact and has received federal funding intended to provide emergency assistance to healthcare providers impacted by the pandemic.

The Provider Relief Fund was established under the Coronavirus Aid, Relief and Economic Security ("CARES") Act, which was signed into law on March 27, 2020. The System received approximately \$8,200,000 from the Provider Relief Fund in April 2020, which is reported within other operating revenues in the accompanying consolidated statements of operations and changes in net assets, and received additional targeted Provider Relief Fund payments subsequent to year-end.

In addition, in April 2020 the System received \$48,000,000 in advance Medicare payments under the Centers for Medicare and Medicaid Services ("CMS") accelerated / advance payment program. These payments represent an advance on future services to be provided to Medicare patients, and are anticipated to be repaid in full during fiscal 2021. The advance Medicare payments are reported as a current contract liability in the accompanying consolidated balance sheets.

The extent of the impact of the pandemic on the System's operational and financial performance will depend on certain developments, including the severity and duration of the pandemic, the responses of federal, state, and local governments and private industry, and the broader impact on the national and local economies. A sustained economic downturn could ultimately reduce the demand for the healthcare services and thus negatively impact future patient volumes, revenues, and cash flows. The consolidated financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

Southeast Georgia Health System, Inc.
Consolidating Balance Sheet
April 30, 2020
(in thousands)

	<u>Brunswick Campus (1)</u>	<u>Camden Campus</u>	<u>SGPA</u>	<u>Eliminations</u>	<u>Total Obligated Group</u>	<u>Foundation</u>	<u>QALICB I</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS										
Cash and cash equivalents	\$ 66,493	\$ (263)	\$ (124)	\$ -	\$ 66,106	\$ -	\$ -	\$ 66,106	\$ -	\$ 66,106
Patient accounts receivable	45,947	6,236	6,371	-	58,554	-	-	58,554	-	58,554
Other receivables	2,320	20	837	-	3,177	285	-	3,462	-	3,462
Supplies and pharmaceutical inventories	9,285	2,115	186	-	11,586	-	-	11,586	-	11,586
Assets limited as to use	4,592	-	-	-	4,592	-	-	4,592	-	4,592
Other current assets	3,444	358	142	-	3,944	-	-	3,944	-	3,944
Total current assets	<u>132,081</u>	<u>8,466</u>	<u>7,412</u>	<u>-</u>	<u>147,959</u>	<u>285</u>	<u>-</u>	<u>148,244</u>	<u>-</u>	<u>148,244</u>
Assets limited as to use:										
Held by trustee for debt service	3,839	-	-	-	3,839	-	-	3,839	-	3,839
Restricted by third-parties for construction	48,162	-	-	-	48,162	-	-	48,162	-	48,162
Internally designated for self-insurance	6,769	-	-	-	6,769	-	-	6,769	-	6,769
Internally designated for capital improvements and other purposes	160,137	-	-	-	160,137	8,716	-	168,853	-	168,853
Total assets limited as to use, net	<u>218,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>218,907</u>	<u>8,716</u>	<u>-</u>	<u>227,623</u>	<u>-</u>	<u>227,623</u>
Property and equipment, net	<u>270,175</u>	<u>36,776</u>	<u>3,293</u>	<u>(130)</u>	<u>310,114</u>	<u>-</u>	<u>-</u>	<u>310,114</u>	<u>-</u>	<u>310,114</u>
Other assets:										
Investment in affiliates	33,427	-	-	(24,431)	8,996	-	-	8,996	(8,996)	-
Intercompany receivable	1,367	23,942	-	(8,038)	17,271	-	-	17,271	(17,271)	-
Other assets	2,090	-	-	-	2,090	-	-	2,090	-	2,090
Total other assets	<u>36,884</u>	<u>23,942</u>	<u>-</u>	<u>(32,469)</u>	<u>28,357</u>	<u>-</u>	<u>-</u>	<u>28,357</u>	<u>(26,267)</u>	<u>2,090</u>
Total assets	<u>\$ 658,047</u>	<u>\$ 69,184</u>	<u>\$ 10,705</u>	<u>\$ (32,599)</u>	<u>\$ 705,337</u>	<u>\$ 9,001</u>	<u>\$ -</u>	<u>\$ 714,338</u>	<u>\$ (26,267)</u>	<u>\$ 688,071</u>

1 The Senior Care Centers are included in the Brunswick Campus financial information above.

Southeast Georgia Health System, Inc.
Consolidating Balance Sheet
April 30, 2020
(in thousands)

(Continued)

	Brunswick Campus (1)	Camden Campus	SGPA	Eliminations	Total Obligated Group	Foundation	QALICB I	Subtotal	Eliminations	Consolidated
LIABILITIES AND NET ASSETS										
Current liabilities:										
Current maturities of long-term debt	\$ 5,816	\$ 1,139	\$ 62	\$ -	\$ 7,017	\$ -	\$ -	\$ 7,017	\$ -	\$ 7,017
Accounts payable	16,013	1,232	805	-	18,050	-	-	18,050	-	18,050
Intercompany payable	17,271	-	8,038	(8,038)	17,271	-	-	17,271	(17,271)	-
Accrued salaries and compensated absences	9,308	1,335	6,473	-	17,116	5	-	17,121	-	17,121
Other accrued expenses and deferrals	10,897	1,379	826	-	13,102	-	-	13,102	-	13,102
Medicare advance payment liability	40,000	5,000	3,000	-	48,000	-	-	48,000	-	48,000
Estimated third-party payor settlements	2,950	(1,341)	-	-	1,609	-	-	1,609	-	1,609
Total current liabilities	102,255	8,744	19,204	(8,038)	122,165	5	-	122,170	(17,271)	104,899
Long-term debt, net of current maturities	234,813	24,544	848	-	260,205	-	-	260,205	-	260,205
Professional liability claims obligation, net	4,781	1,144	844	-	6,769	-	-	6,769	-	6,769
Total liabilities	341,849	34,432	20,896	(8,038)	389,139	5	-	389,144	(17,271)	371,873
Net assets - without donor restrictions	316,198	34,752	(10,191)	(24,561)	316,198	8,996	-	325,194	(8,996)	316,198
Total liabilities and net assets	\$ 658,047	\$ 69,184	\$ 10,705	\$ (32,599)	\$ 705,337	\$ 9,001	\$ -	\$ 714,338	\$ (26,267)	\$ 688,071

1 The Senior Care Centers are included in the Brunswick Campus financial information above.

Southeast Georgia Health System, Inc.
Consolidating Statement of Operations and Changes in Net Assets
Year Ended April 30, 2020
(in thousands)

	<u>Brunswick Campus (1)</u>	<u>Camden Campus</u>	<u>SGPA</u>	<u>Eliminations</u>	<u>Total Obligated Group</u>	<u>Foundation</u>	<u>QALICB I</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues:										
Net patient service revenue	\$ 304,642	\$ 49,535	\$ 57,291	\$ (1,215)	\$ 410,253	\$ -	\$ -	\$ 410,253	\$ -	\$ 410,253
Other revenues	13,634	1,048	9,262	(10,940)	13,004	400	433	13,837	(778)	13,059
Total operating revenues	<u>318,276</u>	<u>50,583</u>	<u>66,553</u>	<u>(12,155)</u>	<u>423,257</u>	<u>400</u>	<u>433</u>	<u>424,090</u>	<u>(778)</u>	<u>423,312</u>
Operating expenses:										
Salaries and wages	94,236	16,609	70,785	-	181,630	223	-	181,853	-	181,853
Employee benefits	25,671	4,360	11,958	-	41,989	56	-	42,045	-	42,045
Contract personnel	11,369	1,545	1,261	-	14,175	-	-	14,175	-	14,175
Professional fees	5,542	-	237	-	5,779	-	20	5,799	-	5,799
Supplies and drugs	69,213	8,996	4,299	-	82,508	7	-	82,515	-	82,515
Physician fees	11,650	2,923	1,104	(7,489)	8,188	-	-	8,188	-	8,188
Insurance and utilities	8,847	1,538	1,183	-	11,568	7	-	11,575	-	11,575
Outside services	24,215	5,831	3,443	(1,215)	32,274	30	-	32,304	-	32,304
Depreciation and amortization	16,338	2,530	570	-	19,438	-	270	19,708	-	19,708
Hospital provider fees and assessments	6,765	1,140	320	-	8,225	-	-	8,225	-	8,225
Other	8,109	1,634	4,739	(3,451)	11,031	27	67	11,125	(778)	10,347
Interest expense	4,366	979	49	-	5,394	-	55	5,449	-	5,449
Total operating expenses	<u>286,321</u>	<u>48,085</u>	<u>99,948</u>	<u>(12,155)</u>	<u>422,199</u>	<u>350</u>	<u>412</u>	<u>422,961</u>	<u>(778)</u>	<u>422,183</u>
Income (loss) from operations	<u>31,955</u>	<u>2,498</u>	<u>(33,395)</u>	<u>-</u>	<u>1,058</u>	<u>50</u>	<u>21</u>	<u>1,129</u>	<u>-</u>	<u>1,129</u>
Non-operating revenues (expenses):										
Net investment income	(20,145)	6	6	-	(20,133)	57	-	(20,076)	-	(20,076)
Other	5,403	13	4	-	5,420	(703)	-	4,717	-	4,717
Total non-operating revenues, net	<u>(14,742)</u>	<u>19</u>	<u>10</u>	<u>-</u>	<u>(14,713)</u>	<u>(646)</u>	<u>-</u>	<u>(15,359)</u>	<u>-</u>	<u>(15,359)</u>
Excess (deficit) of revenues over (under) expenses	<u>17,213</u>	<u>2,517</u>	<u>(33,385)</u>	<u>-</u>	<u>(13,655)</u>	<u>(596)</u>	<u>21</u>	<u>(14,230)</u>	<u>-</u>	<u>(14,230)</u>
Other changes in net assets	<u>(1,135)</u>	<u>-</u>	<u>(130)</u>	<u>-</u>	<u>(1,265)</u>	<u>-</u>	<u>-</u>	<u>(1,265)</u>	<u>-</u>	<u>(1,265)</u>
Equity in earnings of affiliates	(31,573)	-	-	30,998	(575)	-	-	(575)	575	-
Equity transfers	-	-	31,458	(31,458)	-	-	(4,310)	(4,310)	4,310	-
Increase (decrease) in net assets	<u>\$ (15,495)</u>	<u>\$ 2,517</u>	<u>\$ (2,057)</u>	<u>\$ (460)</u>	<u>\$ (15,495)</u>	<u>\$ (596)</u>	<u>\$ (4,289)</u>	<u>\$ (20,380)</u>	<u>\$ 4,885</u>	<u>\$ (15,495)</u>

¹ The Senior Care Centers are included in the Brunswick Campus financial information above.

See independent auditors' report.