Financial Statements and Report of Independent Certified Public Accountants

AU Health System, Inc.

(a component unit of the State of Georgia)

June 30, 2019 and 2018

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Management's discussion and analysis (unaudited)

(dollars in thousands)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the AU Health System, Inc. ("AU Health System" or "Health System") as of and for the years ended June 30, 2019, 2018, and 2017. The Health System was organized in 2010 as a nonprofit corporation, and is considered a special purpose government entity as well as a component unit of the State of Georgia. This discussion has been prepared by management and should be read in conjunction with the Health System's financial statements and notes thereto, which begin on page 14.

AU Health System was organized in 2010 to achieve joint coordination and strategic planning among Augusta University ("AU"), AU Medical Center, Inc. ("AUMC"), AU Medical Associates, Inc. ("AUMA"), other affiliated entities, including the educational activities of AU and the Medical College of Georgia ("MCG"), one of ten colleges within AU. In 2014, Roosevelt Warm Springs Rehabilitation and Specialty Hospitals ("RWSH") was added to the Health System's portfolio in Warm Springs, Georgia, approximately 215 miles southwest of the AUMC's main campus. On the main campus in Augusta, Georgia, the Augusta University Health Sciences Campus, AUHS, manages AUMC's 478-licensed bed tertiary and quaternary academic medical center, the 154-licensed bed Children's Hospital of Georgia, the clinical arm of the Georgia Cancer Center, and certain outpatient sites (collectively, the "Medical Center"). The Medical Center serves as the academic teaching and research center for MCG and other AU health professional colleges, notably the School of Nursing and the School of Allied Health Professionals.

During the year ended June 30, 2018, the Health System, AUMC, RWSH and AUMA completed a series of corporate and governance changes (the Reorganization) to better align the entities within the Health System and allow for efficient and integrated funds flow and accounting. As a result of the Reorganization, AUMA became a blended component unit of the Health System instead of a component unit of the University and, therefore, in prior years, AUMA's operating results and financial position were not included in the Health System's financial statements. The Reorganization also caused both AUMC and RWSH to become blended component units of the Health System, rather than discretely presented component units within the Health System's financial statements.

The Medical Center houses the region's only American College of Surgeons verified Level I adult trauma center and Level II pediatric trauma center, as well as the area's only Joint Commission certified Comprehensive Stroke Center and is designated as Georgia's regional perinatal center, including the region's only Level IV neonatal intensive care unit. The Medical Center has centers of excellence in many clinical and other administrative divisions, as well as being an early national leader in patient and family centered care. In the 2019 fiscal year, the Medical Center discharged nearly 21 thousand patients for an excess of 120 thousand patient days, provided 467 thousand clinic visits, performed over 24 thousand surgical cases and treated more than 85 thousand emergency room visits.

During the year ended June 30, 2019, transitions of employment platforms for certain clinical and administrative professionals changed throughout the year and additional changes were made to the bylaws of the Health System related to the governance and management of the Health System.

Statements of Net Position

The statements of net position present the financial position of the Health System at the end of the fiscal years and includes all assets and liabilities of the Health System. The difference between total assets and total liabilities is net position. Net position is one indicator of the current financial condition of the Health System at a point in time, while the change in net position is an indicator of whether the Health System's overall financial condition improved or worsened during the fiscal year.

Table 1 – Assets, Liabilities and Net Position

A summary of the Health System's statements of net position is presented below:

	2019	2018	2017
	$	$	$
Cash, cash equivalents, and short-term investments	120,979	99,978	91,571
Cash and short-term investments held by trustee under indenture agreement	16,294	1,923	1,805
Other current assets	210,849	198,292	186,714
Total current assets	348,122	300,193	280,090
Long-term investments	100,858	98,619	111,863
Investments held by trustee under indenture agreement, net of current	3,895	-	-
Capital assets, net	251,547	256,138	269,764
Other noncurrent assets	58,983	52,644	37,891
Total assets	763,405	707,594	699,608
Current portion of long-term debt	5,165	6,199	8,261
Other current liabilities	188,304	122,275	133,537
Total current liabilities	193,469	128,474	141,798
Long-term debt, less current installments	208,120	189,699	171,312
Interest rate sw ap obligation	20,085	14,819	20,813
Other noncurrent liabilities	43,637	40,290	46,366
Total liabilities	465,311	373,282	380,289
Invested in capital assets, net of related debt	53,294	87,762	85,030
Unrestricted	244,800	246,550	234,289
Total net position	298,094	334,312	319,319

Unrestricted cash and investments grew $23.2 million, or 11.7%, to $221.8 million during fiscal year 2019. The Health System finished fiscal year 2019 with 90.8 days' cash on hand, down from the prior years' of 93.6 days in fiscal year 2018 and 93.1 days in fiscal year 2017. The Health System calculates the days' cash on hand to exclude the noncash expense of bad debt to follow guidelines published by the bond rating agencies that follow accounting treatment for bad debt in healthcare organizations.

Notable changes in cash and cash equivalents relate to timing of payments slowing in fiscal year 2019, and in fiscal year 2018, the addition of a line of credit to assist with working capital.

Other current assets increased by $12.6 million or 6.3% in fiscal year 2019, as compared to $11.6 million, or 6.2% in fiscal year 2018. Patient accounts receivable, net of allowance for doubtful accounts, increased $21.0 million or 18.6% in 2019 and $6.1 million or 5.7% in 2018 and was driven by increased patient volume and improvements in revenue cycle processes. There was refinement of methodology related to patient accounts pending qualification of Medicaid eligibility in fiscal year 2019 that resulted in an increase of approximately $4.1 million to patient accounts relievable, as more time will be allowed to qualify patients for Medicaid reimbursement. There was also an exercise of aligning outstanding accounts with the financial assistance policies during fiscal year 2019. These changes resulted in shifts between bad debt and charity care, but did not materially impact patient accounts receivable.

Other current assets were also impacted by third-party receivables decreasing by $8.3 million or 36.9% in fiscal year 2019 due to a decrease in reimbursement received by Georgia's Upper Payment Limit program. The receivable increased $4.8 million or 27.3% in fiscal year 2018 due to timing of supplemental payments from the state of Georgia.

Investments held by trustee reflect the remaining proceeds from the issuance of the Series 2018 bonds, less the amount reflected in cash and investments held by trustee that the Health System intends to utilize for capital improvements during the coming fiscal year.

Long-term investment movement over the reviewed fiscal years is due to the liquidation of a portion of the Health System's assets during fiscal year 2018, and solid investment returns and management's execution to realize gains at the end of the fiscal year 2019.

Other noncurrent assets increased $6.3 million or 12.0% in fiscal year 2019 and $14.8 million or 38.9% in fiscal year 2018 due to the increase of required collateralization of interest rate swaps. A total of $20.2 million and $15.0 million was posted at the end of fiscal years 2019 and 2018, respectively.

Other current liabilities increased in fiscal year 2019 by $66.0 million due to the timing of payments to suppliers and vendors and interrelated party transfers, and decreased in fiscal year 2018 by $11.3 million due to the issuance of a line of credit to assist with cash flow for working capital needs.

Long term debt, less current installments, increased by $18.4 million in fiscal year 2019 due to issuance of the Health System's Series 2018 bonds, and increased by $18.4 million in fiscal year 2018 due to the issuance of a line of credit for working capital.

The decrease in net position invested in capital assets of $34.5 million or 39.3% from June 30, 2018 to June 30, 2019, was primarily due to the difference in capital expenditures made from operating funds (as opposed to bond proceeds) and the depreciation and disposal of existing capital assets. The increase in net position invested in capital assets of $2.7 million or 3.2% from June 30, 2017 to June 30, 2018, was primarily due to capital expenditures made from operating funds. Debt-financed capital assets are not reflected in net assets invested in capital assets until the related debt is extinguished.

Unrestricted net position decreased by $1.7 million or 0.7% from June 30, 2018 to June 30, 2019, and increased $12.3 million or 5.2% from June 30, 2017 (as restated for the change in reporting entity described in Note 1 to the audited financial statements) to June 30, 2018. The decrease in net position from 2018 to 2019 was due to less favorable results from operations. The increase in net position from 2017 to 2018 was primarily due to the Health System's positive results of operations in 2018, which were enhanced by $39.2 million due to the adoption of a new accounting standard combined with changes to the benefit plans for other post-employment liabilities in 2017.

The Health System's total net position declined in fiscal year 2019 by $36.2 million, after growth in fiscal year 2018 by $15.0 million.

Debt Activity

On October 23, 2018, the Health System issued $80.9 million of Series 2018 revenue bonds through the Development Authority of Richmond County, with fixed interest rates ranging from 4% to 5%, and with an average interest rate of 4.472%. Proceeds from the bonds were to be used to finance and refinance certain renovation projects and to purchase new and replacement equipment. Refinanced projects were initially financed with AUMC funds and the note issued on July 27, 2012.

On December 5, 2018, the Health System entered into a capital lease obligation to purchase strategic capital for surgical procedures. The outstanding amount at June 30, 2019 was $2.2 million.

On October 18, 2017, the Health System entered into a line of credit in the amount of $35 million. Funds from the line of credit were to be used to fund working capital and other general corporate purposes. The line of credit was a variable interest rate note and incurred interest at a rate equal to the higher of the Prime Rate or LIBOR plus 2.50% per annum. Interest rates were reset monthly. The line of credit was terminated early as a result of the issuance of the Series 2018 Bonds.

S&P Global Ratings and Moody's Investors Service affirmed both the BBB and Baa1 rating, respectively, concurrent with the issuance of the Series 2018 Bonds described above.

Statements of Revenues, Expenses and Change in Net Position

The statements of revenues, expenses and changes in net position present the extent to which the Health System's overall net position increased or decreased during the year as a result of operations or other reasons.

Table 2 – Change in Net Position

A summary of the Health System's statements of revenues, expenses and changes in net position is presented below.

	2019	2018	2017
Change in financial position:	$	$	$
Net patient service revenue	794,434	754,470	724,716
Other operating revenue	110,558	107,299	83,625
Total operating revenues	904,992	861,769	808,341
Salaries and w ages	379,837	357,872	364,010
Employee benefits and payroll taxes	93,251	49,108	77,984
Purchased services	45,223	40,641	51,818
Medical and surgical supplies	209,357	176,497	165,008
Insurance	13,829	14,100	10,375
Depreciation and amortization	37,116	36,175	34,419
Other operating expenses	140,609	127,758	119,353
Total operating expenses	919,222	802,151	822,967
Operating (loss) income	(14,230)	59,618	(14,626)
Nonoperating items:			
Interest expense	(9,557)	(8,514)	(8,598)
Investment income, net	8,344	5,074	5,732
Contribution to Augusta University	-	-	(25,076)
Loss on asset impairment	(8,879)	-	-
Unrealized (loss) gain on interest rate sw ap	(5,267)	5,994	10,072
Net (loss) gain on disposition of capital assets	(60)	(395)	360
Supplemental contribution to the Augusta University Early Retirement Program	(6,833)	(6,791)	(6,826)
(Decrease) increase in net position before service fee, additions to permanent endow ments, restricted contributions and restricted investment income	(36,482)	54,986	(38,962)
Nonoperating expense – service fee	(734)	(6,638)	-
(Decrease) increase in net position before additions to permanent endow ments, restricted contributions and restricted investment income	(37,216)	48,348	(38,962)

The Health System's net patient service revenue, net of allowances for contractual discounts, charity care and bad debts, totaled $794.4 million as of June 30, 2019, an increase of $40.0 million or 5.3% over fiscal year 2018, which also demonstrated strong revenue growth of $29.8 million or 4.1% over fiscal year 2017. The growth in net patient revenue in each of the last two fiscal years has been driven by volume and acuity of inpatient care, as well as the continued growth in the delivery of outpatient care. Notable state funding changes include the Georgia Medicaid Indigent Care Trust Fund revenue that increased by $793 thousand or 7.8% in 2019 and $3.6 million or 55.6% in 2018. The Georgia Medicaid upper payment limit revenue decreased $7.8 million or 35.1% in 2019 and increased $4.8 million or 27.7% in 2018. The South Carolina Medicaid disproportionate share program revenue increased $1.1 million or 18.2% in 2019 and $1.9 million or 48.8% in 2018.

Other operating revenues consist primarily of specialty and retail pharmacy revenue as well as state appropriations and grants for the Medical Center for the benefit of the Medical College of Georgia, blended with revenue related to other contractual services performed by physicians.

Salaries and wages increased during fiscal year 2019 by $22.0 million, primarily due to strategic physician recruitment start-up funding, as well as additional earned income through productivity based physician agreements. Staffing shortages, particularly in nursing, but also in other allied health professional roles, continue to be well-documented challenges for the healthcare industry. As a result of the effects locally, the Health System did experience increased use of agency staffing in both clinical and administrative areas. Additional staffing was also necessary to accommodate patient volume growth and increased acuity in certain areas. Additionally, Advanced Practice Providers moved to the University employment platform midyear, resulting in an expense to the Health System through the Research Education and Professional Services Agreement. In fiscal year 2019, these expenses were reported in salaries and wages. In fiscal years 2018 and 2017, these expenses were spread among salaries and wages and purchased services line items within AUMA and AUMC. As a result of all of these factors, the fiscal year 2019 increase of 6.1% eclipsed the 1.7% decrease experienced in fiscal year 2018. The decrease in salaries and wages in fiscal year 2018 was related to shared-service employees moving from AUMC to the University employment platform, moving those expenses from salaries and wages primarily to purchased services.

Employee benefits and payroll taxes were lower in fiscal year 2018 due to the impact of the Health System's adoption of the new accounting pronouncement, GASB Statement No. 75 combined with changes to the benefits plan which lowered the post-employment benefits other than pension ("OPEB") expense by a nonrecurring $39.2 million in fiscal year 2018. Fiscal year 2019 approximates the 2017 expense, with the remaining year over year increase being payroll taxes driven by salaries and wage increases described above.

Shared services between the University and the Health System also transitioned throughout fiscal years 2018 and 2019, and are reflected in purchased services on the statements of revenues, expenses and changes in net position. In total, purchased services increased by $4.6 million in fiscal year 2019, after decreasing by $11.2 million in fiscal year 2018. Purchased services also reflects the $3.5 million in each of the fiscal years 2017, 2018 and 2019 for the Health System's use of nomenclature permitted by the Board of Regents.

Medical and surgical supplies, which includes drugs and pharmaceuticals, increased by $11.5 million or 7.0% in fiscal year 2018 and another $32.9 million or 18.6% in fiscal year 2019. In addition to normal expense inflation, growth in adjusted patient days of 5.1% as well as 6.6% growth in surgical cases drove medical and surgical supply increases. Pharmaceutical growth was driven by oncology expansion in fiscal year 2019 as well as specialty pharmacy accreditation and retail pharmacy expansion in both fiscal years 2018 and 2019, for which there is favorable revenue reflected in other operating revenue.

Insurance expense includes insurance premiums such as malpractice, workers compensation, professional liability, as well as insurance deductibles paid during the fiscal year. The Health System experienced a decrease in fiscal year 2019 of $271 thousand after a $3.7 million increase in fiscal year 2018.

To consolidate and ease the process of licensing and servicing its multiple software systems, the Health System signed a licensing, remote hosting, and outsourced service agreement with a global supplier of health information technology solutions and services, dated August 14, 2014. Under the arrangement, the Health System committed to pay monthly payments for a period of 14 years for the outlined services. In fiscal year 2019, the Health System amended the contract, eliminating the outsourced services and transitioned to a traditional software licensing and remote hosting agreement with the company. The amendment resulted in a contract termination fee to the Health System of $2.7 million, reflected in other operating expenses in Table 2.

Nonoperating items consist of interest expense, investment income, expense for the impairment of a technology implementation project, unrealized gain or loss on interest rate swap, net loss on disposition of capital assets, and supplemental contribution to the University Early Retirement Program. In addition, in 2017, nonoperating items included a $25.1 million additional contribution to AU from AUMA.

During fiscal year 2019, interest expense increased by $1.0 million or 12.3%, net of capitalized interest, primarily due to the issuance of the Series 2018 Bonds. Interest expense decreased during fiscal year 2018 by $85 thousand or 0.1% due to normal payments on amortization of bonds and the decrease in the balance of capital lease obligations.

Investment income decreased in fiscal year 2018 by $658 thousand as a result of general market conditions and decreased investment balances used to fund operational objectives, while investment income increased in fiscal year 2019 by $3.3 million as a result of realizing market gains after favorable market recovery.

In fiscal years 2019 and 2018, the Health System recorded changes to the fair value of the interest rate swap associated with the Series 2014A and 2014B Bonds as unrealized gains or losses. Changes to the fair value of the interest rate swap occur due to changes in the London Inter Bank Offered Rate ("LIBOR") and the reduction of the notional amount outstanding that have occurred since the initiation of the swap on April 1, 2008 in connection with the issuance of Series 2008A and 2008B Bonds, later restructured with Series 2014A and 2014B Bonds. Decreases in LIBOR result in unrealized losses and increases in LIBOR result in unrealized gains. The Health System recorded unrealized losses of $5.3 million in fiscal year 2019 and unrealized gains of $6.0 million and $10.1 million in fiscal years 2018 and 2017, respectively.

The combined service fee is calculated based on the operating performance of the Medical Center and yielded a payment to the Regents from the Health System of $734 thousand in fiscal year 2019 and $6.6 million in fiscal year 2018. There was no payment due to the Regents in fiscal year 2017.

Statements of Cash Flows

The statements of cash flows provide additional information to the Health System's financial results by reporting the major sources and uses of cash.

Requests for Information

The Health System's financial statements are designed to present users with a general overview of the Health System's financial position and results from operations. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to Katrina Keefer, Chief Executive Officer, 1120 15th Street (BI 2090), Augusta, Georgia 30912.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors of
AU Health System, Inc.

Report on the financial statements

We have audited the accompanying financial statements of the business-type activities of **AU Health System, Inc.** (a component unit of the State of Georgia) (the “Health System”), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Health System’s basic financial statements as listed in the table of contents.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health System’s preparation and fair presentation of the 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 Health System’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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of AU Health System, Inc. as of June 30, 2019 and 2018, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 6 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health System's basic financial statements. Schedule I – Combining statement of net position and Schedule II – Combining statement of revenues, expenses and changes in net position on pages 43 through 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Grant Thornton LLP

Columbia, South Carolina
August 30, 2019

Statements of net position

June 30	2019	2018
	$	$
Assets		
Current assets:		
Cash and cash equivalents	81,112,233	62,015,768
Short-term investments	39,867,132	37,961,738
Cash equivalents internally designated for self-insurance liability funding	1,339,373	3,195,038
Short-term investments internally designated for self-insurance liability funding	2,898,374	2,749,690
Cash held by trustee under indenture agreement	1,121,058	1,001,007
Investments held by trustee under indenture agreement	15,172,846	922,009
Patient accounts receivable, net of allow ance for doubtful accounts of $85,827,000 in 2019 and $109,330,000 in 2018	133,926,922	112,894,656
Due from third-party payors	14,138,105	22,412,644
Other receivables	17,116,043	19,337,826
Inventory	20,646,799	19,105,346
Net investment in direct financing lease	1,226,662	1,186,728
Other current assets	19,556,715	17,410,195
Total current assets	348,122,262	300,192,645
Noncurrent assets:		
Investments internally designated for self-insurance liability funding	12,060,433	9,640,231
Long-term investments	100,857,501	98,618,769
Investments held by trustee under indenture agreement, net of current	3,895,086	-
Capital assets, net	251,547,353	256,138,375
Net investment in direct financing lease, less current portion	21,292,862	22,519,524
Other assets	25,629,044	20,484,378
Total assets	763,404,541	707,593,922

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

Statements of net position (cont'd)

June 30	2019	2018
	$	$
Liabilities and net position		
Current liabilities:		
Accounts payable	63,658,328	33,210,519
Accrued salaries and w ages	9,325,924	6,849,534
Accrued compensated absences	20,521,811	19,392,373
Accrued expenses and other current liabilities	11,570,874	8,345,941
Due to related party - service fee	733,894	6,638,215
Due to related parties	66,636,833	34,518,899
Due to third-party payors	4,745,058	3,593,263
Current portion of accrued professional liability costs	4,783,094	4,256,803
Current portion of obligations under capital lease	6,327,586	5,469,281
Current portion of long-term debt	5,165,000	6,199,167
Total current liabilities	193,468,402	128,473,995
Noncurrent liabilities:		
Long-term debt, net of current	208,119,966	189,698,791
Obligations under capital lease, net of current	19,372,866	17,777,061
Accrued postemployment benefits	6,758,623	6,165,679
Accrued professional liability costs, net of current	14,349,283	12,770,407
Interest rate sw ap liability	20,085,401	14,818,596
Other liabilities	3,156,081	3,577,890
Total liabilities	465,310,622	373,282,419
Net position:		
Invested in capital assets, net of related debt	53,293,543	87,762,033
Unrestricted	244,800,376	246,549,470
Total net position	298,093,919	334,311,503

Statements of revenues, expenses and changes in net position

For the years ended June 30	2019	2018
	$	$
Operating revenues:		
Net patient service revenue (net of provision for doubtful accounts of $54,358,000 in 2019 and $91,138,000 in 2018)	794,434,306	754,470,005
Revenue from contractual services	31,992,211	29,932,138
Other operating revenue	78,565,416	77,367,261
Total operating revenues	904,991,933	861,769,404
Operating expenses:		
Salaries and w ages	379,837,254	357,871,918
Employee benefits and payroll taxes	93,250,578	49,107,650
Purchased services	45,223,343	40,640,973
Medical and surgical supplies	209,356,796	176,497,004
Insurance	13,829,477	14,100,487
Non-medical supplies and other expenses	73,238,055	67,748,655
Depreciation and amortization	37,115,718	36,175,226
Information technology and telecommunications	48,988,123	45,183,822
Repairs and maintenance	18,382,899	14,825,575
Total operating expenses	919,222,243	802,151,310
Operating (loss) income	(14,230,310)	59,618,094
Nonoperating items:		
Interest expense	(9,556,881)	(8,513,680)
Investment income, net	8,344,255	5,073,772
Loss on asset impairment	(8,879,395)	-
Unrealized (loss) gain on interest rate sw ap	(5,266,805)	5,994,197
Net loss on disposition of capital assets	(59,712)	(395,045)
Supplemental contribution to the Augusta University Early Retirement Program	(6,832,985)	(6,790,805)
(Decrease) increase in net position before service fee, additions to permanent endowments, restricted contributions and restricted investment income	(36,481,833)	54,986,533
Nonoperating expense - service fee	(733,894)	(6,638,215)
(Decrease) increase in net position before restricted contributions	(37,215,727)	48,348,318
Change in restricted contributions for capital assets	998,143	(185,163)
(Decrease) increase in net position	(36,217,584)	48,163,155
Net position, beginning of year	334,311,503	286,148,348
Net position, end of year	298,093,919	334,311,503

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

Statements of cash flows

For the years ended June 30	2019	2018
	$	$
Cash flows from operating activities:		
Cash received from and on behalf of patients	782,934,906	741,819,623
Other receipts from operations	112,672,878	105,339,103
Cash paid to employees	(471,035,580)	(445,321,442)
Cash paid to suppliers	(336,745,043)	(369,804,548)
Net cash provided by operating activities	87,827,161	32,032,736
Cash flows from noncapital financing activities:		
Interest paid on third-party settlement	(1,538)	-
Payment to related party – Service fee	(6,638,215)	-
Supplemental contribution to the Augusta University Early Retirement Program	(6,832,985)	(6,790,805)
Net cash used in noncapital financing activities	(13,472,738)	(6,790,805)
Cash flows from capital and related financing activities:		
Principal paid on revenue bonds	(2,945,000)	(6,855,000)
Principal paid on term loan	(36,750,000)	(3,733,333)
Principal paid on line of credit	(27,100,000)	-
Purchases of capital assets	(35,842,920)	(20,730,490)
Proceeds from line of credit	-	27,100,000
Proceeds from bond issuance	84,521,091	-
Proceeds from disposition of capital assets	1,000	2,607
Payment of principal on obligations under capital leases	(9,218,872)	(9,381,143)
Interest payments	(10,219,916)	(9,233,628)
Payment of collateral on interest rate sw ap mark to market	(2,700,000)	(6,200,000)
Principal received from direct financing lease	1,186,728	1,151,040
Interest received from direct financing lease	685,964	719,948
Capital contributions (disbursements)	998,142	(185,163)
Net cash used in capital and related financing activities	(37,383,783)	(27,345,162)
Cash flows from investing activities:		
Interest and dividends on investments	3,998,219	3,690,120
Payment on notes receivable	-	201,290
Purchases of investments	(360,618,030)	(99,277,507)
Proceeds from sales of investments	337,010,022	114,296,417
Net cash (used in) provided by investing activities	(19,609,789)	18,910,320
Net increase in cash and cash equivalents	17,360,851	16,807,089
Cash and cash equivalents, beginning of year	66,211,813	49,404,724
Cash and cash equivalents, end of year	83,572,664	66,211,813

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

Statements of cash flows (cont'd)

For the years ended June 30	2019	2018
	$	$
Reconciliation of operating (loss) income to net cash provided by operating activities:		
Operating (loss) income	(14,230,310)	59,618,094
Adjustments:		
Depreciation and amortization	37,115,718	36,175,226
Impairment of capital asset	8,879,395	-
Provision for doubtful accounts	54,358,169	91,138,525
Amortization of loan payable premium	(339,083)	(186,070)
Changes in:		
Patient accounts receivable	(75,390,435)	(97,252,510)
Due to/from third-party payor	9,426,334	(6,714,675)
Other receivables	2,221,783	(1,782,019)
Inventory	(1,541,453)	(102,736)
Other current assets	(2,146,520)	(784,639)
Accounts payable	28,248,566	(13,915,682)
Due to related parties	32,117,934	3,217,362
Accrued expenses and other current liabilities	6,830,761	(5,143,531)
Other liabilities	(421,809)	3,343,042
Other postemployment benefits	592,944	(38,536,872)
Accrued professional liability	2,105,167	2,959,221
Net cash provided by operating activities	87,827,161	32,032,736
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	81,112,233	62,015,768
Cash equivalents internally designated for self-insurance liability funding	1,339,373	3,195,038
Cash held by trustee under indenture agreement	1,121,058	1,001,007
Total cash and cash equivalents	83,572,664	66,211,813
Supplemental schedule of noncash investing and financing activities:		
Change in capital additions included in accounts payable	2,199,243	(429,970)
Capital additions under capital lease obligation	11,672,982	2,646,327
Increase in fair value of investments	4,112,444	1,982,309
Change in fair value of stock	(53,994)	323,964

Notes to financial statements

1 Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

AU Health System, Inc. (the "Health System"), based in Augusta, Georgia, was incorporated under the laws of the State of Georgia as a nonprofit corporation on June 1, 2010. The Health System qualifies as a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Service Code. The purpose of the Health System is to further the health science education missions and other tax-exempt functions and purposes of Augusta University (the "University" or "AU"), AU Medical Associates, Inc. ("AUMA"), AU Medical Center, Inc. ("AUMC"), Roosevelt Warm Springs Rehabilitation & Specialty Hospitals, Inc. ("RWSH") and other cooperating organizations and entities with the University.

In a Joint Operating Agreement (the "Agreement") dated July 1, 2010, AUMC and AUMA agreed that, in order to advance jointly the mission of clinical integration of the various healthcare services provided by them to the community and the University, the Health System will have the responsibility for the strategic planning, strategic direction and strategic coordination of the operations of AUMC and AUMA. The Agreement was subsequently amended on June 26, 2014 to incorporate Roosevelt Warm Springs Rehabilitation & Specialty Hospitals, Inc. ("RWSH") and on August 28, 2014 to incorporate AU Health Professions Associates, Inc. ("Health Professions Associates"), Augusta University Nursing Associates, Inc. ("Nursing Associates") and AU – Dental Associates ("Dental Associates").

In accordance with the criteria in Government Accounting Standards Board ('GASB") No. 39, *"Determining Whether Certain Organizations Are Component Units*," the Health System is a legally separate tax-exempt organization whose activities support the University, a unit of the Board of Regents of the University System of Georgia ("Regents") (an organizational unit of the State of Georgia). The Health System is considered an affiliated organization of the University. The State Accounting Office determined component units of the State of Georgia, as required by GASB No. 39, should not be assessed in relation to their significance to the University. Accordingly, the Health System's financial activities are not included in the financial statements of the University. The Health System qualifies for treatment as a component unit of the State of Georgia.

During the year ended June 30, 2018, the Health System, AUMC, RWSH and AUMA completed a series of corporate and governance changes (the "Reorganization") to better align the entities within the Health System and allow for efficient and integrated funds flow and accounting. As a result of the Reorganization, AUMA became a blended component unit of the Health System. Prior to the Reorganization, AUMA was a component unit of the University and AUMA's financial position and operating results were not included in the Health System's financial statements. In addition, as a result of the Reorganization, AUMC and RWSH became blended component units of the Health System. Prior to the Reorganization, AUMC and RWSH were discretely presented component units within the Health System's financial statements.

Basis of Presentation

The Health System's financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America as prescribed by the GASB. The GASB has issued Statement No. 35 (GASB 35), *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities* and GASB 39*, Determining Whether Certain Organizations Are Component Units.* The financial statement presentation required by these statements provides a comprehensive, entity-wide perspective of the Health System's assets, liabilities, net position, revenues, expenses, changes in net position and cash flows and replaces the fund-group perspective previously required. In addition, these statements require the Health System to present Management's Discussion and Analysis ("MD&A"). The MD&A is considered to be required supplemental information and precedes the financial statements.

Basis of Accounting

For financial reporting purposes, the Health System is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services, are reported as operating revenues and operating expenses. All other activities are reported as nonoperating activities.

The Health System's financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus and are based on accounting principles applicable to governmental units as established by the GASB and the provisions of the American Institute of Certified Public Accountants, *Audit and Accounting Guide, Health Care Entities,* to the extent that they do not conflict with GASB.

Scope of Statements

The accompanying financial statements include the financial position and activities of AUMC, a nonprofit corporation organized to further the health sciences, patient care, research and education missions of AU. AUMC consists of a 632-bed acute care hospital and related outpatient care facilities principally located in Augusta, Georgia.

AUMA is a nonprofit organization formed for the purpose of enhancing the clinical, research and education missions of AU and billing and collecting for medical services provided to patients.

RWSH is a nonprofit corporation organized to further the health sciences, patient care, research and education missions of AU primarily through management of a long-term acute care hospital and inpatient rehabilitation hospital. RWSH operates a licensed 32-bed acute care hospital and a 52-bed licensed inpatient rehabilitation hospital located in Warm Springs, Georgia.

AUMA is the sole equity member and has sole voting control of each of the LLC's. These LLC entities do not have termination dates.

PPG Properties, LLC is a limited liability company formed to manage real estate rental properties.

AU Medical Associates Anesthesia Billing Services, LLC is a limited liability company formed to bill and collect for anesthesia services provided to patients.

Georgia Esoteric and Molecular Labs, LLC is a limited liability company formed to operate a specialized pathology laboratory with genetic and molecular testing capabilities.

MCG-PPG Cancer Research Center, LLC ("CRC") is a limited liability company formed to construct, own and operate a portion of a building to house a cancer research center on the campus of AU.

AU Medical Associates Emergency Billing Services, LLC, is a limited liability company formed to bill and collect for emergency services provided to patients.

MCGH/PPG Reproductive Lab, LLC is a limited liability company and a joint venture formed between AUMC and AUMA to operate a medical laboratory engaged primarily in reproductive endocrinology and in-vitro fertilization.

AU Health Segregated Portfolio Company (SPC), with AU Health SPC-Health System SP, are an offshore captive insurer.

AUMC holds a 33% noncontrolling interest in Surgery Center of Columbia County, LLC as of June 30, 2019 and 2018. The Health System accounts for its interest in the company by using the equity method of accounting. The related investments are included within other assets in the Health System's statements of net position. The related share of earnings or losses are included within nonmedical supplies and other expenses in the Health System's statements of revenues, expenses and changes in net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates include the determination of the allowances for doubtful accounts and contractual adjustments, reserves for employee healthcare claims, accrued professional liability costs, interest rate swap, other postemployment benefits and estimated third-party payor settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

Revisions to prior year's estimates of third-party liabilities resulted in a decrease in operating income of $5,948,000 and an increase in operating revenue of $4,434,000 for the years ended June 30, 2019 and 2018, respectively.

Cash and Cash Equivalents and Investments

Cash and cash equivalents include highly-liquid investments (with an original maturity of three months or less) and money market accounts.

Investments consist of money market funds, certificates of deposit with original maturities greater than three months, marketable securities, corporate bonds and treasury obligations. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying statements of net position based on the quoted market prices of underlying securities comprising the individual investments. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating revenue.

The Health System classifies all equity securities and debt securities maturing within one year of the statement of net position, not otherwise designated for long-term use, as current assets. Investments in securities with maturity dates beyond one year from the statement of net position date and other investments designated for long-term use are classified as noncurrent assets.

Inventories

Inventories, consisting primarily of pharmaceuticals and medical supplies, are stated using the average cost method or market value, whichever is lower.

Capital Assets

Capital assets are stated at cost on the date of acquisition. The Health System's capitalization policy for assets includes all items with a unit cost of more than $5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets, as determined utilizing, *Estimated Useful Lives of Depreciable Hospital Assets, Revised 2008 Edition,* published by the American Hospital Association.

Ranges of estimated useful life for various capital asset categories are as follows:

Asset Class	Estimated Useful Lives
Building improvements	20 to 25 years
Buildings	25 years
Computer hardw are	3 to 5 years
Medical equipment	3 to 20 years
Furniture and fixtures	10 to 20 years
Leasehold improvements	5 to 25 years
Softw are	3 to 5 years
Vehicles	4 to 10 years

Repairs and maintenance costs are charged to expense as incurred.

Long-lived Asset Impairment

Long-lived assets are reviewed for impairment if circumstances suggest that there is a significant, unexpected decline in service utility of a long-lived asset. The service utility of a long-lived asset is the usable capacity that at acquisition was expected to be used to provide service. An assessment of recoverability is performed prior to any write-down of assets and an impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. For the year ending June 30, 2019, the Health System recorded $8,879,000 in impairment of assets due to the abandonment of a technology implementation project in capital-in-process. No material impairment charges to long-lived assets were recorded for the year ended June 30, 2018.

Costs of Borrowing

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Net Position

Net position is classified as unrestricted, invested in capital assets, net of related debt and restricted, as follows:

– ***Unrestricted Net Position***
  These net position balances represent resources that can be used at the Health System's discretion in carrying out its objectives.

– ***Invested in Capital Assets, Net of Related Debt***
  These net positions represent capital assets, net of accumulated depreciation, and are reduced by the current balances of any outstanding borrowings used to finance the acquisition of those assets.

When the Health System has both restricted and unrestricted resources available to finance a particular program, it is the Health System's policy to use restricted resources before unrestricted resources.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations, as well as the provision for doubtful accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Indigent and Charity Care

The Health System provides care to patients who meet certain criteria under its indigent and charity care policies without charge or at amounts less than its established rates. Because the Health System does not pursue collection of amounts determined to qualify as indigent or charity care, they are not reported as revenue.

Income Taxes

The Health System has been recognized as exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3) and, therefore, related income is not subject to federal or state income taxes. AU Health SPC operates in the Cayman Islands where no income, profit or capital gains taxes are currently levied. Accordingly, no provision for income taxes has been recorded.

Net Investment in Direct Financing Leases

MCG-PPG Cancer Research Center, LLC records revenues from leases in accordance with GASB No. 87, *Leases*. Under this standard, the lease with AU qualifies as a direct financing lease. Direct financing leases transfer substantially all of the costs and risks of ownership of the leased property to the lessee.

At inception of a direct financing lease, the minimum lease payments plus any estimated residual value are recorded as the gross investment in the lease. The difference between the gross investment in the lease and the cost, or carrying amount, of the leased property is recorded as unearned income. Unearned income is amortized to leasing revenues over the lease term to produce a constant rate of return over the term of the lease. Direct costs incurred to originate direct financing leases are expensed as incurred.

Statement of Revenues, Expenses and Changes in Net Position

For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenues and operating expenses. Peripheral or incidental transactions, investment income and financing costs are reported as nonoperating revenue and expenses.

Advertising Expense

Advertising is expensed as incurred. Total advertising expense incurred was approximately $2,892,000 and $2,636,000 for the years ended June 30, 2019 and 2018, respectively, and is included in nonmedical supplies and other expenses in the accompanying statements of revenues, expenses and changes in net position.

Recently Adopted Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations ("ARO"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in Statement No. 83. The requirements of Statement No. 83 are effective for reporting periods beginning after June 15, 2018. The Health System adopted Statement No. 83 for the period ending June 30, 2019. The Health System has evaluated Statement No. 83 and has concluded there was no material impact to the financial statements.

Pending Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. This statement provides guidance for lease contracts for nonfinancial assets – including vehicles, heavy equipment and buildings – but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). The lease definition now focuses on a contract that coveys control of the right to use another entity's nonfinancial assets, which is referred to in the new Statement as the underlying asset. Under Statement No. 87, a lessee government is required to recognize (1) a lease liability and (2) an intangible asset representing the lessee's right to use the leased asset. A lessor government is required to recognize (1) a lease receivable and (2) a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. The requirements of the Statement are effective for reporting periods beginning after December 15, 2019 with early adoption permitted. The Health System has not adopted this Statement early. The Health System is still assessing the impact of Statement No. 87 on its financial statements.

2 Net Patient Service Revenue

The Health System has agreements with governmental and other third-party payors that provide for reimbursement to the Health System at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Health System's billings at established rates for services and amounts reimbursed by third-party payors. The composition of net patient service revenue follows:

	2019	2018
	$	$
Gross patient service revenue	3,152,111,565	2,885,248,389
Less - Provision for contractual and other adjustments	(2,097,858,555)	(1,888,494,767)
Less - Provision for doubtful accounts	(54,358,169)	(91,138,525)
Less - Provision for charity care	(205,460,535)	(151,145,092)
Net patient service revenue	794,434,306	754,470,005

Medicare

Substantially all inpatient acute care and outpatient services rendered to program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. Additionally, the Health System is reimbursed for both its direct and indirect medical education costs (as defined), based principally on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Health System generally is reimbursed for retroactively determined items at a tentative rate, with final settlement determined after submission of annual cost reports by the Health System and audits by the Medicare Administrative Contractor. The Health System's Medicare cost reports have been audited and settled for all years through fiscal 2013.

Revenue from the Medicare program accounted for approximately 36% and 34% of the Health System's gross patient service revenue for the years ended June 30, 2019 and 2018, respectively.

Medicaid

Inpatient services rendered to most Medicaid program beneficiaries are reimbursed based upon prospective reimbursement methodologies. Most outpatient services are reimbursed using a retrospective cost-based methodology. The Health System also contracts with certain managed care organizations to receive reimbursement for providing services to Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges or prospectively determined per-diem rates. The Health System's Medicaid cost reports have been audited and settled for all years through fiscal 2013.

The State of Georgia administers the Medicaid Upper Payment Limit ("UPL") program for providers participating in the State Medicaid program. The Health System's net reimbursement benefit associated with the UPL program totaled approximately $14,373,000 and $22,137,000 in fiscal 2019 and 2018, respectively.

The State of Georgia Indigent Care Trust Fund Voluntary Contribution Program is designed to expand Medicaid eligibility, to provide funding for indigent care and to support primary healthcare through increased funding facilitated by Federal Financial Participation when coupled with voluntary participating hospital contributions. Disproportionate share hospitals (as defined) are eligible to make voluntary contributions to the State's Indigent Care Trust Fund (the "Trust Fund"). During the years ended June 30, 2019 and 2018, the Health System recorded net revenue from this program of approximately $10,905,000 and $10,112,000, respectively.

The Health System also participates in a voluntary contribution program (similar to the Georgia program above) available to certain qualifying hospitals in the South Carolina Medicaid program. The net reimbursement benefit associated with this program totaled approximately $6,951,000 and $5,882,000 in fiscal 2019 and 2018, respectively.

The net revenue associated with each of the above-described reimbursement programs is recognized as a reduction of related contractual adjustments in the accompanying statements of revenues, expenses and changes in net position. There can be no assurance that the Health System will continue to qualify for future participation in these programs, or that such programs will not ultimately be discontinued or materially modified.

Revenue from the Medicaid program, including net disproportionate share reimbursement described above, accounted for approximately 19% and 20% of the Health System's gross patient service revenue for the fiscal years 2019 and 2018, respectively. Net disproportionate share reimbursement to the Health System under all of the programs described above totaled approximately $32,229,000 in fiscal 2019 and $38,131,000 in fiscal 2018. Material reductions in reimbursement from these programs may have a correspondingly material adverse impact on the Health System's results from operations.

Regulatory Matters

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Other Payors

The Health System has entered into payment agreements with certain commercial insurance carriers, managed care organizations and preferred provider organizations. The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined per-diem rates.

3 Charity Care

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies under its charity care policy. The Health System estimates the cost of Charity Care by applying a ratio of overall costs to gross charges applied to the gross charity care charges.

Forgone charges and the cost of charity care is as follows for the years ended June 30:

	2019	2018
	$	$
Charity care:		
Forgone charges	205,460,000	151,145,000
Cost	59,868,000	42,021,000

4 Business and Credit Concentrations

The Health System provides healthcare services through its inpatient and outpatient care facilities principally located throughout the Central Savannah River Area ("CSRA"). The Health System grants credit to patients, substantially all of whom are residents of its service area. The Health System generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid and commercial insurance policies).

The mix of net receivables from patients and third-party payors is as follows at June 30:

	2019	2018
Commercial and other third-party payors	43%	48%
Medicaid	23%	20%
Medicare	33%	31%
Self pay	1%	1%
Total	100%	100%

5 Cash, Cash Equivalents and Investments

The Health System's bank balances are as follows at June 30:

	2019	2018
	$	$
Insured (FDIC)	4,511,952	5,100,313
Uninsured, uncollateralized or collateralized by securities held by the pledging institution, its trust department or agent in other than the Health System's name	86,958,074	73,052,764
Total	91,470,026	78,153,077
Carrying amount (cash and cash equivalents)	83,572,664	66,211,813

GASB No. 40, *Deposits and Investment Risk Disclosures,* requires certain disclosures regarding policies and practices with respect to deposits and the custodial risk, credit risk, interest rate sensitivity and foreign investments associated with them.

The custodial credit risk for deposits is the risk that in an event of a bank failure, the Health System's deposits may not be returned to it. The Health System does not have a deposit policy for custodial credit risk. The Health System places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporations ("FDIC") covers $250,000 for substantially all depository accounts. As of June 30, 2019 and 2018, approximately $86,958,000 and $73,053,000, respectively, of the Health System's bank balance was uninsured or uncollateralized.

A summary of investments follows:

		Investment Maturity				
June 30, 2019	**Fair Value**	**Less than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**More than 10 Years**	**Percentage**
	$	$	$	$	$	
Investment type						
Debt securities:						
U.S. treasuries	31,209,910	1,264,905	29,945,005	-	-	17.86%
U.S. agencies	13,025,537	4,513,261	4,052,385	1,479,020	2,980,871	7.45%
Corporate debt	47,358,417	8,324,217	39,034,200	-	-	27.10%
Mortgage/asset-backed securities	39,518,020	1,844,637	16,964,507	4,139,499	16,569,377	22.61%
	131,111,884	15,947,020	89,996,097	5,618,519	19,550,248	
Equities and other:						
Equity-domestic	25,530,751	-	-	-	-	14.61%
Equity-international	10,179,531	-	-	-	-	5.83%
Mutual bond funds	7,336,568	-	-	-	-	4.20%
Accrued interest and dividends	592,638	-	-	-	-	0.34%
Total investments	174,751,372	15,947,020	89,996,097	5,618,519	19,550,248	100.00%

June 30, 2018	Fair Value	Investment Maturity: Less than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	Percentage
	$	$	$	$	$	
Investment type						
Debt securities:						
U.S. treasuries	35,874,236	3,400,000	32,474,236	-	-	23.93%
U.S. agencies	12,621,370	1,597,832	9,825,736	365,105	832,697	8.42%
Corporate debt	49,497,626	2,436,531	46,912,501	148,594	-	33.03%
Mortgage/asset-backed securities	17,700,130	-	6,520,540	1,000,121	10,179,469	11.81%
	115,693,362	7,434,363	95,733,013	1,513,820	11,012,166	
Equities and other:						
Equity-domestic	25,123,375	-	-	-	-	16.76%
Equity-international	8,425,003	-	-	-	-	5.62%
Accrued interest and dividends	650,697	-	-	-	-	0.43%
Total investments	149,892,437	7,434,363	95,733,013	1,513,820	11,012,166	100.00%

June 30, 2019	Fair Value	Investment Ratings: AAA	AA	A	BAA	CAA	N/A or Unrated
Interest rates		0% - 6.00%	1.75% - 5.19%	2.05% - 5.75%	2.4% - 5.45%		
	$	$	$	$	$	$	$
Investment type							
Debt securities:							
U.S. treasuries	31,209,910	26,486,045	-	-	-	-	4,723,865
U.S. agencies	13,025,537	10,415,644	1,451,117	1,158,776	-	-	-
Corporate debt	47,358,417	7,147,144	4,925,214	21,543,620	10,767,759	-	2,974,680
Mortgage/asset-backed securities	39,518,020	35,156,404	3,034,148	-	-	-	1,327,468
	131,111,884	79,205,237	9,410,479	22,702,396	10,767,759	-	9,026,013

June 30, 2018	Fair Value	Investment Ratings: AAA	AA	A	BAA	CAA	N/A or Unrated
Interest rates		0.13% - 6.00%	2.09% - 5.19%	1.56% - 5.75%	2.10% - 5.50%		
	$	$	$	$	$	$	$
Investment type							
Debt securities:							
U.S. treasuries	35,874,236	35,874,236	-	-	-	-	-
U.S. agencies	12,621,370	5,340,078	4,160,312	3,120,980	-	-	-
Corporate debt	49,497,626	4,883,688	3,211,631	32,696,684	8,705,623	-	-
Mortgage/asset-backed securities	17,700,130	16,088,933	1,611,197	-	-	-	-
	115,693,362	62,186,935	8,983,140	35,817,664	8,705,623	-	-

As of June 30, 2019 and 2018, the Health System utilized five investment managers. These managers are required to make investments in adherence to the Health System's current investment policy and objectives.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to transact, the Health System will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The entire balance of the Health System's investments is held by the investment managers in the Health System's name as of June 30, 2019 and 2018.

The Health System's investment strategy utilizes the total return approach with respect to investment returns, which recognizes that total return is comprised of both income and capital gains (realized and unrealized). When considering investment performance, the Health System measures the total returns, including dividends on stock, interest on fixed-income securities and capital gains. The Health System's long-term return objective is stated in its investment policy as 2% plus the Consumer Price Index, which at June 30, 2019 was 1.6%.

The Health System allows for an overall level of investment risk sufficient to achieve the long-term return objective described above, managed primarily through its asset allocation policy. The Health System's investment policy requires cash levels adequate to meet all expected or unexpected cash flow needs by investing at least 90% of the Health System's assets in securities that can be sold readily and efficiently. The Health System's investment policy also states that the fixed income maturity for any single security should not exceed five years.

The Health System's investment policy provides for the following maximum and minimum ranges for each asset class as follows:

	Minimum Allocation	Target Allocation	Maximum Allocation
Equities - Domestic and international stocks	15%	20%	25%
Domestic fixed income assets	75%	80%	85%

Fair Value Measurement – Investments

The Health System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Health System has the following recurring fair value measurements as of June 30:

	2019			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Equity - Domestic and international	35,714,991	-	-	35,714,991
U.S. treasuries	31,333,683	-	-	31,333,683
U.S. agencies	-	13,043,555	-	13,043,555
Corporate debt	-	47,729,172	-	47,729,172
Money market	1,782	-	-	1,782
Mortgage/asset-backed securities	-	39,591,621	-	39,591,621
Mutual bond funds	-	7,336,568	-	7,336,568
Total Investments	67,050,456	107,700,916	-	174,751,372

	2018			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Equity - Domestic and international	33,548,768	-	-	33,548,768
U.S. treasuries	36,046,812	-	-	36,046,812
U.S. agencies	-	12,631,258	-	12,631,258
Corporate debt	-	49,934,394	-	49,934,394
Mortgage/asset-backed securities	-	17,731,205	-	17,731,205
Total Investments	69,595,580	80,296,857	-	149,892,437

In addition, the following standards apply to specific asset classes according to the Health System's investment policy:

Traditional Equity Investments

Allowable assets include common stocks and other equity instruments that are restricted to readily marketable securities of corporations actively traded on the major exchanges.

Fixed Income Investments

Allowable assets include U.S. Government securities, corporate notes and bonds, mortgage-backed and asset-backed securities, convertible notes and bonds, Rule 144a bonds, Yankee bonds, collateralized mortgage obligations and Treasury inflation protected securities. The rating for each fixed income security in the portfolio must be "A" or better as established by a recognized rating service at the time of purchase. In addition, except for U.S. Government and agency obligations, each fixed income investment manager's portfolio should contain no more than 5% of any single issue, at cost.

Commingled or Mutual Funds

Commingled and mutual fund holdings must be readily marketable and are limited to those funds having total assets of $100 million or more.

Prohibited Assets

Prohibited investments include commodities and futures contracts, private placement, options, limited partnerships, venture-capital investments, REITs and hedge funds. The Health System's investment policy also prohibits short selling and margin transactions.

Investment income, net is comprised of the following for the years ended June 30:

	2019	2018
	$	$
Dividend and interest income	4,686,332	3,811,173
Net realized gain on investments	6,738,964	722,492
Net change in unrealized (loss) gain on investments	(2,626,521)	1,006,120
Management fees	(454,520)	(466,013)
Investment income, net	8,344,255	5,073,772

6 Capital Assets

Capital asset additions, retirements and balances are as follows for the years ended June 30, 2019 and 2018:

	Balance June 30, 2018	Additions	Retirements/ Transfers	Balance June 30, 2019
	$	$	$	$
Capital assets not being depreciated:				
Land	20,115,269	-	-	20,115,269
Construction in progress	20,854,149	28,055,719	(20,172,862)	28,737,006
	40,969,418	28,055,719	(20,172,862)	48,852,275
Capital assets being depreciated:				
Leasehold improvements	184,784,746	3,781,884	(10,995)	188,555,635
Equipment	324,148,830	20,939,661	(883,197)	344,205,294
	508,933,576	24,721,545	(894,192)	532,760,929
Accumulated depreciation:				
Leasehold improvements	(72,798,214)	(11,674,427)	275	(84,472,366)
Equipment	(220,966,405)	(25,441,567)	814,487	(245,593,485)
	(293,764,619)	(37,115,994)	814,762	(330,065,851)
Capital assets, net	256,138,375	15,661,270	(20,252,292)	251,547,353

	Balance June 30, 2017	Additions	Retirements/ Transfers	Balance June 30, 2018
	$	$	$	$
Capital assets not being depreciated:				
Land	20,139,035	-	(23,766)	20,115,269
Construction in progress	26,153,187	20,074,105	(25,373,143)	20,854,149
	46,292,222	20,074,105	(25,396,909)	40,969,418
Capital assets being depreciated:				
Leasehold improvements	170,536,815	14,398,650	(150,719)	184,784,746
Equipment	319,586,640	13,857,666	(9,295,476)	324,148,830
	490,123,455	28,256,316	(9,446,195)	508,933,576
Accumulated depreciation:				
Leasehold improvements	(62,236,384)	(10,692,881)	131,051	(72,798,214)
Equipment	(204,414,884)	(25,482,345)	8,930,824	(220,966,405)
	(266,651,268)	(36,175,226)	9,061,875	(293,764,619)
Capital assets, net	269,764,409	12,155,195	(25,781,229)	256,138,375

Depreciation expense, which includes amortization of assets under capital leases, totaled approximately $37,116,000 and $36,175,000 for the years ended June 30, 2019 and 2018, respectively. For the year ending June 30, 2019, the Health System recorded $8,879,000 in impairment of assets due to the abandonment of a technology implementation project in capital-in-process.

Construction in progress at June 30, 2019, consists of construction projects, medical equipment deployment and information technology upgrades. Estimated costs to complete these various projects total approximately $58,822,000 at June 30, 2019. The estimated costs that will be funded from the bond proceeds total approximately $18,147,000 and the remaining will be funded with operating cash.

7 Accrued Expenses and Other Current Liabilities

The composition of accrued expenses and other current liabilities follows, as of June 30:

	2019	2018
	$	$
Accrued for employee healthcare claims	1,804,000	1,748,000
Accrued for workers' compensation claims	842,269	826,217
Interest payable	5,413,631	2,699,870
Advanced billings	137,357	255,671
Other accrued expenses	3,373,617	2,816,183
	11,570,874	8,345,941

8 Debt

A summary of long-term debt follows, as of June 30:

	2019	2018
	$	$
Line of credit with variable interest rates reset monthly as described below	-	27,100,000
Note payable, principal payments in varying amount beginning in 2015 through 2019, with a fixed interest rate of 2.05% through June 30, 2015 then a variable interest rate	-	36,750,000
Development Authority of Richmond County Revenue Bonds, Series 2014A Tax Exempt Bonds, payable in varying amounts beginning in 2014 through 2037, with variable interest rates initially reset monthly	53,170,000	55,210,000
Development Authority of Richmond County Revenue Bonds, Series 2014B Tax Exempt Bonds, payable in varying amounts beginning in 2014 through 2037, with variable interest rates initially reset monthly	53,170,000	53,170,000
Development Authority of Richmond County Revenue Bonds, Series 2018 Tax Exempt Bonds, payable in varying amounts beginning in 2019 through 2038	80,945,000	-
Development Authority of Richmond County Revenue Bonds, CRC Series 2014A, Tax Exempt Bonds, payable in varying amounts beginning in 2015 through 2034, with variable interest rates initially reset monthly	21,075,000	21,980,000
	208,360,000	194,210,000
Unamortized premium and unamortized discount	4,924,966	1,687,958
Less - Current portion of long-term debt	(5,165,000)	(6,199,167)
	208,119,966	189,698,791

Long-term debt activity for the year ended June 30, 2019, was as follows:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
	$	$	$	$	$
Line of credit	27,100,000	-	(27,100,000)	-	-
Note payable	36,750,000	-	(36,750,000)	-	-
Development Authority of Richmond County Revenue Bonds, Series 2014A Tax Exempt Bonds	55,210,000	-	(2,040,000)	53,170,000	2,110,000
Development Authority of Richmond County Revenue Bonds, Series 2014B Tax Exempt Bonds	53,170,000	-	-	53,170,000	2,110,000
Development Authority of Richmond County Revenue Bonds, Series 2018 Tax Exempt Bonds	-	84,521,091	(160,820)	84,360,271	-
Development Authority of Richmond County Revenue Bonds, CRC Series 2014A Tax Exempt Bonds	23,667,958	-	(1,083,262)	22,584,696	945,000
	195,897,958	84,521,091	(67,134,082)	213,284,967	5,165,000

Long-term debt activity for the year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
	$	$	$	$	$
Line of credit	-	27,100,000	-	27,100,000	-
Note payable	40,483,333	-	(3,733,333)	36,750,000	3,254,167
Development Authority of Richmond County Revenue Bonds, Series 2014A Tax Exempt Bonds	57,185,000	-	(1,975,000)	55,210,000	2,040,000
Development Authority of Richmond County Revenue Bonds, Series 2014B Tax Exempt Bonds	57,185,000	-	(4,015,000)	53,170,000	-
Development Authority of Richmond County Revenue Bonds, CRC Series 2014A Tax Exempt Bonds	24,719,028	-	(1,051,070)	23,667,958	905,000
	179,572,361	27,100,000	(10,774,403)	195,897,958	6,199,167

Series 2008A and 2008B Bonds

On April 1, 2008, the Health System issued a total of $135,000,000 of Development Authority of Richmond County Revenue Bonds, Series 2008A and 2008B ("2008 Bonds"). Proceeds from the 2008 Bonds were to be used to fund certain construction and renovation projects and to purchase new and replacement equipment. The proceeds were also used to refund outstanding capital lease obligations and to pay certain costs associated with the issuance of the 2008 Bonds. Each 2008 Bond series was generally secured through the trust indenture by the gross revenues of the Health System.

Series 2014A and 2014B Bonds

On July 15, 2014, the Health System refunded its 2008A and 2008B Bonds with the 2014A and 2014B Bonds ("2014 Bonds"), which are each a direct bank placement of bonds with JP Morgan and TD Bank in the amount of $60,945,000 for each of the 2014A and 2014B Bonds.

The 2014A Bonds are variable rate bonds that incur interest at a rate of 68% of LIBOR plus 79 basis points and are placed with JP Morgan through July 1, 2024. In October 2017, the rate of interest on the 2014A Bonds increased to a rate of 68% of LIBOR plus 89 basis points as a result of a credit rating downgrade from Standard & Poors. The 2014B Bonds are variable rate bonds that incur interest at a rate of 68% of the sum of LIBOR and 125 basis points and are placed with TD Bank through July 1, 2026. In January 2018, the rate of interest on the 2014B Bonds increased to a rate of 68% of the sum of LIBOR and 125 basis points and multiplied by a factor of 1.2153846 as a result of the reduction in the maximum federal corporate rate. This adjustment in the interest rate is intended to maintain the after-tax return to the bank holding the 2014B Bonds. Upon the termination of the bank placement, the 2014A and 2014B Bonds will become subject to a remarketing agreement in the event that bank placement is not extended. The annual effective interest rate on the 2014 Bonds was 4.808% and 4.186% for fiscal years 2019 and 2018, respectively.

The bond indenture agreements contain certain terms and restrictive covenants typical of such agreements, including maintenance of certain debt service levels, limitations on indebtedness, maintenance of certain days' cash on hand and maintenance of a certain ratio of debt service coverage.

As of June 30, 2019 and 2018, the Health System was in compliance with all financial debt covenants.

Swap

Concurrent with the issuance of the 2008 Bonds, the Health System entered into a variable-to-fixed interest rate swap (the "Swap") to convert the Health System's variable interest rate on the 2008 Bonds into a synthetic fixed rate of 3.302%.

The Swap matures on July 1, 2037. The notional amount of the Swap at June 30, 2019 and 2018, was $106,340,000 and $108,380,000, respectively. The notional amount decreased from the initial notional amount of $135,000,000. The notional value of the Swap declines in conjunction with payments of bond principal such that the outstanding balance of the 2014A and 2014B Bonds approximate the notional amount of the Swap at all times. Under the Swap, the Health System pays the counterparty interest at a fixed rate of 3.302% and receives interest payments at a variable rate computed as 68% of LIBOR.

The fair value of the Swap is recorded as an asset or liability, depending on whether the termination of the Swap would result in amounts due to the Health System or the Swap counterparty. At June 30, 2019 and 2018, the fair value of the Swap represented a liability to the Health System in the amount of $20,085,000 and $14,819,000, respectively. The Health System or the Swap counterparty is required to post collateral with the other party in the event that the fair value of the Swap exceeds certain thresholds, as defined. At June 30, 2019 and 2018, the Health System had $20,213,000 and $14,966,000 posted cash and investment collateral with the Swap counterparty, respectively, which is included in other assets in the accompanying statements of net position.

As of June 30, 2019 and 2018, the Health System was exposed to credit risk in the amount of the fair value of the Swap. The Health System has two Swap counterparties. As of June 30, 2019 and 2018, the Swap counterparties were rated A+ and A by Fitch Ratings, A1 and A2 by Moody's Investors Services and A+ and A by Standard & Poor's. To mitigate the potential for credit risk, various levels of collateralization by the counterparty may be required should the counterparty's credit rating be downgraded and the fair value of the Swap be in a liability position at a level above certain thresholds specified in the Swap agreement.

The Health System or the counterparty may terminate the Swap if the other party fails to perform under the terms of the agreement. If the Swap is terminated, the variable rate bonds would no longer carry a synthetic fixed interest rate. Also, if at the time of termination, the Swap has a negative fair value (unfavorable to the Health System), the Health System would be liable to the counterparty for a payment equal to the Swap's fair value.

Series 2018 Bonds

On October 23, 2018, AU Health System issued a total of $80,945,000 of Development Authority of Richmond County Revenue Bonds, Series 2018, with fixed interest rates ranging between 4% and 5%, with an average interest rate of 4.472%. Proceeds from the bonds were to be used to finance and refinance certain renovation projects and to purchase new and replacement equipment. Refinanced projects were initially financed with AUMC note payable. The note payable was refunded by the Series 2018 Bonds.

The effective interest rate at June 30, 2019 was 4.141%. Principal payments are due annually through December 2040.

Series 2004A Cancer Research Center, LLC ("CRC") Bonds

In 2004, the CRC issued a total of $32,870,000 Development Authority of Richmond County Education Facilities Revenue Bonds (the "2004 CRC Bonds"), Series 2004A and Series 2004B. Proceeds from the 2004 CRC Bonds provided the funds to finance the cost of the construction of a portion of a cancer research center building on the campus of AU. Semi-annual interest payments at interest rates range from 2.5% to 5.0%.

Series 2014A CRC Bonds

On October 30, 2014, CRC issued the Development Authority of Richmond County Revenue Refunding Bonds (the "2014 CRC Bonds"), Series 2014A, in the amount of $24,490,000. Proceeds of the Series 2014 CRC Bonds were used to refund all of the 2004 CRC Bonds, fund a debt service reserve fund for the Series 2014 CRC Bonds, and pay the cost of issuing the Series 2014 CRC Bonds. Semi-annual interest payments at interest rates range from 3.0% to 5.0%.

The effective interest rate at June 30, 2019 and 2018 was 4.2%. Principal payments are due annually through December 2034.

The 2014 CRC Bonds indenture agreements contain certain terms and restrictive covenants typical of such agreements, including maintenance of certain debt service levels, limitations on indebtedness and maintenance of a certain ratio of debt service coverage.

As of June 30, 2019, the CRC was in compliance with all financial debt covenants.

The CRC loan is secured by certain personal property constituting a portion of the building, recorded as net investment in direct financing lease in the statements of net position.

The following is a summary of the debt service requirements of the Health System including variable rate debt and net payments on the related swap, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net Swap payments will vary.

As of June 30, 2019, debt service requirements of the debts were as follows:

	2014A, 2014B, and 2018 Revenue Bonds			2014 CRC Bonds		
	Principal	Interest*	Interest Rate Swaps, Net*	Principal	Interest*	Total
Fiscal year ending June 30:	$	$	$	$	$	$
2020	4,220,000	6,728,641	1,657,418	945,000	874,669	14,425,728
2021	4,360,000	6,580,945	1,588,283	970,000	841,094	14,340,322
2022	4,510,000	6,442,697	1,509,170	1,010,000	796,444	14,268,311
2023	4,660,000	6,295,216	1,430,015	1,060,000	744,694	14,189,925
2024	5,460,000	6,130,190	1,346,100	1,115,000	690,319	14,741,609
2025-2029	38,540,000	26,771,936	5,415,086	6,415,000	2,591,394	79,733,416
2030-2034	50,595,000	18,171,784	2,912,563	7,805,000	1,149,897	80,634,244
2035-2039	63,940,000	7,685,859	397,098	1,755,000	30,712	73,808,669
2040	11,000,000	220,000	-	-	-	11,220,000
	187,285,000	85,027,268	16,255,733	21,075,000	7,719,223	317,362,224

*Amounts included are based on rates in effect as of June 30, 2019.

The following is a summary of interest cost on borrowed funds held by the trustee under the Series 2014A and 2014B Revenue Bonds, Series 2018 Bonds, and Series 2014 CRC Bonds during the years ended June 30:

	2019	2018
	$	$
Interest cost:		
Capitalized, net of investment income	664,567	-
Charged to operations	7,289,241	5,715,364
	7,953,808	5,715,364

Note Payable

On June 27, 2012, the Health System entered into a note in the amount of $50,000,000. Funds from the note were to be used to fund certain construction and renovation projects and to purchase new and replacement equipment.

On June 30, 2015, the Health System entered into a modification of the terms of the note. The note was modified to a variable interest rate note and was extended until July 1, 2018. On June 30, 2018, the Health System entered into a modification of the terms of the note to extend the note through July 1, 2019. Due to the modifications, the note incurred interest at a rate of LIBOR plus 0.65% effective July 1, 2015 and incurred interest at a rate of LIBOR plus 0.75% effective July 1, 2018. Interest on the note was due monthly.

Interest rates were reset monthly. The annual effective interest rate on the note was 2.88% and 2.1371% for fiscal years 2019 and 2018, respectively. The note was refunded and terminated early as a result of the issuance of the Series 2018 Bonds on October 23, 2018.

Line of Credit

On October 18, 2017, the Health System entered into a line of credit in the amount of $35,000,000. Funds from the line of credit were to be used to fund working capital and other general corporate purposes. The line of credit was a variable interest rate note and incurred interest at a rate equal to the higher of the Prime Rate or LIBOR plus 2.50% per annum. Interest rates were reset monthly. The annual effective interest rate on the note was 3.42% and 2.10% for fiscal years 2019 and 2018, respectively. As of June 30, 2018, there was a balance of $27,100,000 on the line of credit. The line of credit was repaid early as a result of the issuance of the Series 2018 Bonds and, as of June 30, 2019, this line is no longer available.

The following is a summary of interest cost on borrowed funds in notes payable during the years ended June 30:

	2019	2018
	$	$
Interest cost:		
Charged to operations	572,254	1,198,359
	572,254	1,198,359

9 Postemployment Benefits Other than Pension Benefits

Plan Description and Funding Policy

The AU Medical Associates Retiree Plan ("Plan") is a single-employer, defined-benefit healthcare plan administered by AUMA. On March 19, 2018, the AUMA Board approved significant changes to the Plan provisions. The impact of these changes are reflected in the calculation of the Plan liabilities as of the April 1, 2018 measurement date. There have been no changes to the Plan provisions since the prior year's valuation. The following description of the Plan reflects the 2018 changes in Plan provisions and provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

Non-faculty Participants

Employees must attain age 60 with 10 years of service at retirement. No retiree contributions are required for non-faculty employees who attain age 60 with 20 years of service. Spouses of eligible retirees are covered during the retiree's lifetime. All benefits cease upon the death of the retiree. Only those employees who are designated as "Grandfathered Employees" are eligible for benefits. Grandfathered Employees are those employees who will attain retirement eligibility by the end of 2020 or have 25 or more years of service as of the designation date.

Faculty Participants

Employees must meet the AU's retirement eligibility of either the attainment of age 60 with 10 years of service with AU or the attainment of 25 years of service with AU. Only member-level employees are eligible for benefits. Spouses of eligible retirees are covered during the retiree's lifetime. Beneficiaries, VA members, and members who were covered under the Medical College of Georgia Early Retirement Program ("ERP") are excluded from participation.

Plan Provisions

Non-Faculty Participants

Pre-65 Medical Benefits: Eligible retirees and their spouses are allowed to continue coverage under the group health insurance plan up to age 65. Retirees and their spouses must contribute 25% of the group premium rate if the retiree is eligible for benefits but has less than 20 years of service.

Post-65 Medical Benefits: Coverage under the group health insurance plan ends at age 65. After age 65, eligible retirees and their spouses are allowed to each receive a major medical reimbursement of up to $500 per plan year.

Faculty Participants

Pre-65 Medical Benefits: Eligible retirees and their spouses are allowed to each receive a reimbursement of up to $1,000 per plan year to cover major medical and health plan premiums. All medical benefits (including premium reimbursements) end upon attainment of age 65.

Membership of the Plan consisted of the following at June 30, 2019 and 2018:

	At June 30, 2019	At June 30, 2018 (After Amendment)
Non-faculty participants:		
Actives (covered)	34	32
Retirees (covered)	30	30
Faculty participants:		
Actives (covered)	360	371
Retirees (covered)	58	57

The benefits of the Plan are funded on a pay-as-you-go basis. The Health System funds on a cash basis as benefits are paid. No assets have been segregated and restricted to provide for post-employment benefits.

Retiree contributions are assumed to increase at the healthcare cost trend rate. Non-faculty retirees and their spouses contribute 25% of the group premium rate below if the retiree is eligible for benefits but has less than 20 years of service. There are no other retiree contributions. For the years ended June 30, 2019 and 2018, the Health System contributed approximately $449,000 and $956,000, respectively, to the Plan for current premiums or claims. For the years ended June 30, 2019 and 2018, Plan members receiving benefits contributed approximately $9,000 and $29,000, respectively, for current premiums or claims.

	Retiree	Spouse
	$	$
Pre-65 non-faculty annual premium at June 30, 2018	7,149	8,936
Post-65 non-faculty annual premium at June 30, 2018	N/A	N/A

Tuition Benefits: Eligible retirees are allowed to continue coverage under the college tuition benefit, which reimburses eligible dependents for up to four years in an undergraduate program and up to four years in a graduate program. Tuition reimbursements are subject to limitations based on the average program costs supplied by the university.

Medical and fringe benefits claims cost with trend rate for future increases:

	Annual Cost	Trend Rate
	$	
Non-faculty participants:		
Pre-65 medical claims - Per retiree/spouse	13,788	7.4% graded*
Post-65 medical claims - Per retiree/spouse	500	No increase
Faculty participants:		
Pre-65 medical reimbursement - Per retiree/spouse	1,000	No increase
Post-65 total reimbursement - Per retiree/spouse	N/A	N/A
Tuition benefit - Per retiree (up to age 73)	2,172	7.0%

* 7.4% graded uniformly to 5.0% over a 8-year period

Annual OPEB Cost and Net OPEB Obligation

The annual OPEB cost (expense) ("AOC") for the Plan is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB No. 75 in 2018 and GASB No. 45 in 2017. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the changes of the Health System's OPEB cost, the amount actually contributed and changes in the net OPEB obligation ("NOO") for the Plan for the years ended June 30, 2019 and 2018:

	2019	2018
	$	$
Balance at June 30, 2017 (calculated pursuant to GASB No. 45)	-	5,274,929
Annual required contribution (calculated pursuant to GASB No. 45)	-	6,780,889
Interest on net OPEB obligation (NOO) (calculated pursuant to GASB No. 45)	-	237,372
Annual contribution toward OPEB cost	-	(761,398)
Balance at June 30, 2017 (calculated pursuant to GASB No. 45)	-	11,531,792
Adoption of GASB No. 75	-	33,170,759
Beginning Balance July 1	6,165,679	44,702,551
Service cost	526,822	5,413,604
Interest	208,919	1,543,743
Benefit changes	-	(44,538,003)
Experience losses	714,316	-
Changes of assumptions	(408,257)	-
Contributions - employer	(448,856)	(956,216)
Net changes	592,944	(38,536,872)
Ending Balance June 30	6,758,623	6,165,679

For the years ended June 30, 2019 and 2018, the Health System recorded a related expense (income), as shown below:

	2019	2018
	$	$
Service cost	526,822	5,413,604
Interest	208,919	1,543,743
Benefit changes	-	(44,538,003)
Experience losses	79,368	-
Changes of assumptions	(45,362)	-
OPEB expense (income)	769,747	(37,580,656)

The following represents the net OPEB liability as of June 30, 2019 using the stated healthcare trend assumption, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage-point lower or one percentage-point higher than the assumed trend rate:

	1% Decrease 6.4% Decreasing to 4% Over 8 Years	Current 7.4% Decreasing to 5% Over 8 Years	1% Increase 8.4% Decreasing to 6% Over 8 Years
Net OPEB Liability	$ 6,125,855	$ 6,758,623	$ 7,517,441

The following represents the net OPEB liability at June 30, 2019 using the stated discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease 2.23%	Current Rate 3.23%	1% Increase 4.23%
Net OPEB Liability	**$ 7,332,957**	**$ 6,758,623**	**$ 6,241,062**

Actuarial assumptions of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The multi-year trend schedules indicate whether the actuarial values of Plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. No assets have been segregated for the payment of Plan benefits, accordingly, no multi-year trend schedules have been presented.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Summary of Actual Assumptions

Valuation Date – July 1, 2018 with a measurement date of April 1, 2019 and reporting date of June 30, 2019

- The results comply with assumptions, methods and procedures under Statement 75.
- Actuarial valuation method – Entry Age Normal Actuarial Cost Method. A method under which the actuarial value of the projected benefits of each individual included in the actuarial valuation is allocated in a level basis over the earnings of the individual between entry age and assumed exit age(s).

Asset Valuation Method – Not Applicable

- Mortality rates – RP-2014 mortality tables, adjusted to 2006, with generational mortality improvement projected after year 2006 using Scale MP-2016.

Disability Rates – None Assumed

Withdrawal Rates:

Age	Less than One Year of Service	1 to 3 Years of Service	4 to 8 Years of Service	9+ Years of Service
	%	%	%	%
25	10.87	8.57	6.48	4.37
30	9.31	6.79	4.19	2.42
35	8.39	5.51	3.57	2.51
40	7.95	5.17	3.01	2.07
45	7.74	4.73	2.91	1.87
50	7.80	4.45	2.66	1.75
55	6.76	3.91	1.29	0.44
60	6.81	3.92	1.06	0.10
65	-	-	-	-

Retirement Rates:

Age	Non-faculty	Faculty
	%	%
55-59	-	5
60	35	20
61-64	35	15
65	50	25
66-69	50	25
70-74	100	50
75	100	100

- Discount rate – 3.23% per annum for 2019 and 3.1% for 2018
- Salary increases – 2.00% per annum
- Expected long-term rate of return on plan assets – Not applicable
- Age variance – Medical claims were adjusted downward 3.0% each year for aging for attained ages 55 to 65.

10 Capital Leases

On June 27, 2013, the Health System entered into capital lease obligations as part of the Managed Services Alliance Agreement ("MSA") with a global healthcare technology company (the Imaging Alliance Partner) to innovate the delivery of healthcare in a new business model. Under the MSA agreement, the Imaging Alliance Partner provides the Health System diagnostic imaging equipment, patient monitoring technology, maintenance services, education, performance improvement consulting and other services. The Health System and the Imaging Alliance Partner are jointly incentivized in the MSA for clinical and operational outcomes. The MSA was effective July 1, 2013, and has a term of 15 years. Equipment and technology financed through the MSA are recorded as capital lease obligations. The interest rate in the MSA is 6%.

In connection with the MSA, the Health System agreed to sell and leaseback certain equipment, which is accounted for as a capital lease, from the Imaging Alliance Partner. The net carrying value of the equipment sold was approximately $20,920,000 on the date of sale. Since the net carrying value of the equipment sold was equal to their sales price, there was no gain or loss recognized on the sale.

The assets under capital lease are included in capital assets with a cost of $64,025,000 and $60,958,000, and accumulated amortization of $40,470,000 and $33,833,000 at June 30, 2019 and 2018, respectively. Amortization of assets under capital lease is included in depreciation and amortization expense.

On September 1, 2014, the Health System entered into a capital lease obligation to purchase a unified communication system. As of June 30, 2019 and 2018, the balance of this obligation under capital lease was $546,000 and $1,062,000, respectively. The assets under capital lease are included in capital assets with a cost of $2,439,000, and accumulated amortization of $2,358,000 and $1,382,000 at June 30, 2019 and 2018, respectively. Amortization of assets under capital lease is included in depreciation and amortization expense.

On August 2, 2016, the Health System entered into an agreement (the "MSA") with a global healthcare diagnostics company (the Diagnostic Alliance Partner) to innovate the delivery of healthcare diagnostics in a new business model. Under the MSA agreement, the Diagnostic Alliance Partner provides Health System with diagnostic laboratory equipment, technology access management services, clinical education, management consulting and innovation. The Health System and the Diagnostic Alliance Partner are jointly incentivized in the MSA for clinical and operational outcomes related to the agreement. The MSA was effective August 2, 2016 and has a term of 15 years. Equipment and technology financed through the MSA are recorded as capital lease obligations. The interest rate in the MSA is 5%.

The assets under capital lease are included in capital assets with a cost of $8,381,000 and $2,608,000, and accumulated amortization of $1,205,000 and $302,000 at June 30, 2019 and 2018, respectively. Amortization of assets under capital lease is included in depreciation and amortization expense.

On December 5, 2018, the Health System entered into a capital lease obligation to purchase a robotic surgical system. As of June 30, 2019, the balance of this obligation under capital lease was $2,175,000. The assets under capital lease are included in capital assets with a cost of $2,435,000, and accumulated amortization of $284,000 at June 30, 2019. Amortization of assets under capital lease is included in depreciation and amortization expense.

Capital lease activity for the years ended June 30, 2019 and 2018, was as follows:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
	$	$	$	$	$
Capital lease obligations	23,246,342	11,672,982	(9,218,872)	25,700,452	6,327,586

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
	$	$	$	$	$
Capital lease obligations	29,981,158	2,646,327	(9,381,143)	23,246,342	5,469,281

Minimum future lease payments under capital leases as of June 30, 2019, follow:

	Amount
Years ending June 30:	$
2020	7,706,337
2021	6,318,843
2022	5,454,288
2023	4,183,286
2024	2,824,875
2025-2029	3,206,555
Total minimum payments	29,694,184
Less amount representing interest	(3,993,732)
Present value of net minimum lease payments	25,700,452
Less - Current maturities of capital lease obligation	(6,327,586)
Long-term capital lease obligation	19,372,866

11 Operating Leases

The Health System also leases various equipment and real property under noncancelable operating leases that expire in various years through 2029. Future minimum rental payments required under such leases having an initial or remaining term of more than one year at June 30, 2019, are as follows:

	Amount
	$
2020	2,163,342
2021	2,172,187
2022	1,896,898
2023	1,529,231
2024	1,406,103
2025--2029	2,216,219
Total minimum payments	11,383,980

Rental expense for the years ended June 30, 2019 and 2018, was approximately $3,142,000 and $3,426,000, respectively.

12 Employee Retirement Plans

The Health System sponsors two defined contribution retirement plans covering substantially all employees of the Health System except as needed employees, temporary employees and leased staff from AU (Note 13). One retirement plan is a 403(b) retirement plan that allows employee contributions up to 20% of annual compensation, subject to a maximum dollar limitation. The other retirement plan is a 401(a) retirement plan that allows employer contributions. The Health System matches 100% of participant contributions into the 403(b) plan up to 5% of compensation as defined by the plan. This match is contributed into the 401(a) plan. Employees vest immediately in company contributions. The Health System recorded approximately $10,051,000 and $9,837,000 of expense related to these plans during the years ended June 30, 2019 and 2018, respectively.

Separately, AUMA has a defined contribution plan covering all employees who have reached 19 years of age and completed one year of eligible service. AUMA provides annual contributions to the Plan equal to 10% of the participants' compensation. Contributions were approximately $1,436,000 and $2,132,000 for the years ended June 30, 2019 and 2018. The decrease from 2018 to 2019 is related to AUMA employees transitioning to the Health System's employer platform.

13 Related Parties

Related parties for the fiscal years ended June 30, 2019 and 2018, consist of the following:

State Allocation

In connection with the Affiliation Agreement, Regents has agreed to allocate to the Health System certain state appropriations monies received by Regents from the State of Georgia. Such funds reimburse the Health System for providing assistance to AU in medical education and training and for medical services rendered by the Health System to indigent and near indigent patients, all of which is contemplated in the Affiliation Agreement. These amounts are reported as revenue from contractual services in the accompanying statements of revenues, expenses and changes in net position.

In connection with the Affiliation Agreement, the Health System has entered into several other operating agreements with related parties. Following is a summary of the most significant transactions under these agreements:

Master Lease Agreement

The Health System leases certain patient care facilities, office space and employees from the Board of Regents of the University System of Georgia (Regents) under a Master Lease Agreement.

Service Fee

Effective July 1, 2016, the Master Lease Agreement was amended and restated for a 40-year term, which could be extended for two additional 10-year terms. Under the amended and restated Master Lease Agreement, the Health System is required to pay an annual performance-based service fee to support the delivery of services described in the Master Affiliation Agreement and provide the many resources needed to continue operation.

The service fee is based on the percentage of AUMC's net income to operating revenue (as defined) as follows:

Net Income / Operating Revenue Percentage	Service Fee
Less than 2.5%	25.0% of Net Income
2.5% - 4.99%	22.5% of Net Income
5.0% - 7.49%	20.0% of Net Income
7.5% or greater	17.5% of Net Income

The following is a summary of the service fee for the years ended June 30, 2019 and 2018:

	2019	2018
	$	$
Performance-based service fee	733,894	6,638,215

Clinical, Educational and Research Services Agreement

The Health System entered into a clinical, educational and research services agreement with Regents, whereby the Health System received certain clinical, educational and research services associated with the AU Schools of Allied Health Sciences, Dentistry, Medicine, Nursing and Graduate Studies at their estimated cost. Net payments by the Health System for these services for the year ended June 30, 2018, was approximately $20,417,000 and are included in purchased services in the accompanying statements of revenues, expenses and changes in net position. The Clinical, Education and Research Services Agreement was terminated on December 31, 2017.

Research, Education, and Professional Services Agreement

Effective January 1, 2018, the Clinical, Education, and Research Services Agreement was replaced with the Research, Educational, and Professional Services Agreement. The Research, Educational, and Professional Services Agreement sets out the terms by which AU and the Health System provide clinical, educational and research services and the funding of graduate medical education programs for residents and fellows. Net payments by the Health System to AU for these services for the years ended June 30, 2019 and 2018, were approximately $26,940,000 and $9,033,000, respectively. These expenses are reflected in purchased services on the statements of revenues, expenses and changes in net position.

The Research, Education, and Professional Services Agreement includes the costs of AU-employed Advanced Practice Providers' compensation, benefits, and related expenses. Payment by the Health System to AU for these services for the year ended June 30, 2019 was $15,176,000. These expenses are reflected in salaries and wages and employee benefits and payroll taxes on the statements of revenues, expenses and changes in net position. For the year ended June 30, 2018, these costs were split between AUMC and AUMA and covered under the Clinical, Education and Research Services Agreement and the Clinical and Administrative Professional Services Agreement, respectively. These expenses were reflected in purchased services for AUMC and in salaries and wages and employee benefits and payroll taxes for AUMA on the statements of revenues, expenses and changes in net position.

The terms of the Research, Education, and Professional Services Agreement are renewed on an annual basis through the term of the Master Lease Agreement.

Operations and Services Agreement

The Research, Educational, and Professional Services Agreement incorporates an amended Operations and Services Agreement. The Operations and Services Agreement governs shared administrative and support services among AU and the Health System in order to achieve efficiencies, economies of scale and other benefits. These services are provided at their estimated cost (which have historically been provided to each other). The terms of the Operations and Services Agreement are renewed on an annual basis through the term of the Master Lease Agreement.

Payments to AU by the Health System for these services for the years ended June 30, 2019 and 2018, were approximately $15,080,000 and $8,963,000, respectively. These payments are included in purchased services in the accompanying statements of revenues, expenses and changes in net position. Payments to the Health System by AU for these services for the years ended June 30, 2019 and 2018, were approximately $50,000 and $225,000, respectively. These expenses are included in purchased services on the statements of revenues, expenses and changes in net position.

The cost of the "shared service" level function services are allocated to each entity through the operations and services agreement. Payments to the Health System by AU for these services for the years ended June 30, 2019 and 2018, were approximately $3,046,000 and $10,347,000, respectively. These payments offset Health System expenses in salaries and wages, employee benefits and payroll taxes, and non-medical supplies and other expenses on the statements of revenues, expenses and changes in net position.

Regents and the Health System agree that the use of consistent nomenclature promotes a positive external image. As part of the annual renewal of the Operations and Services Agreement effective July 1, 2016, in exchange for an annual lump-sum payment, the Regents granted the Health System the nonexclusive, nontransferable right to use the AU nomenclature and the right to grant sublicenses to the Health System's subsidiaries and affiliates. Amounts paid to AU by the Health System for use of nomenclature for the years ended June 30, 2019 and 2018 were $3,500,000. These expenses are included in purchased services on the statements of revenues, expenses and changes in net position.

Under the 2017 renewal of the Operations and Services Agreement effective July 1, 2016, a new support structure was introduced obligating the Health System to pay an annual lump sum to Georgia Health Science Foundation ("GHSF") for foundation and advancement services performed on the Health System's behalf. Amounts paid to GHSF by the Health System for these services for both of the years ended June 30, 2019 and 2018 were $500,000. These expenses are included in purchased services on the statements of revenues, expenses and changes in net position.

Personnel Agreement

The Health System has entered into a personnel agreement whereby the Health System leases certain AU employees from Regents (the Personnel Agreement). The employees must have accrued at least 10 years of service at the effective date of the transfer and related agreements and choose not to become employees of the Health System. Leased employees remain employees of Regents. The Health System has the right to direct and control the leased employees in the performance of their duties and has the right to cancel or reject the assignment of any leased employee, provided that such is not otherwise prohibited by law. Included in salaries and wages and in employee benefits and payroll taxes, are approximately $3,135,000 and $1,877,000, respectively, for the year ended June 30, 2019, for costs paid to AU for the leased employees. Included in salaries and wages and in employee benefits and payroll taxes, are approximately $4,465,000 and $1,543,000, respectively, for the year ended June 30, 2018, for costs paid to AU for the leased employees.

On August 11, 1999, Regents established an early retirement program incentive for eligible AU employees. Beginning in fiscal 2002, the Health System agreed to pay AU a proportionate share of the annual funding and administrative cost expense related to the early retirement program. Actual payments to AU are determined annually and are expected to approximate $6,800,000 per year through 2025. Nevertheless, the Health System does not have a long-term obligation under this arrangement and such funding is subject to the Health System's discretionary annual approval.

Clinical and Administrative Professional Services Agreement

The Health System and AU have entered into a formal Clinical and Administrative Professional Services Agreement to provide for the management of the flow of funds among the parties for professional medical services and medical administrative services and allocates responsibility to the Health System for billing and collections, management and payment of the expenses of clinical sites, and payment of certain Health System administrative and overhead costs. In prior years, the amounts were approved each year by the Dean of the Medical College of Georgia and AU with no formal written agreement.

As a cooperative organization of AU, a portion of the Health System's net revenues were used to supplement AU's faculty and staff salaries by approximately $104,579,000 and $94,591,000 for the years ended June 30, 2019 and 2018, respectively. This amount is included in salaries and wages and employee benefits and payroll taxes in the accompanying statements of revenues, expenses and changes in net assets.

Net Investment in Direct Financing Lease

Beginning in January 2006, MCG-PPG Cancer Research Center, LLC (CRC) entered into a lease with AU for a portion of a building that houses a cancer research center. The lease term is one year with 29 consecutive annual renewals, at the option of AU. The lease qualifies as, and has been recorded as, a direct financing lease by CRC. In connection with the issuance of Series 2014 CRC Bonds on October 30, 2014, CRC amended the lease to align the rental payments with the Series 2014 CRC Bonds and adjust payments in amount and schedule (from monthly to semi-annually).

The effective interest rate on the lease is 2.93% as of June 30, 2019 and 2018.

The components of the net investment in direct financing lease are as follows:

June 30	2019	2018
	$	$
Lease payments due	27,983,678	29,856,370
Unearned income	(5,464,154)	(6,150,118)
Net investment	22,519,524	23,706,252
Current portion	(1,226,662)	(1,186,728)
Long-term portion	21,292,862	22,519,524

Future minimum rentals to be received under this lease, including renewed terms at June 30, 2019 are as follows:

Year ending June 30	Amount
	$
2020	1,877,564
2021	1,870,708
2022	1,867,054
2023	1,866,190
2024	1,867,702
Thereafter	18,634,460
Total	27,983,678

CRC receives various amounts each month for materials replacement and repair for the facility that is leased to AU. These amounts are recorded as rental income. Total amounts received were $78,000 and $80,000 for 2019 and 2018, respectively.

Georgia Health Sciences Foundation, Inc.

The Georgia Health Sciences Foundation, Inc. ("GHSF") was established to serve the needs and interests of AU and to manage, invest and steward charitable gifts to AU. GHSF is a component unit of AU and is not included in the financial statements of the Health System. GHSF serves the needs of AU and the Health System. At June 30, 2019 and 2018, GHSF held net assets of approximately $4,808,000 and $3,625,000, respectively, which use by the Health System is limited by the intent of donors. At June 30, 2019, approximately $140,000 of GHSF's net assets has been restricted by donors to be maintained in perpetuity. At June 30, 2018, approximately $56,000 of GHSF's net assets has been restricted by donors to be maintained in perpetuity. As of June 30, 2019 and 2018, other receivables include $124,000 and $139,000 due from GHSF, respectively.

Medical College of Georgia Foundation, Inc.

The Medical College of Georgia Foundation, Inc. (the "Foundation"as established to raise funds to support the mission of AU and the Health System. The Foundation is a component unit of AU and is not included in the financial statements of the Health System. At June 30, 2019 and 2018, the Foundation held net assets of approximately $2,588,000 and $2,576,000, respectively, which use by the Health System is limited by the intent of the donors. At June 30, 2019 and 2018, approximately $1,467,000 and $1,466,000, respectively, of the Foundation's net assets have been restricted by donors to be maintained in perpetuity.

14 Commitments and Contingencies

The Health System is involved in various claims and lawsuits arising out of the conduct of its business. The ultimate outcome of these matters is uncertain at this time; however, management does not believe that the ultimate liabilities, if any, resulting from the claims will have a material adverse effect on the Health System's statements of net position, statements of revenue, expenses and changes in net position or statements of cash flows.

The Health System is exposed to various risks of loss related to torts. Examples are: theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illness, natural disasters, medical malpractice and employee health, dental and accident benefits. The Health System is self-insured for employee health coverage, up to a certain limit per individual claim. The Health System is self-insured for workers compensation coverage, up to a certain limit per individual claim. The Health System has additional coverage with third parties over those limits with deductibles and coverage limits based upon experience and market conditions. Commercial insurance coverage is purchased for all other significant exposures, except for professional liability discussed below. Claims settled through June 30, 2019, have not exceeded this commercial coverage in any of the five preceding years.

AUMC is self-insured for professional liability risks up to certain limits per occurrence and in the aggregate. RWSH has commercial professional liability coverage. AUMA has a laddered structure with both commercial and shared self-insurance coverage with AUMC. The self-insurance for both AUMC and AUMA was fully funded and in July 2004, the Health System formed a wholly-owned captive insurance company and transferred the self-insured professional liability to the captive. Accrued professional liability cost and reserves are determined actuarially, based on claims filed and an estimate of claims incurred, but not yet reported.

The Health System's liability insurance coverages outside of self-insurance layers are provided under claims-made policies. Should the claims-made policies not be renewed or replaced with equivalent insurance, claims based on occurrences during their term, but reported subsequently, would be uninsured. Management anticipates that such coverages will be renewed or replaced with equivalent insurance as they expire in the normal course of business.

Changes in self-insured liabilities for the years ended June 30, 2019 and 2018:

	Professional Liability Costs	Compensation Claims	Accrued Employee Health Care Claims	Total
	$	$	$	$
Balance at June 30, 2017	14,067,989	839,107	1,440,000	16,347,096
Claims incurred and changes in estimates	8,086,058	830,382	15,741,307	24,657,747
Claims payments	(5,126,837)	(843,272)	(15,433,307)	(21,403,416)
Balance at June 30, 2018	17,027,210	826,217	1,748,000	19,601,427
Claims incurred and changes in estimates	6,968,480	1,059,701	17,675,293	25,703,474
Claims payments	(4,863,313)	(1,043,649)	(17,619,293)	(23,526,255)
Balance at June 30, 2019	19,132,377	842,269	1,804,000	21,778,646

To consolidate and ease the process of licensing and servicing its multiple software systems, the Health System signed a licensing, remote hosting, and outsourced service agreement with a global supplier of health information technology solutions and services in fiscal year 2015. In fiscal year 2019, the Health System amended the contract, eliminating the outsourced services and transitioning to a traditional software licensing and remote hosting agreement. The amendment resulted in a contract termination fee to the Health System of $2,700,000 recorded in IT and telecommunications expense on the statements of revenues, expenses, and changes in net position. The Health System also recorded an impairment of an asset, a technology implementation project, from capital-in-process in the amount of $8,879,000. Under the amended and restated agreement, the aggregate amount of required payments at June 30, 2019 (given no early termination), are as follows:

	Amount
Fiscal year ending June 30:	**$**
2020	16,139,076
2021	16,360,176
2022	11,045,760
2023	10,125,588
2024	10,359,876
Thereafter	44,213,922
	108,244,398

15 Subsequent Events

On July 1, 2019, a new Chief Executive Officer was named for Augusta University Health System, and was in place on July 15, 2019.

The Health System evaluated its June 30, 2019 financial statements for subsequent events through August 30, 2019, the date the financial statements were available to be issued. The Health System is not aware of any additional subsequent events which would require recognition or disclosure in the financial statements.

Schedule I – Combining statement of net position

As of June 30, 2019	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Nonobligated Group	Eliminations	Total	Total AU Health System
	$	$	$	$	$	$	$	$	$	$
Assets										
Current assets:										
Cash and cash equivalents	60,700,612	9,109,822	1,093,891	2,760,482	-	73,664,807	7,447,426	-	7,447,426	81,112,233
Short-term investments	33,531,843	-	-	6,335,289	-	39,867,132	-	-	-	39,867,132
Cash equivalents internally designated for self-insurance liability funding	-	-	-	-	-	-	1,339,373	-	1,339,373	1,339,373
Short-term investments internally designated for self-insurance liability funding	-	-	-	-	-	-	2,898,374	-	2,898,374	2,898,374
Cash held by trustee under indenture agreement	-	-	-	-	-	-	1,121,058	-	1,121,058	1,121,058
Investments held by trustee under indenture agreement, current portion	-	14,251,828	-	-	-	14,251,828	921,018	-	921,018	15,172,846
Patient accounts receivable, net of allowance for doubtful accounts	122,323,925	6,298,714	4,816,514	-	(284,768)	133,154,385	772,537	-	772,537	133,926,922
Due from third-party payors	10,441,445	3,696,660	-	-	-	14,138,105	-	-	-	14,138,105
Other receivables	13,109,350	4,294,346	10,063	120,733	(422,454)	17,112,038	(385,064)	389,069	4,005	17,116,043
Inventory	20,554,794	-	92,005	-	-	20,646,799	-	-	-	20,646,799
Net investment in direct financing lease	-	-	-	-	-	-	1,226,662	-	1,226,662	1,226,662
Other current assets	17,802,905	2,397,524	52,058	-	(706,589)	19,545,898	10,817	-	10,817	19,556,715
Total current assets	278,464,874	40,048,894	6,064,531	9,216,504	(1,413,811)	332,380,992	15,352,201	389,069	15,741,270	348,122,262
Noncurrent assets:										
Investments internally designated for self-insurance liability funding	-					-	12,060,433	-	12,060,433	12,060,433
Long-term investments	86,364,470	-	-	14,493,031	-	100,857,501	-	-	-	100,857,501
Investments held by trustee under indenture agreement	-	3,895,086	-	-	-	3,895,086	-	-	-	3,895,086
Capital assets, net	243,753,766	2,439,334	115,537	-	-	246,308,637	5,238,716	-	5,238,716	251,547,353
Net investment in direct financing lease, less current portion	-	-	-	-	-	-	21,292,862	-	21,292,862	21,292,862
Notes receivable-related parties	-	66,714,936	-	-	(66,714,936)	-	-	-	-	-
Intercompany receivables (payables)	(13,898,028)	(10,136,755)	(9,329,336)	33,321,320	13,581,905	13,539,106	(238,575)	(13,300,531)	(13,539,106)	-
Other assets	27,338,759	121,291	-	9,950,633	(11,781,639)	25,629,044	-	-	-	25,629,044
Total assets	622,023,841	103,082,786	(3,149,268)	66,981,488	(66,328,481)	722,610,366	53,705,637	(12,911,462)	40,794,175	763,404,541

Schedule I – Combining statement of net position (cont'd)

As of June 30, 2019	Obligated Group						Nonobligated Group			
	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Nonobligated Group	Eliminations	Total	Total AU Health System
	$	$	$	$	$	$	$	$	$	$
Liabilities and net position										
Current liabilities:										
Accounts payable	58,025,846	3,734,846	985,148	369,323	386,455	63,501,618	579,944	(423,234)	156,710	63,658,328
Accrued salaries and wages	4,348,656	1,316,661	111,605	3,547,268	-	9,324,190	1,734	-	1,734	9,325,924
Accrued compensated absences	15,812,595	3,384,889	572,383	736,701	-	20,506,568	15,243	-	15,243	20,521,811
Accrued expenses and other current liabilities	4,522,426	6,530,840	392	288,916	-	11,342,574	228,300	-	228,300	11,570,874
Due to related party - service fee	733,894	-	-	-	-	733,894	-	-	-	733,894
Due to related parties	7,958,294	26,864,188	18,917	31,779,971	-	66,621,370	15,463	-	15,463	66,636,833
Due to third-party payors	1,986,080	1,389,008	1,295,704	74,266	-	4,745,058	-	-	-	4,745,058
Current portion of accrued professional liability costs	-	1,129,319	-	-	-	1,129,319	3,653,775	-	3,653,775	4,783,094
Current portion of obligations under capital lease	6,310,639	-	16,947	-	-	6,327,586	-	-	-	6,327,586
Current portion of long-term debt	4,220,000	-	-	-	-	4,220,000	945,000	-	945,000	5,165,000
Total current liabilities	103,918,430	44,349,751	3,001,096	36,796,445	386,455	188,452,177	5,439,459	(423,234)	5,016,225	193,468,402
Noncurrent liabilities:							-	-		
Long-term debt, net of current	102,120,000	84,360,271	-	-	-	186,480,271	21,639,695	-	21,639,695	208,119,966
Obligations under capital lease, net of current	19,364,004	-	8,862	-	-	19,372,866	-	-	-	19,372,866
Long-term debt, intercompany	66,714,936	-	-	-	(66,714,936)	-	-	-	-	-
Accrued postemployment benefits	-	6,758,623	-	-	-	6,758,623	-	-	-	6,758,623
Accrued professional liability costs, net of current	-	3,387,958	-	-	-	3,387,958	10,961,325	-	10,961,325	14,349,283
Interest rate swap liability	20,085,401	-	-	-	-	20,085,401	-	-	-	20,085,401
Other liabilities	3,071,480	84,601	-	-	-	3,156,081	-	-	-	3,156,081
Total liabilities	315,274,251	138,941,204	3,009,958	36,796,445	(66,328,481)	427,693,377	38,040,479	(423,234)	37,617,245	465,310,622
Net position:										
Invested in capital assets, net of related debt	45,499,956	2,439,334	115,536	-	-	48,054,826	5,238,716	-	5,238,716	53,293,542
Unrestricted	261,249,634	(38,297,752)	(6,274,762)	30,185,043	-	246,862,163	10,426,442	(12,488,228)	(2,061,786)	244,800,377
Total net position	306,749,590	(35,858,418)	(6,159,226)	30,185,043	-	294,916,989	15,665,158	(12,488,228)	3,176,930	298,093,919

Schedule II – Combining statement of revenues, expenses and changes in net position

	Obligated Group						Nonobligated Group			
For the year ended June 30, 2019	**AUMC**	**AUHS**	**RWSH**	**AUMA**	**Eliminations**	**Total**	**Nonobligated Group**	**Eliminations**	**Total**	**Total AU Health System**
	$	$	$	$	$	$	$	$	$	$
Operating revenues:										
Net patient service revenue	658,495,913	119,448,179	15,288,642	(74,266)	(337,835)	792,820,633	2,741,703	(1,128,030)	1,613,673	794,434,306
Revenue from contractual services	31,992,211	-	-	-	-	31,992,211	-	-	-	31,992,211
Other operating revenue	67,860,149	106,051,985	94,141	91,897,704	(187,416,503)	78,487,476	5,601,577	(5,523,637)	77,940	78,565,416
Intercompany revenue (expense)	-	-	-	-	(465,774)	(465,774)	-	465,774	465,774	-
Total operating revenues	758,348,273	225,500,164	15,382,783	91,823,438	(188,220,112)	902,834,546	8,343,280	(6,185,893)	2,157,387	904,991,933
Operating expenses:										
Salaries and wages	219,105,954	61,959,775	10,228,533	88,105,686	9,068	379,409,016	428,238	-	428,238	379,837,254
Employee benefits and payroll taxes	49,830,199	52,548,247	2,171,044	(95,492)	(11,351,765)	93,102,233	148,345	-	148,345	93,250,578
Purchased services	82,804,439	131,270,495	1,304,777	(122,320)	(170,034,048)	45,223,343	-	-	-	45,223,343
Purchased/transferred services between intercompanies	18,369,339	(18,369,339)	-	-	-	-	-	-	-	-
Medical and surgical supplies	206,216,630	1,803,707	1,752,982	-	(1,317,277)	208,456,042	900,754	-	900,754	209,356,796
Insurance	10,259,777	8,736,054	204,159	-	(5,384,426)	13,815,564	7,158,847	(7,144,934)	13,913	13,829,477
Non-medical supplies and other expenses	51,291,102	18,021,085	2,572,798	3,631,626	(2,619,700)	72,896,911	599,384	(258,240)	341,144	73,238,055
Depreciation and amortization	36,404,699	450,451	53,231	-	-	36,908,381	207,337	-	207,337	37,115,718
Information technology and telecommunications	46,728,748	1,748,424	546,847	-	(61,549)	48,962,470	25,653	-	25,653	48,988,123
Repairs and maintenance	17,459,791	521,599	340,427	-	-	18,321,817	61,082	-	61,082	18,382,899
Total operating expenses	738,470,678	258,690,498	19,174,798	91,519,500	(190,759,697)	917,095,777	9,529,640	(7,403,174)	2,126,466	919,222,243

Schedule II – Combining statement of revenues, expenses and changes in net position (cont'd)

	Obligated Group						Nonobligated Group			
For the year ended June 30, 2019	**AUMC**	**AUHS**	**RWSH**	**AUMA**	**Eliminations**	**Total**	**Nonobligated Group**	**Eliminations**	**Total**	**Total AU Health System**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Operating Income (loss)	19,877,595	(33,190,334)	(3,792,015)	303,938	2,539,585	(14,261,231)	(1,186,360)	1,217,281	30,921	(14,230,310)
Nonoperating revenue:										
Interest expense	(8,796,903)	(9,468)	(3,610)	-	9,468	(8,800,513)	(756,368)	-	(756,368)	(9,556,881)
Investment income, net	6,433,744	78	15	1,182,635	-	7,616,472	1,359,893	(632,110)	727,783	8,344,255
Loss on asset impairment	(8,879,395)	-	-	-	-	(8,879,395)	-		-	(8,879,395)
Unrealized gain on interest rate swap	(5,266,805)	-	-	-	-	(5,266,805)	-	-	-	(5,266,805)
Net gain (loss) on disposition of capital assets	(59,712)	-	-	-	-	(59,712)	-	-	-	(59,712)
Supplemental contribution to the Augusta University Early Retirement Program	(5,639,753)	(1,193,232)	-	-	-	(6,832,985)	-	-	-	(6,832,985)
(Decrease) increase in net position before service fee, additions to permanent endowments, restricted contributions and restricted investment income	(2,331,229)	(34,392,956)	(3,795,610)	1,486,573	2,549,053	(36,484,169)	(582,835)	585,171	2,336	(36,481,833)
Nonoperating expense - service fee	(733,894)	-	-	-	-	(733,894)	-	-	-	(733,894)
(Decrease) increase in net position before restricted contributions and restricted investment income	(3,065,123)	(34,392,956)	(3,795,610)	1,486,573	2,549,053	(37,218,063)	(582,835)	585,171	2,336	(37,215,727)
Change in restricted contributions	1,015,151	(17,008)	-	-	-	998,143	(174,141)	174,141	-	998,143
(Decrease) increase in net position	(2,049,972)	(34,409,964)	(3,795,610)	1,486,573	2,549,053	(36,219,920)	(756,976)	759,312	2,336	(36,217,584)
Net position, beginning of year, as previously reported	308,799,562	(1,448,454)	(2,363,616)	28,698,470	(2,549,053)	331,136,909	16,422,134	(13,247,540)	3,174,594	334,311,503
Net position, end of year	306,749,590	(35,858,418)	(6,159,226)	30,185,043	-	294,916,989	15,665,158	(12,488,228)	3,176,930	298,093,919