AU Health Systems, Inc.

(a component unit of the State of Georgia)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT June 30, 2020 and 2019



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INDEPENDENT AUDITORS' REPORT

Board of Directors AU Health Systems, Inc. (a component unit of the State of Georgia) Augusta, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of AU Health Systems, Inc. (a component unit of the State of Georgia) (the "Health System") as of and for the year ended June 30, 2020, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial position of the Health System as of June 30, 2020, and the changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Health System as of June 30, 2019 were audited by other auditors, whose report dated August 30, 2019 expressed an unmodified opinion on those statements.

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 3 through 12, and schedules of changes in net OPEB liability and related ratios, on page 64, be presented to supplement the basic financial statements. Such information, although not a 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the 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 65 through 68 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.

Caux Rigge & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC Enterprise, Alabama August 31, 2020

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, 2020, 2019, and 2018. 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 statement and notes thereto, which begin on page 13.

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 Augusta University and the Medical College of Georgia ("MCG"), one of ten colleges within Augusta University. In 2014, Roosevelt Warm Springs Rehabilitation and Specialty Hospitals ("RWSH") was added to the Health System portfolio in Warm Springs, Georgia, approximately 215 miles southwest of the AUMC main campus. On the main campus in Augusta, Georgia, the Augusta University Health Sciences Campus, AU Health System 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 Augusta University health professional colleges, notably the College of Nursing and the College 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) with the intent 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 statement. 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 2020 fiscal year, the Medical Center discharged over 19 thousand patients for an excess of 122 thousand patient days, provided 483 thousand clinic visits, performed over 17 thousand surgical cases and treated more than 76 thousand emergency room visits. In late March through the end of the 2020 fiscal year, the Health System saw a decline in inpatient and outpatient procedures due to the COVID-19 pandemic. The Health System intentionally reduced ambulatory visits and moved to a telemedicine environment where possible in order to promote the safety of patients, families, and caregivers.

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.

Impact of COVID-19 Pandemic

The COVID-19 pandemic is significantly affecting the Health System's patients, communities, employees and business operations. The spread of COVID-19 and the ensuing response of federal, state and local authorities beginning in March 2020 resulted in a material reduction in the Health System's patient volumes and operating revenues that is ongoing. The Health System has taken measures within the communities served, both voluntarily and in accordance with governmental mandates, to try to limit the spread of the virus and to mitigate the burden on the healthcare system. From mid-March through early May 2020, the Health System suspended most elective procedures at the Medical Center and closed or reduced operating hours at ambulatory surgery centers and other outpatient centers that specialize in elective procedures. Restrictive measures, including travel bans, social distancing, quarantines and shelter-in-place orders, also reduced - and continue to impact - the volume of procedures performed at the Health System's facilities more generally, as well as the volume of emergency room and physician office visits. Broad economic factors resulting from the COVID-19 pandemic, including increased unemployment rates and reduced consumer spending, are impacting patient volumes. Moreover, the Health System is experiencing supply chain disruptions, including shortages, delays and significant price increases in medical supplies, particularly personal protective equipment. The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was signed into law on March 27, 2020, and other legislative actions have mitigated some of the economic disruption caused by the COVID-19 pandemic on the Health System's business. Additional funding for the Public Health and Social Services Emergency Fund ("Relief Fund") was among the provisions of the CARES Act. In the year ended June 30, 2020, the Health System recognized nonoperating income of \$48.2 million on the accompanying Statement of Revenues, Expenses, and Changes in Net Position due to grants from the Relief Fund. Also in the year ended June 30, 2020, the Health System received advance payments of approximately \$67.4 million from the Medicare accelerated payment program due to the revisions to that program under the CARES Act. The advance payments are recognized as unearned revenue on the Statement of Net Position. The current guidance for the Medicare accelerated payment program requires these advances to be repaid within the next year.

Statements of Net Position

The statements of net position present the financial position of the Health System at the end of the fiscal year and include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Health System. The difference between total assets plus deferred outflows of resources minus total liabilities minus deferred inflows of resources 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, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

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

(in thousands)					
June 30,		2020	2019	2018	
Cash, cash equivalents, and short-term investments	\$	189,799	\$ 120,979	\$ 99	.978
Cash and short-term investments held by trustee under indenture	•	100,100	0,0.0	,	,0.0
agreement		11,728	16,294	1	,923
Other current assets		205,513	210,849	198	,292
Total current assets		407,040	348,122	300	,193
Long-term investments		107,002	100,858	98	,619
Investments held by trustee under indenture agreement, net of current		4,731	3,895		-
Capital assets, net		254,672	251,547	256	,138
Other noncurrent assets		66,093	58,983	52	,644
Total assets		839,538	763,405	707	,594
Deferred outflows of resources		3,699	_		-
Current portion of long-term debt		5,330	5,165	6	,199
Other current liabilities		262,606	188,304	122	,275
Total current liabilities		267,936	193,469	128	,474
Long-term debt, less current installments		202,385	208,120	189	,699
Interest rate swap obligation		28,181	20,085	14	,819
Other noncurrent liabilities		50,531	43,637	40	,290
Total liabilities		549,033	465,311	373	,282
Deferred inflows of resources		873	-		-
Net investment in capital assets		54,306	53,294	87	,762
Unrestricted		239,025	244,800		,550
Total net position	\$	293,331	\$ 298,094	\$ 334	,312

Unrestricted cash and investments grew \$75.0 million, or 33.8%, to \$296.8 million during 2020. Unrestricted cash and investments grew \$23.2 million, or 11.7%, to \$221.8 million during 2019. The Health System finished fiscal year 2020 with 107.7 days cash on hand, up from the prior years' of 90.8 days in fiscal year 2019 and 93.6 days in fiscal year 2018. The Health System calculates the day's 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.

In fiscal year 2020, notable changes in cash and cash equivalents relate to the receipt of \$67.4 million in advanced Medicare payments under the Accelerated Payment Program which was offered as part of the Relief Fund. In fiscal year 2019, notable changes in cash and cash equivalents relate to timing of payments slowing during the fiscal year.

Other current assets decreased by \$5.3 million, or 2.5%, in fiscal year 2020 as compared to an increase of \$12.6 million, or 6.3%, in fiscal year 2019. Patient accounts receivable, net of allowance for doubtful accounts, decreased \$14.7 million, or 11%, in 2020. The reduced volumes and associated revenue in the fourth quarter of 2020, which was due to the COVID-19 pandemic, negatively impacted the patient accounts receivable. In 2020, the Health System engaged an outside agency to perform a review of net patient revenue due to a deterioration in revenue cycle collections. The weakening of collections occurred at the same time as the implementation of new patient accounting systems. As a result of this exercise, an adjustment of \$24.8 million was recorded in order to align net patient revenue with current collection rates. Patient accounts receivable, net of allowance for doubtful accounts, increased \$21.0 million, or 18.6%, in 2019 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, which allowed more time 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 increasing \$7.9 million, or 55.7%, in fiscal year 2020 due to timing of payments for Georgia's Upper Payment Limit program. The receivable decreased 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.

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 was due to a combination of investment income and realized and unrealized gains and losses in 2020, whereas the 2019 movement was related to investment returns and management's execution to realize gains at the end of the fiscal year.

As of June 30, 2020, 2019 and 2018, the Health System had \$257.5 million, \$251.5 million and \$256.1 million, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the accompanying financial statements. In 2020, 2019 and 2018, the Health System purchased new capital assets totaling \$27.4 million, \$29.1 million and \$20.3 million, respectively.

Other noncurrent assets increased \$7.1 million, or 12.1%, in fiscal year 2020 and increased \$6.3 million or 12.0% in fiscal year 2019 due to the increase of required collateralization of interest rate swaps. A total of \$28.2 million, \$20.2 million and \$15.0 million was posted at the end of fiscal years 2020, 2019, and 2018, respectively.

Other current liabilities increased in fiscal year 2020 and 2019 by \$74.3 million and \$66.0 million, respectively. In 2020, unearned revenue of \$67.4 million was recorded for advanced Medicare payments under the Accelerated Payment Program which was offered by the Centers for Medicare and Medicaid Services as part of government's response to the COVID-19 pandemic. Other notable changes in other current liabilities in 2020 and 2019 were due to the timing of payments to suppliers and vendors and interrelated party transfers.

Long term debt, less current installments, decreased \$5.7 million in fiscal year 2020, or 2.8%, due to regularly scheduled principal payments on the Series 2014 Bonds. Long term debt, less current installments, increased by \$18.4 million, or 9.7%, in fiscal year 2019 due to issuance of the Health System's Series 2018 Bonds.

The increase in net position invested in capital assets of \$1.0 million or 1.9% in fiscal year 2020, was primarily due to the difference in capital expenditures made from operating funds (as opposed to bond proceeds). 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. 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 \$5.8 million or 2.4% from June 30, 2019 to June 30, 2020, and decreased \$1.7 million or 0.7% from June 30, 2018 to June 30, 2019. The Health System's total net position declined in fiscal year 2020 by \$4.8 million, and in fiscal year 2019 by \$36.2 million. The decrease in net position from 2019 was due to less favorable results from operations, and the decrease in fiscal year 2020 was primarily due to the carry value of the swap and of less favorable operating results due to effectuating changes resulting from the net revenue alignment of net patient revenue to current collection rates.

Statements of Revenues, Expenses and Changes 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 as follows:

(in thousands) June 30,		2020	2019	2018
Change in financial position:				
Net patient service revenue	\$	864.508	\$ 794,434 \$	754,470
Other operating revenue	•	130,045	 110,558	107,299
Total operating revenues		994,553	904,992	861,769
Salaries and wages		338,254	294,345	357,872
Employee benefits and payroll taxes		98,826	93,251	49,108
Purchased services		154,950	130,716	40,641
Medical and surgical supplies		269,042	209,357	176,497
Insurance		12,207	13,829	14,100
Depreciation and amortization		36,434	37,116	36,175
Other operating expenses		122,521	140,608	127,758
Total operating expenses		1,032,234	919,222	802,151
Operating (loss) income		(37,681)	(14,230)	59,618
Nonoperating items:				
Interest expense		(9,989)	(9,557)	(8,514)
Investment income, net		7,345	8,344	5,074
Loss on asset impairment		-	(8,879)	-
Unrealized (loss) gain on interest rate swap		(8,097)	(5,267)	5,994
Net gain (loss) on disposition of capital assets		30	(60)	(395)
CARES Act funding		48,200	-	-
Supplemental contribution to the Augusta University Early Retirement Program		(6,042)	(6,833)	(6,791)
(Decrease) increase in net position before service fee and restricted				
contributions		(6,234)	(36,482)	54,986
Nonoperating expense – service fee		(465)	(734)	(6,638)
(Decrease) increase in net position before additions to restricted contributions	\$	(6,699)	\$ (37,216) \$	48,348

The Health System's net patient service revenue, net of allowances for contractual discounts, charity care and bad debts, totaled \$864.5 million as of June 30, 2020, an increase of \$70.1 million, or 8.8%, over fiscal year 2019, which also demonstrated strong revenue growth of \$40.0 million, or 5.3%, over fiscal year 2018. 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 increasing \$2.3 million or 21.1% in 2020 and \$793 thousand or 7.8% in 2019. The Georgia Medicaid upper payment limit revenue increased \$3.0 million or 20.6% in 2020 and decreased \$7.6 million, or 34.7%, in 2019. The South Carolina Medicaid disproportionate share program revenue decreased \$489 thousand, or 7.0%, in 2020 and increased \$1.1 million, or 18.2%, in 2019.

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. Specialty and retail pharmacy revenue increased \$22.0 million and \$11.5 million in 2020 and 2019, respectively, due to specialty pharmacy accreditation in 2019 and retail pharmacy expansion in both 2019 and 2020.

Salaries and wages increased during fiscal year 2020 by \$43.9 million, or 14.9%. The main increase in salary is due to agency staffing which is covered here. In 2019, Advanced Practice Providers moved to the University employment platform mid-year resulting in an expense to the Health System through the Research Education and Professional Services Agreement. In 2020, a full year of Advanced Practice Providers' salaries are reflected in salaries and wages in the financial statements. Despite a slight decline in volumes in the 4th quarter, salaries were not reduced due to additional duties and overtime required for the Health System to handle the COVID-19 pandemic. Salaries and wages decreased during fiscal year 2019 by \$63.5 million, or 17.8%. In fiscal year 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 part of the Reorganization, in 2019, the Health System and AU entered into a formal Clinical Administrative Professional Services Agreement ("CAPSA") to provide for the management of the flow of funds among the parties for professional medical services and medical administrative services. Beginning in 2019, through the adoption of the CAPSA agreement, certain clinical components of physician salaries were accounted for through purchased services expense while in 2018 the expenses were accounted for through salaries and wages. Additionally, in both fiscal years 2020 and 2019 staffing shortages, particularly in nursing, but also in other allied health professional roles, continued 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. In fiscal years 2020 and 2019, these expenses were reported in salaries and wages. In fiscal year 2018, these expenses were spread among salaries and wages and purchased services line items within AUMA and AUMC.

Employee benefits and payroll taxes increased in fiscal year 2020 due to a full year of Advanced Practice Providers on the Health System payroll. Another factor for the increase was a higher accrual of uncompensated absences as caused by staffing constraints and increased workload resulting from the COVID-19 pandemic. 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.

Purchased services increased by \$24.2 million and \$90.1 million in fiscal years 2020 and 2019 respectively. In 2020, the Health System increased funding for expansion of graduate medical education programs for residents and fellows. In addition, increased surgical volumes led to a rise in the usage of anesthesiologists. Also reflected in purchased services for 2020 are expenses related to the COVID-19 pandemic for physicians to staff telemedicine, ICUs and other hospital related functions. In 2020 and 2019, the clinical support of faculty salaries to the university increased due to the strategic physician recruitment start-up funding. Shared services between the University transitioned throughout fiscal years 2018 and 2019 which are reflected in purchased services.

Purchased services also reflects the \$3.5 million in each of the fiscal years 2018 and 2019 and \$4.0 million in 2020 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 \$59.7 million or 28.5% in fiscal year 2020 and \$32.9 million or 18.6% in fiscal year 2019. In addition to normal expense inflation, growth in adjusted patient days of 8.0% contributed to increases in medical and surgical supply expense. In 2020, medical and surgical supplies also includes \$5.2 million in expense related to supplies, and lab reagents for the COVID-19 pandemic. In 2019, 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 as well as specialty pharmacy accreditation in 2019 and retail pharmacy expansion in both fiscal years 2019 and 2020. Pharmaceutical expense for specialty and retail pharmacies increased \$13.6 million and \$8.1 million in 2020 and 2019, respectively, 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 2020 and 2019 of \$1.6 million and \$271 thousand, respectively.

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. The dissolution of the outsourced services resulted in an increase to purchased services in fiscal year 2020 for the purchase of IT services from AU.

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, CARES Act funding, and supplemental contribution to the University Early Retirement Program.

During fiscal year 2020, interest expense increased by \$432 thousand, or 4.5%, net of capitalized interest, primarily due to entering new real estate capital leases. Interest expense increased during fiscal year 2019 by \$1.0 million, or 12.3%, net of capitalized interest, primarily due to the issuance of the Series 2018 Bonds.

Investment income decreased in fiscal year 2020 by \$1.0 million, or 12.0%, as a result of general market conditions, while investment income increased in fiscal year 2019 by \$3.3 million, or 64.4%, as a result of realizing market gains after favorable market recovery.

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 \$8.1 million and \$5.3 million in fiscal years 2020 and 2019, respectively, and unrealized gains of \$6.0 million in fiscal year 2018.

Also in 2020, the Health System and the Regents amended the Master Lease Agreement to adjust the calculation of the combined service fee to be based on the performance of the Health System, resulting in a payment due to the Regents of \$465 thousand for fiscal year 2020. In 2019 and 2018, the combined service fee was 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.

Tax Changes. Beginning March 27, 2020, all employers may elect to defer payment of the 6.2% employer Social Security tax through December 31, 2020. Deferred tax amounts are required to be paid in equal amounts over two years, with payments due in December 2021 and December 2022.

Debt Activity

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 for 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.

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, 2020 was \$1.7 million.

During fiscal year 2020, the Health System entered into multiple real estate leases in order to support strategic initiatives and contribute to the expansion of clinical services. The real estate leases qualified as capital lease obligations. The combined outstanding total of these obligations as of June 30, 2020 was \$9.7 million.

In fiscal year 2020, S&P Global Ratings and Moody's Investors Service affirmed ratings of BBB- and Baa3, respectively.

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.

Subsequent Events

In July 2020, the Health System received a cash payment of \$2.2 million under the CARES Act Rural Provider Relief funds.

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.

AU Health Systems, Inc. (a component unit of the State of Georgia) Statements of Net Position

June 30,		2020		2019
Assets and Deferred Outflows				
Current assets:				
Cash and cash equivalents	Ś	151,219,831	\$	81,112,233
Short-term investments	,	38,579,092	*	39,867,132
Cash equivalents internally designated for		,-		,,
self-insurance liability funding		3,548,312		1,339,373
Short-term investments internally designated for				
self-insurance liability funding		2,958,451		2,898,374
Cash held by trustee under indenture agreement		1,235,936		1,121,058
Investments held by trustee under indenture agreement		10,492,062		15,172,846
Patient accounts receivable, net of allowance for				
doubtful accounts of \$89,387,000 in 2020 and \$85,827,000				
in 2019		119,238,433		133,926,922
Due from third-party payors		22,011,217		14,138,105
Other receivables		14,175,474		17,116,043
Inventory		24,102,526		20,646,799
Net investment in direct financing lease		1,255,961		1,226,662
Other current assets		18,222,540		19,556,715
Total current assets		407,039,835		348,122,262
Newsyman				
Noncurrent assets:				
Investments internally designated for self-insurance		12 407 272		12.060.422
liability funding		12,497,273		12,060,433
Long-term investments		107,002,026		100,857,501
Investments held by trustee under indenture agreement, net		4 724 200		2 005 006
of current		4,731,380		3,895,086
Capital assets, net		254,671,703		251,547,353
Net investment in direct financing lease, less current portion		20,036,901		21,292,862
Other assets		33,557,692		25,629,044
Total noncurrent assets		432,496,975		415,282,279
		, , -		, - , -
Total assets		839,536,810		763,404,541
Deferred outflows		3,698,961		
Total assets and deferred outflows	Ś	843,235,771	\$	763,404,541
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AU Health Systems, Inc. (a component unit of the State of Georgia) Statements of Net Position (Continued)

June 30,		2020		2019
Liabilities, Deferred Inflows and Net Position				
Current liabilities:				
Accounts payable	\$	69,959,164	\$	63,658,328
Accrued salaries and wages	•	10,850,685	•	9,325,924
Accrued compensated absences		23,599,910		20,521,811
Accrued expenses and other current liabilities		11,344,548		11,433,517
Due to related party - service fee		465,494		733,894
Due to related parties		67,102,212		66,636,833
Due to third-party payors		118,531		4,745,058
Unearned revenue		67,792,963		137,357
Current portion of accrued professional liability costs		5,446,618		4,783,094
Current portion of obligations under capital lease		5,924,708		6,327,586
Current portion of long-term debt		5,330,000		5,165,000
Total current liabilities		267,934,833		193,468,402
Noncurrent liabilities:				
Long-term debt, net of current		202,385,455		208,119,966
Obligations under capital lease, net of current		24,661,163		19,372,866
Other post-employment benefits		6,641,329		6,758,623
Accrued professional liability costs, net of current		16,339,850		14,349,283
Interest rate swap liability		28,181,020		20,085,401
Other liabilities		2,888,688		3,156,081
		,,		-,,
Total noncurrent liabilities		281,097,505		271,842,220
Total liabilities		E40 022 228		46E 210 622
Total liabilities		549,032,338		465,310,622
Deferred inflows		872,879		-
Net position:				
Net investment in capital assets		54,305,828		53,293,543
Unrestricted		239,024,726		244,800,376
Total net position		293,330,554		298,093,919
Total liabilities, deferred inflows and net position	\$	843,235,771	\$	763,404,541
Total industries, december and independent	<u>, , , , , , , , , , , , , , , , , , , </u>	U-13,233,1/1	٦	, 03,404,341

AU Health Systems, Inc. (a component unit of the State of Georgia) Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30,	2020	2019
Operating revenues:		
Net patient service revenue (net of provision for doubtful		
accounts of \$74,077,000 in 2020 and \$54,358,000 in 2019)	\$ 864,507,537 \$	794,434,306
Revenue from contractual services	32,500,563	31,992,211
Other operating revenue	97,544,586	78,565,416
Total operating revenues	994,552,686	904,991,933
Operating expenses:		
Salaries and wages	338,253,973	294,344,807
Employee benefits and payroll taxes	98,826,457	93,250,578
Purchased services	154,950,252	130,715,790
Medical and surgical supplies	269,041,587	209,356,796
Insurance	12,206,760	13,829,477
Non-medical supplies and other expenses	71,950,470	73,238,055
Depreciation and amortization	36,433,862	37,115,718
Information technology and telecommunications	32,719,233	48,988,123
Repairs and maintenance	17,850,939	18,382,899
Total operating expenses	1,032,233,533	919,222,243
Operating loss	(37,680,847)	(14,230,310)
Nonoperating revenues (expenses):		
Interest expense	(9,989,002)	(9,556,881)
Investment income, net	7,344,788	8,344,255
Loss on asset impairment	· · ·	(8,879,395)
Unrealized loss on interest rate swap	(8,095,619)	(5,266,805)
Net gain (loss) on disposition of capital assets	29,674	(59,712)
CARES Act funding	48,199,689	-
Supplemental contribution to the Augusta University Early		
Retirement Program	(6,042,325)	(6,832,985)
Total nonoperating items	31,447,205	(22,251,523)
(Decrease) in net position before service fee,		
additions to permanent endowments, restricted		
contributions and restricted investment income	(6,233,642)	(36,481,833)
Nonoperating expense - service fee	(465,494)	(733,894)
(Decrease) in net position before restricted		
contributions	(6,699,136)	(37,215,727)
Change in restricted contributions for capital assets	1,935,771	998,143
(Decrease) in net position Net position, beginning of year	(4,763,365) 298,093,919	(36,217,584) 334,311,503
Net position, end of year	\$ 293,330,554 \$	298,093,919

AU Health Systems, Inc. (a component unit of the State of Georgia) Statements of Cash Flows

For the years ended June 30,	2020	2019
Cash Flows from Operating Activities		
Cash received from and on behalf of patients	\$ 867,700,625	\$ 782,934,906
Other receipts from operations	132,214,241	112,672,878
Cash paid to and on behalf of employees	(434,086,771)	(471,035,580)
Cash paid to suppliers	(549,843,352)	(336,745,043)
Net cash provided by operating activities	15,984,743	87,827,161
Cash Flows from Noncapital Financing Activities		
Interest paid on service fee	-	(1,538)
Receipt of CARES Act funds	48,199,690	-
Receipt of advance Medicare payments	67,422,844	-
Payment to related party - service fee	(733,894)	(6,638,215)
Supplemental contribution to the Augusta University		
Early Retirement Program	(6,042,325)	(6,832,985)
Net cash provided by (used in) noncapital financing activities	108,846,315	(13,472,738)
Cash Flows from Capital and Related Financing Activities		
Principal paid on revenue bonds	(5,165,000)	(2,945,000)
Principal paid on term loan	-	(36,750,000)
Principal paid on line of credit	(1,104,188)	(27,100,000)
Purchases of capital assets	(25,776,937)	(35,842,920)
Proceeds from bond issuance	-	84,521,091
Proceeds from disposition of capital assets	64,044	1,000
Payment of principal on obligations under capital leases	(8,814,119)	(9,218,872)
Interest payments	(10,915,501)	(10,219,916)
Payment of collateral on interest rate swap mark to market	(6,600,000)	(2,700,000)
Principal received from direct financial lease	1,226,662	1,186,728
Interest received from direct financing lease	650,902	685,964
Capital contributions	1,935,771	998,142
Net cash used in capital and related financing activities	(54,498,366)	(37,383,783)
Cash Flows from Investing Activities		
Interest and dividends on investments	3,608,145	3,998,219
Purchases of investments	(287,692,115)	(360,618,030)
Proceeds from sales of investments	287,882,693	337,010,022
Purchase of Surgery Center of Columbia County	(1,700,000)	
Net cash provided by (used in) investing activities	2,098,723	(19,609,789)
Net Increase in Cash and Cash Equivalents	72,431,415	17,360,851
Cash and Cash Equivalents, beginning of year	83,572,664	66,211,813
Cash and Cash Equivalents, end of year	\$ 156,004,079	\$ 83,572,664

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AU Health Systems, Inc. (a component unit of the State of Georgia) Statements of Cash Flows (Continued)

For the years ended June 30,	2020	2019
Reconciliation of operating loss to net cash		
provided by operating activities:		
Operating loss	\$ (37,680,847)	\$ (14,230,310)
Adjustments:	, ,	, , , , ,
Depreciation and amortization	36,433,862	37,115,718
Impairment of capital asset	-	8,879,395
Provision for doubtful accounts	74,076,506	54,358,169
Amortization of loan payable premium	(404,511)	(339,083)
Changes in:	, , ,	, , ,
Patient accounts receivable	(59,388,017)	(75,390,435)
Due to/from third-party payors	(12,499,639)	
Other receivables	2,940,569	2,221,783
Inventory	(3,455,727)	
Other current assets	1,334,175	(2,146,520)
Deferred ouflows of resources	(3,698,961)	-
Accounts payable	9,973,019	28,248,566
Due to related parties	465,379	32,117,934
Unearned revenue	232,761	-
Accrued expenses and other current liabilities	4,513,891	6,830,761
Other liabilities	(267,393)	(421,809)
Deferred inflows of resources	872,879	-
Other post-employment benefits	(117,294)	592,944
Accrued professional liability costs	2,654,091	2,105,167
Net cash provided by operating activities	\$ 15,984,743	\$ 87,827,161
Reconciliation of cash and cash equivalents to the		
statement of net position:	A 454 040 004	4 04 440 000
Cash and cash equivalents	\$ 151,219,831	\$ 81,112,233
Cash equivalents internally designated for self-insurance	2 540 242	4 220 272
liability funding	3,548,312	1,339,373
Cash held by trustee under indenture agreement	1,235,936	1,121,058
Total cash and cash equivalents	\$ 156,004,079	\$ 83,572,664
Supplemental schedule of nancach investing and financing		
Supplemental schedule of noncash investing and financing		
activities	ć /2.C72.402\	ć 2400.242
Change in capital additions included in accounts payable	\$ (3,672,183)	
Capital additions under capital lease obligation	13,699,538	11,672,982
Increase in fair value of investments	2,756,941	4,112,444
Change in fair value of collateral	366,957	(53,994)

Note 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 31, 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 the Governmental 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 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.

All intercompany amounts have been eliminated in consolidation.

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 & 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. The accompanying financial statements also include the following entities.

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.

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

On August 30, 2019, AUCC Aiken Dermatology, LLC was organized to own and operate a dermatology medical practice in Aiken, South Carolina.

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.

Surgery Center of Columbia County, LLC (SCCC) is an ambulatory surgery center and provides related services. At June 30, 2019, AUMC held a 33% non-controlling interest in SCCC. The Health System accounted for its interest in the company by using the equity method of accounting. The related investments were included within other assets in the Health System's statements of net position. The related share of earnings or losses were included within nonmedical supplies and other expenses in the Health System's statements of revenues, expenses and changes in net position. On October 1, 2019, AUMC obtained a controlling interest in the SCCC by purchasing the remaining shares. AUMC is the sole equity member and has sole voting control of the LLC. SCCC does not have a termination date. As of October 1, 2019, SCCC is included as a blended component of the Health System's financial position.

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 post-employment 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 an increase in operating income of \$15,558,000 and \$5,948,000 for the years ended June 30, 2020 and 2019, 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. Investments in equity securities with no readily determinable fair value are measured at cost and evaluated regularly for impairment.

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.

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 life of 3 or more years having a per unit cost of more than \$5,000 or bulk purchases of 10 or more like items with a total value equal to or greater than \$25,000. 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 2018 Edition" published by the American Hospital Association.

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

Asset Class

Building improvements	20 to 25 years
Buildings	25 to 40 years
Computer hardware	3 to 5 years
Medical equipment	3 to 20 years
Furniture and fixtures	10 to 20 years
Leasehold improvements	5 to 25 years
Software	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 ended 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, 2020.

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. Interest costs capitalized during fiscal year 2020 were not material.

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business Combination / Deferred Inflows & Outflows of Resources

On October 1, 2019, AUMC acquired a complete ownership interest in SCCC for a purchase price that included cash consideration of \$1,700,000, payable to the previous equity owners, assumption of an existing line of credit of approximately \$1,104,000, and assumption of existing liabilities. Prior to this date, AUMC owned a 33% equity interest in SCCC. This acquisition was recorded in accordance with GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* and was conducted for the purpose of expanding AUMC's service offerings in the area.

As a result of this combination, capital assets totaling approximately \$330,000, net patient accounts receivables totaling approximately \$172,000, cash totaling approximately \$347,000 and inventory totaling approximately \$57,000 were acquired. Additionally, trade payables totaling approximately \$284,000 and other accrued amounts totaling approximately \$635,000 were assumed.

After all required adjusting entries were made to conform SCCC's balances to GAAP, including an entry to impair and remove certain assets, the resulting purchase price exceeded the net book value of SCCC by approximately \$2,863,000, and SCCC's net position was a deficit balance of approximately \$1,304,000. The excess of the consideration provided above the deficit net position was recorded as a deferred outflows of resources.

On an ongoing, not less than annual, basis, AUMC considers qualitative factors to determine if the deferred outflows recorded from this combination are realizable in future periods. For the fiscal year ended June 30, 2020, no impairment was identified.

At June 30, 2020, deferred inflows and outflows of resources were comprised of the following amounts:

	2020
Deferred outflows of resources	
Arising from SCCC business combination	\$ 2,862,771
OPEB (experience losses)	836,190
Total deferred outflows of resources	\$ 3,698,961
Deferred inflows of resources	
OPEB (change of assumptions)	\$ 872,879

Deferred inflows and outflows were not recognized at June 30, 2019 as they were not deemed material to the financial statements.

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position is classified as unrestricted, net investment in capital assets, 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.

Net investment in capital assets - 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.

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$2,096,000 and \$2,892,000 for the years ended June 30, 2020 and 2019, respectively, and is included in nonmedical supplies and other expenses in the accompanying statements of revenues, expenses and changes in net position.

Reclassifications

Certain items in the 2019 financial statements have been reclassified to conform to the current year's presentation, including a reclassification of approximately \$85,492,000 from salaries and wages to purchased services on the 2019 statement of revenues, expenses and changes in net position. This change is related to the current year presentation of contracted faculty and other individuals employed by Regents.

Recently Adopted Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations (GASB 83). GASB 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 GASB 83. Requirements

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

of GASB 83 are effective for reporting periods beginning after June 15, 2018. The Health System adopted GASB 83 for the period ending June 30, 2019. The Health System has evaluated GASB 83 and has concluded there was no material impact to the financial statements.

In March 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. GASB Statement No. 88 requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The Health System adopted GASB 88 for the period ending June 30, 2020. See note 8 for additional disclosures.

Pending Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 will be effective for the fiscal years beginning after December 15, 2019.

In June 2017, GASB issued Statement No. 87, Leases (GASB 87). 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 conveys control of the right to use another entity's nonfinancial assets, which is referred to in the new Statement as the underlying asset. Under GASB 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 June 15, 2021 with early adoption permitted. The Health System has not adopted this Statement early. The Health System is still assessing the impact of GASB 87 on its financial statements.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

Note 1: DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61.* The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 31, 2021.

In January 2020, the GASB issued statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance the comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

Note 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:

Note 2: NET PATIENT SERVICE REVENUE (Continued)

	2020		2019
Gross patient revenue	\$ 3,703,057,960	\$	3,152,111,565
Less: Provision for contractual and other adjustments	(2,523,433,724)	(2,097,858,555)
Less: Provision for doubtful accounts	(74,076,506)	(54,358,169)
Less: Provision for charity care	(241,040,193)	(205,460,535)
Net patient service revenue	\$ 864,507,537	\$	794,434,306

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 2015.

Revenue from the Medicare program accounted for approximately 37% and 36% of the Health System's gross patient service revenue for the years ended June 30, 2020 and 2019, 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 2017.

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 \$17,336,000 and \$14,373,000 in fiscal 2020 and 2019, respectively.

Note 2: NET PATIENT SERVICE REVENUE (Continued)

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, 2020 and 2019, the Health System recorded net revenue from this program of approximately \$13,202,000 and \$10,905,000, 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 \$6,462,000 and \$6,951,000 in fiscal 2020 and 2019, 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% of the Health System's gross patient service revenue for both fiscal years 2020 and 2019. Net disproportionate share reimbursement to the Health System under all of the programs described above totaled approximately \$37,000,000 in fiscal 2020 and \$32,229,000 in fiscal 2019. 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.

Note 2: NET PATIENT SERVICE REVENUE (Continued)

Nonoperating Income

Additional funding for the Public Health and Social Services Emergency Fund ("Relief Fund") was among the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was signed into law on March 27, 2020, and other legislation. In the year ended June 30, 2020, the Health System received cash payments and recognized nonoperating income of \$48.2 million due to grants from the Relief Fund and state grant programs, which is reported as nonoperating income in the Health System's accompanying statement of revenues, expenses, and changes in net position at June 30, 2020. The Health System has deferred \$67.4 million of payments, which is recorded in unearned revenue on the statement of net position. Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost operating revenues and COVID-related costs, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. The Health System recognizes grant payments as income when there is reasonable assurance of compliance with the conditions associated with the grant. Health System's estimates could change materially in the future based on Health System's operating performance or COVID-19 activities at individual locations, as well as the evolving grant compliance guidance provided by the government.

The Coronavirus Aid, Relief, and Economic Security Act of 2020 and Related Legislation

The CARES Act and the Paycheck Protection Program and Health Care Enhancement Act ("Paycheck Protection Program"), which was signed into law on April 24, 2020, authorized up to \$2 trillion in government spending to mitigate the economic effects of the COVID-19 pandemic. Below is a brief overview of certain provisions of the CARES Act and related legislation that have impacted and expect will continue to impact the Health System's business. Please note that this summary is not exhaustive, and additional legislative action and regulatory developments may evolve rapidly. There is no assurance that the Health System will continue to receive or remain eligible for funding or assistance under the CARES Act or similar measures.

Public Health and Social Services Emergency Fund. To address the fiscal burdens on healthcare providers created by the COVID-19 public health emergency, the CARES Act and the Paycheck Protection Program authorized \$175 billion for the Relief Fund. During the year ended June 30, 2020, HHS commenced distribution of approximately \$100 billion in several tranches from the Relief Fund to providers, including:

- A \$50 billion general distribution to Medicare fee-for-service providers;
- An allocation of approximately \$15 billion to Medicaid and CHIP providers that did not receive an allocation from the \$50 billion general distribution;

Note 2: NET PATIENT SERVICE REVENUE (Continued)

• Targeted distributions comprised of (i) \$12 billion for hospitals determined to be in areas particularly impacted by COVID-19 based on reported COVID-19 admissions, (ii) \$10 billion to rural healthcare providers, (iii) \$5 billion to skilled nursing facilities, (iv) \$10 billion to safety net hospitals and (v) \$500 million to tribal hospitals, clinics and urban health centers.

In July 2020, HHS announced the distribution of an additional \$4 billion (\$1 billion to rural hospitals and \$3 billion to safety net hospitals) and the expansion of the Relief Fund to dental providers.

Payments from the Relief Fund are not loans and, therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions, including, among other things, that the funds are being used for lost operating revenues and COVID-related costs, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. Furthermore, HHS has indicated that it will be closely monitoring and, along with the Office of Inspector General, auditing providers to ensure that recipients comply with the terms and conditions of relief programs and to prevent fraud and abuse. All providers will be subject to civil and criminal penalties for any deliberate omissions, misrepresentations or falsifications of any information given to HHS. Except for certain immaterial Relief Fund payments the Health System returned to HHS, the Health System have formally accepted the terms and conditions associated with the receipt of Relief Fund payments the Health System have received.

During the year ended June 30, 2020, the Health System recognized approximately \$48.2 million of Relief Fund income included as nonoperating income in the Health System's accompanying statement of revenues, expenses, and changes in net position, associated with lost operating revenues and COVID-related costs.

Medicare and Medicaid Payment Policy Changes. The CARES Act also alleviates some of the financial strain on hospitals, physicians, and other healthcare providers and states through a series Medicare and Medicaid payment policies that temporarily increase Medicare and Medicaid reimbursement and allow for added flexibility, as described below.

- Effective May 1, 2020 through December 31, 2020, the 2% sequestration reduction on Medicare FFS and Medicare Advantage payments to hospitals, physicians and other providers authorized by the Sequestration Transparency Act of 2020 is suspended and will resume effective January 2021. The suspension is financed by a one-year extension of the sequestration adjustment through 2030.
- The CARES Act instituted a 20% increase in the Medicare MS-DRG payment for COVID-19
 hospital admissions for the duration of the public health emergency as declared by the
 Secretary of HHS.

Note 2: NET PATIENT SERVICE REVENUE (Continued)

- The scheduled reduction of \$4 billion in federal Medicaid DSH allotments in FFY 2020, as mandated by the Affordable Care Act, is suspended until December 1, 2020. Also, the federal DSH allotment reduction for FFY 2021 will be reduced from \$8 billion to \$4 billion. Notwithstanding these adjustments, the ACA-mandated reduction is not expected to be extended past its original termination in FFY 2025.
- The CARES Act expanded the Medicare accelerated payment program, which provides prepayment of claims to providers in certain circumstances, such as national emergencies or natural disasters. Under this measure, providers could request accelerated payments that may be retained for 120 days during which time providers continue to receive payments for services. At the end of the 120-period, the accelerated payment will be repaid via a 100% offset of payments on claims that would otherwise be paid. The repayment period for hospitals and other providers is one year and 210 days, respectively, from the date of receipt of the accelerated payment, after which interest is assessed on the unpaid balance. During the six months ended June 30, 2020, Health System's hospitals and other providers applied for and received approximately \$67.4 billion of accelerated payments.
- A 6.2% increase in the Federal Medical Assistance Percentage ("FMAP") matching funds was instituted to help states respond to the COVID-19 pandemic. The additional funds are available to states from January 1, 2020 through the quarter in which the public health emergency period ends, provided that states meet certain conditions. An increase in states' FMAP leverages Medicaid's existing financing structure, which allows federal funds to be provided to states more quickly and efficiently than establishing a new program or allocating money from a new funding stream. Increased federal matching funds support states in responding to the increased need for services, such as testing and treatment during the COVID-19 public health emergency, as well as increased enrollment as more people lose income and qualify for Medicaid during the economic downturn.

Because of the uncertainty associated with various factors that may influence Health System's future Medicare and Medicaid payments, including future legislative, legal or regulatory actions, or changes in volumes and case mix, there is a risk that Health System's estimates of the impact of the aforementioned payment and policy changes will be incorrect and that actual payments received under, or the ultimate impact of, these programs may differ materially from Health System's expectations.

In fiscal years 2020 and 2019, the Health System generated substantial revenues from its pharmacy operations, which have grown significantly in recent years. Pharmacy revenues totaled approximately \$77,550,000 and \$55,666,000 for the fiscal years ended June 30, 2020 and 2019, respectively. The remaining balance of other operating revenue, as recorded on the accompanying statements of revenues, expenses and changes in net position is comprised of grant funding, sales of items to patients, and other miscellaneous amounts.

Note 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.

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

	2020	2019
Charity care:		
Foregone charges	\$ 241,040,000	\$ 205,460,000
Cost	67,190,000	59,868,000

Note 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:

	2020	2019
Commercial and other third-party payors	51%	43%
Medicaid	17%	23%
Medicare	30%	33%
Self pay	2%	1%
Total	100%	100%

Note 5: CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	2020		2019	
Insured (FDIC) Uninsured, uncollateralized or collateralized by securities held by the pledging institution, its trust department	\$	4,975,406	\$	4,511,952
or agent in other than the Health System's name		157,942,658		86,958,074
Total	\$	162,918,064	\$	91,470,026
Carrying amount (cash and cash equivalents)	\$	156,004,079	\$	83,572,664

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, 2020 and 2019, approximately \$157,943,000 and \$86,958,000, respectively, of the Health System's bank balance was uninsured or uncollateralized.

Note 5: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A summary of investments follows:

		Investment Maturity								
			Less than			More than	-			
June 30, 2020	Fair Value		1 Year	1 to 5 Years	6 to 10 Years	10 Years	Percentage			
Investment type										
Debt securities:										
U.S. treasuries	\$ 32,713,524	\$	1,775,043	\$ 30,938,481		\$ -	18.56%			
U.S. agencies	29,518,482		7,177,040	11,516,762	4,719,204	6,105,476	16.75%			
Corporate debt	43,515,755		6,757,443	36,532,463	225,849	-	24.69%			
Mortgage/asset-backed securities	26,860,282		249,710	14,021,559	2,652,650	9,936,363	15.24%			
	132,608,043		15,959,236	93,009,265	7,597,703	16,041,839				
Equities and other:	,,		, -,	, , , , , ,	, - , 3-	, , , , , , , , , , , , , , , , , , , ,				
Equity-domestic	25,343,804		-	-	-	-	14.38%			
Equity-international	10,178,554		-	-	-	-	5.78%			
Mutual bond funds	7,581,872		-	-	-	-	4.29%			
Accrued interest and dividends	548,011		-	-	-	-	0.31%			
Total investments	\$176,260,284	\$	15,959,236	\$ 93,009,265	\$ 7,597,703	\$ 16,041,839	100.00%			
				Investmen	t Maturity					
		_	Less than	Investmen	t Maturity	More than	-			
June 30, 2019	Fair Value		Less than 1 Year	Investmen 1 to 5 Years	t Maturity 6 to 10 Years	More than	- Percentage			
June 30, 2019	Fair Value				<u> </u>		Percentage			
June 30, 2019 Investment type	Fair Value				<u> </u>		Percentage			
Investment type Debt securities:	Fair Value				<u> </u>	10 Years	Percentage			
Investment type	Fair Value \$ 31,209,910	\$			6 to 10 Years		Percentage			
Investment type Debt securities:			1 Year	1 to 5 Years	6 to 10 Years	10 Years	_			
Investment type Debt securities: U.S. treasuries U.S. agencies Corporate debt	\$ 31,209,910		1 Year 1,264,905	1 to 5 Years \$ 29,945,005	\$ - 1,479,020	10 Years \$ -	17.86% 7.45% 27.10%			
Investment type Debt securities: U.S. treasuries U.S. agencies	\$ 31,209,910 13,025,537		1,264,905 4,513,261	1 to 5 Years \$ 29,945,005 4,052,385	6 to 10 Years	10 Years \$ -	17.86% 7.45%			
Investment type Debt securities: U.S. treasuries U.S. agencies Corporate debt	\$ 31,209,910 13,025,537 47,358,417 39,518,020	\$	1,264,905 4,513,261 8,324,217 1,844,637	\$ 29,945,005 4,052,385 39,034,200 16,964,507	\$ - 1,479,020 - 4,139,499	\$ - 2,980,871 - 16,569,377	17.86% 7.45% 27.10%			
Investment type Debt securities: U.S. treasuries U.S. agencies Corporate debt Mortgage/asset-backed securities	\$ 31,209,910 13,025,537 47,358,417	\$	1,264,905 4,513,261 8,324,217	1 to 5 Years \$ 29,945,005 4,052,385 39,034,200	\$ - 1,479,020	\$ - 2,980,871	17.86% 7.45% 27.10%			
Investment type Debt securities: U.S. treasuries U.S. agencies Corporate debt Mortgage/asset-backed securities Equities and other:	\$ 31,209,910 13,025,537 47,358,417 39,518,020 131,111,884	\$	1,264,905 4,513,261 8,324,217 1,844,637	\$ 29,945,005 4,052,385 39,034,200 16,964,507	\$ - 1,479,020 - 4,139,499	\$ - 2,980,871 - 16,569,377	17.86% 7.45% 27.10%			
Investment type Debt securities: U.S. treasuries U.S. agencies Corporate debt Mortgage/asset-backed securities Equities and other: Equity-domestic	\$ 31,209,910 13,025,537 47,358,417 39,518,020 131,111,884 25,530,751	\$	1,264,905 4,513,261 8,324,217 1,844,637	\$ 29,945,005 4,052,385 39,034,200 16,964,507	\$ - 1,479,020 - 4,139,499	\$ - 2,980,871 - 16,569,377	17.86% 7.45% 27.10% 22.61%			
Investment type Debt securities: U.S. treasuries U.S. agencies Corporate debt Mortgage/asset-backed securities Equities and other: Equity-domestic Equity-international	\$ 31,209,910 13,025,537 47,358,417 39,518,020 131,111,884 25,530,751 10,179,531	\$	1,264,905 4,513,261 8,324,217 1,844,637	\$ 29,945,005 4,052,385 39,034,200 16,964,507	\$ - 1,479,020 - 4,139,499	\$ - 2,980,871 - 16,569,377	17.86% 7.45% 27.10% 22.61% 14.61% 5.83%			
Investment type Debt securities: U.S. treasuries U.S. agencies Corporate debt Mortgage/asset-backed securities Equities and other: Equity-domestic	\$ 31,209,910 13,025,537 47,358,417 39,518,020 131,111,884 25,530,751	\$	1,264,905 4,513,261 8,324,217 1,844,637	\$ 29,945,005 4,052,385 39,034,200 16,964,507	\$ - 1,479,020 - 4,139,499	\$ - 2,980,871 - 16,569,377	17.86% 7.45% 27.10% 22.61%			

Note 5: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

		_					
June 30, 2020	Fair Value	AAA	AA	Α	ВАА		N/A or Unrated
Interest Rates	Tun Vulue	0% - 6.00%	0.85% - 5.19%	.65% - 3.9%	1.3% - 5.45%		Omateu
Investment type							
Debt securities:							
U.S. treasuries		\$ 27,798,123	\$ -	\$ -	\$ -	\$	4,915,401
U.S. agencies	29,518,482	22,323,669	4,418,726	2,776,085	-		2
Corporate debt	43,515,755	6,746,699	5,731,422	20,600,285	10,437,349		-
Mortgage/asset-backed							
securities	26,860,282	23,448,811	3,411,471	-	-		-
	\$132,608,043	\$ 80,317,302	\$ 13,561,619	\$ 23,376,370	\$ 10,437,349	\$	4,915,403
			_				
							N/A or
June 30, 2019	Fair Value	AAA	AA	Α	BAA		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

As of June 30, 2020 and 2019, 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, 2020 and 2019.

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, 2020 was 0.6%.

Note 5: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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	Target	Maximum
	Allocation	Allocation	Allocation
Equities - domestic & international stocks Fixed income assets - domestic	15%	20%	25%
	75%	80%	85%

Fair Value Measurement – Investments

The Health System categorizes its fair value measurements within the fair value hierarchy established by general 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:

	2020									
		Level 1		Level 2	Level 3			Total		
Equity - domestic and international	\$	35,523,741	\$	-	\$		-	\$	35,523,741	
U.S. treasuries		32,836,300		-			-		32,836,300	
U.S. agencies		-		29,657,465			-		29,657,465	
Corporate debt		-		43,753,935			-		43,753,935	
Money market		63		-			-		63	
Mortgage/asset-backed securities		-		26,906,908			-		26,906,908	
Mutual bond funds		-		7,581,872			-		7,581,872	
Total investments	\$	68,360,104	\$	107,900,180	\$		-	\$	176,260,284	

Note 5: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	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	

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.

Note 5: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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

		2020	2019
Dividend and interest income	Ś	4,700,752 \$	4,686,332
	Ą		
Net realized gain on investments		310,138	6,738,964
Net change in unrealized gain (loss) on investments		2,813,761	(2,626,521)
Management fees		(479,863)	(454,520)
			_
Investment income, net	\$	7,344,788 \$	8,344,255

Note 6: CAPITAL ASSETS

Capital asset additions, retirements and balances are as follows for the years ended June 30, 2020 and 2019:

	Balance June 30, 2019	Additions	Retirements/ Transfers	Balance June 30, 2020		
Capital assets not being depreciated:	A 20.445.250	4	4	4 22 44 5 25 2		
Land Construction in progress	\$ 20,115,269 28,737,006	\$ - 24.676.016	(20 020 850)	\$ 20,115,269		
Construction in progress	26,737,000	24,676,916	(29,929,859)	23,484,063		
	48,852,275	24,676,916	(29,929,859)	43,599,332		
Capital assets being depreciated:						
Leasehold improvements	188,555,635	10,716,013	-	199,271,648		
Equipment	252,718,738	30,937,817	(1,062,282)	282,594,273		
Technology & software	91,486,557	5,029,670	(6,930)	96,509,297		
	532,760,930	46,683,500	(1,069,212)	578,375,218		
Accumulated depreciation:						
Leasehold improvements	(84,472,366)	(12,483,258)	-	(96,955,624)		
Equipment	(165,891,546)	(19,542,744)	1,045,876	(184,388,414)		
Technology & software	(79,701,940)	(6,257,675)	806	(85,958,809)		
	(330,065,852)	(38,283,677)	1,046,682	(367,302,847)		
Capital assets, net	\$ 251,547,353	\$ 33,076,739	\$ (29,952,389)	\$ 254,671,703		

Note 6: CAPITAL ASSETS (Continued)

	Balance		Retirements/	Balance
	June 30, 2018	Additions	Transfers	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	233,600,987	20,000,948	(883,197)	252,718,738
Technology & software	90,547,845	938,712	-	91,486,557
	508,933,578	24,721,544	(894,192)	532,760,930
Accumulated depreciation:				
Leasehold improvements	(72,798,214)	(11,674,427)	275	(84,472,366)
Equipment	(148,824,847)	(17,881,186)		(165,891,546)
Technology & software	(72,141,559)	(7,560,381)	-	(79,701,940)
	(293,764,620)	(37,115,994)	814,762	(330,065,852)
Capital assets, net	\$ 256,138,376	\$ 15,661,269	\$ (20,252,292)	\$ 251,547,353

Depreciation expense, which includes amortization of assets under capital leases, totaled approximately \$36,434,000 and \$37,116,000 for the years ended June 30, 2020 and 2019, respectively. For the year ended 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. There were no asset impairments for the year ended June 30, 2020.

Construction in progress at June 30, 2020 consists of construction projects, medical equipment deployment and information technology upgrades. Estimated costs to complete these various projects total approximately \$36,356,000 at June 30, 2020. The estimated costs that will be funded from the bond proceeds total approximately \$12,017,000 and the remaining will be funded with operating cash.

Note 7: ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	2020	2019
Accrued for employee healthcare claims Accrued for workers' compensation claims Interest payable	\$ 1,730,000 1,001,232 4,747,291	\$ 1,804,000 842,269 5,413,631
Other accrued expenses	3,866,025	3,373,617
	\$ 11,344,548	\$ 11,433,517

Note 8: DEBT

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

	2020	2019
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	\$ 51,060,000 \$	53,170,000
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	51,060,000	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	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	20,130,000	21,075,000
	203,195,000	208,360,000
Unamortized premium and unamortized discount	4,520,455	4,924,966
Less - current portion of long-term debt	(5,330,000)	(5,165,000)
	\$ 202,385,455 \$	208,119,966

Long-term debt activity for the year ended June 30, 2020 was as follows:

	Balance							Balance	Amounts due		
	June 30, 2019		Additions			Reductions	Ju	ine 30, 2020	Within One Year		
Line of credit	\$	-	\$	1,104,188	\$	(1,104,188)	\$	-	\$	-	
Development Authority of Richmond											
County Revenue Bonds, Series 2014A											
Tax Exempt Bonds		53,170,000		-		(2,110,000)		51,060,000		2,180,000	
Development Authority of Richmond											
County Revenue Bonds, Series 2014B											
Tax Exempt Bonds		53,170,000		-		(2,110,000)		51,060,000		2,180,000	
Development Authority of Richmond											
County Revenue Bonds, Series 2018											
Tax Exempt Bonds		84,360,271		-		(233,448)		84,126,823		-	
Development Authority of Richmond											
County Revenue Bonds, CRC Series											
2014A Tax Exempt Bonds		22,584,695		-		(1,116,063)		21,468,632		970,000	
	\$ 2	13,284,966	\$	1,104,188	\$	(6,673,699)	\$	207,715,455	\$	5,330,000	

Note 8: DEBT (Continued)

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

		Balance ine 30, 2018	Additions		Reductions		Balance une 30, 2019	Amounts due Within One Year		
		ine 30, 2016		Additions		Reductions	,,	une 30, 2013	VVI	tiiii One rear
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		23,667,957		-		(1,083,262)		22,584,695		945,000
	<u> </u>	105 007 057	۲.	04 524 004	Ļ	(67.424.002)	<u>,</u>	242 204 000	<u>.</u>	F 46F 000
	\$	195,897,957	\$	84,521,091	\$	(67,134,082)	Ş	213,284,966	\$	5,165,000

Each of the outstanding bond issuances, as described in the above chart, as well as the CRC loan, contain various provisions related to events of default and financial covenants consistent with traditional governmental healthcare bond offerings. Events of default grant the lender the ability to accelerate payment demands to the full amount of the outstanding obligation.

The collateral on the 2014A, 2014B and 2018 bonds includes, generally, all gross revenues of the Health System (broadly defined), cash and investments maintained in trust accounts with the lender (as presented on the statements of net position), and all tangible property of the Health System, as of the date of the bond issuance, and, in some cases, future additions. The collateral on the 2014A CRC Series bonds includes the property acquired with bond proceeds, as well as a lien on rental and lease income derived thereon.

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.

Note 8: DEBT (Continued)

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 2019, the rate of interest on the 2014A Bonds increased to a rate of 68% of LIBOR plus 99 basis points as a result of a credit rating downgrade from Moodys. 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 4.810% and 4.808% for fiscal years 2020 and 2019, 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, 2020 and 2019, the Health System's management believes it was in compliance with all significant 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, 2020 and 2019 was \$102,120,000 and \$106,340,000, 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.

Note 8: DEBT (Continued)

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, 2020 and 2019, the fair value of the Swap represented a liability to the Health System in the amount of \$28,181,000 and \$20,085,000, 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, 2020 and 2019, the Health System had \$28,180,000 and \$20,213,000 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, 2020 and 2019, 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, 2020 and 2019, 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, Inc. 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 an AUMC note payable. The note payable was refunded by the Series 2018 Bonds.

The effective interest rate at June 30, 2020 and 2019 was 4.472% and 4.141%, respectively. Principal payments are due annually beginning in fiscal year 2024 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%.

Note 8: DEBT (Continued)

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, 2020 and 2019 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, 2020, the CRC's management believes it was in compliance with all significant 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 statement 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, 2020, debt service requirements of the debts were as follows:

	2014A, 201	4B,	and 2018 Rev	enu	e Bonds	2014 CRC Bonds					
	Principal		Interest*		terest Rate Swaps, Net		Principal		Interest*		Total
Fiscal year ending	•				. ,		•				
June 30:											
2021	\$ 4,360,000	\$	4,886,172	\$	2,999,077	\$	970,000	\$	841,094	\$	14,056,343
2022	4,510,000		4,829,468		2,852,085		1,010,000		796,444		13,997,996
2023	4,660,000		4,768,976		2,700,516		1,060,000		744,694		13,934,186
2024	5,460,000		4,691,703		2,543,552		1,115,000		690,319		14,500,574
2025	6,410,000		4,571,968		2,381,890		1,170,000		633,194		15,167,051
2026-2030	41,310,000		20,053,360		9,280,204		6,680,000		2,318,519		79,642,083
2031-2035	53,060,000		13,782,215		4,330,952		8,125,000		820,291		80,118,458
2036-2040	63,295,000		5,431,667		232,278		-		-		68,958,946
	_		•		_		_		•		
Total investments	\$ 183,065,000	\$	63,015,529	\$	27,320,552	\$	20,130,000	\$	6,844,553	\$	300,375,635

^{*}Amounts included are based on rates in effect as of June 30, 2020.

Note 8: DEBT (Continued)

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:

	2020			2019	
Interest cost: Capitalized, net of investment income Charged to operations	\$	860,443 8,251,474	\$	664,567 7,289,241	
	\$	9,111,917	\$	7,953,808	

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% for fiscal year 2019. 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% for fiscal year 2019. 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 was no longer available.

On October 1, 2019, the Health System acquired the remaining shares of the Surgery Center of Columbia County, LLC making AU Medical Center the sole equity member. With the purchase, the Health System assumed the liability for an existing line of credit in the amount of \$1,104,189 with an annual effective interest rate of 5.25%. The line of credit was paid in full at June 30, 2020.

Note 8: DEBT (Continued)

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

	2020	
Interest cost:		
Charged to operations	\$ 41,188 \$	572,254

Note 9: POST-EMPLOYMENT 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 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. The Plan does not issue a publicly available financial report.

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.

Note 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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, 2020 and 2019:

	At June 30,	At June 30,
	2020	2019
Non-faculty participants:		
Actives (covered)	21	34
Retirees (covered)	41	30
Faculty participants:		
Actives (covered)	390	360
Retirees (covered)	63	58

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, 2020 and 2019, the Health System contributed approximately \$539,000 and \$449,000, respectively, to the Plan for current premiums or claims. For the years ended June 30, 2020 and 2019, Plan members receiving benefits contributed approximately \$2,000 and \$9,000, respectively, for current premiums or claims.

	Retiree		Spouse	
Pre-65 non-faculty annual premium at June 30, 2020 Post-65 non-faculty annual premium at June 30, 2020	\$	7,149 N/A	\$ 8,936 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.

Note 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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

	An	nual Cost	Trend Rate
Non-faculty participants:			
Pre-65 medical claims - Per retiree/spouse	\$	13,788	7.1% graded*
Post-65 medical claims - Per retiree/spouse		500	no increase
Faculty participants:			
Pre-65 medical claims - Per retiree/spouse	\$	1,000	no increase
Post-65 medical claims - Per retiree/spouse		N/A	N/A
Tuition benefit - Per retiree (up to age 73)		2,380	6.00%

^{*7.1%} graded uniformly to 5.0% over a 7-year period

Annual OPEB Cost and Net OPEB Liability

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. 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 liability for the Plan for the years ended June 30, 2020 and 2019:

	2020	2019	2018
Beginning balance July 1	\$ 6,758,623 \$	6,165,679 \$	44,702,551
Service cost	515,804	526,822	5,413,604
Interest	215,050	208,919	1,453,743
Benefit changes	, -	-	(44,538,003)
Experience losses	315,686	714,316	-
Changes of assumptions	(624,764)	(408,257)	-
Contributions - employer	(539,070)	(448,856)	(956,216)
Net changes	(117,294)	592,944	(38,626,872)
Ending balance June 30	\$ 6,641,329 \$	6,758,623 \$	6,075,679

Note 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

For the years ended June 30, 2020 and 2019, the Health System recorded a related expense (income), as shown as follows:

	2020	2019	2018
Service cost	\$ 515,804 \$	526,822 \$	5,413,604
Interest	215,050	208,919	1,453,743
Benefit changes	-	-	(44,538,003)
Experience losses	114,444	79,368	-
Changes of assumptions	(114,780)	(45,362)	-
OPEB expense (income)	\$ 730,518 \$	769,747 \$	(37,670,656)

The following represents the net OPEB liability as of June 30, 2020 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			1	1% Increase		
	6.	6.1% Decreasing Current 7.1% to 4% Decreasing to Over 7 Years 5% Over 7 Years		•				.% Decreasing
				ecreasing to	to 6%			
				5% Over 7 Years		Over 7 years		
Net OPEB liability	\$	5,998,489	\$	6,641,329	\$	7,420,164		

The following represents the net OPEB liability at June 30, 2020 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 2.07%		Cı	Current Rate 3.07%		1% Increase 4.07%	
Net OPEB liability	\$	7,223,715	\$	6,641,329	\$	6,118,093	

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.

Note 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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 Actuarial Assumptions

Valuation Date – July 1, 2019 with a measurement date of April 1, 2020 and reporting date of June 30, 2020

- 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:

	Less than One	1 to 3 Years	4 to 8 Years	9+ Years of
Age	Year of Service	of Service	of Service	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	-	-	-	-

Note 9: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

Retirement Rates:

Age	Non-faculty	Faculty
	%	%
55-59	0	5
60	35	20
61-64	35	15
65	50	25
66-69	50	25
70-74	100	50
75	100	100

- Discount rate 3.07% per annum for 2020 and 3.23% for 2019 based on the S&P 500 Municipal Bond Index
- 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.

Note 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 6.83%.

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 \$66,401,000 and \$64,025,000, and accumulated amortization of \$47,235,000 and \$40,470,000 at June 30, 2020 and June 30, 2019, respectively. Amortization of assets under capital lease is included in depreciation and amortization expense.

Note 10: CAPITAL LEASES (Continued)

On September 1, 2014, the Health System entered into a capital lease obligation to purchase a unified communication system. As of June 30, 2020 the balance of this obligation was satisfied in full. As of June 30, 2019, the balance of this obligation under capital lease was \$546,000. The assets under the capital lease are included in capital assets with a cost of \$2,439,000 and were fully depreciated as of August 2019.

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 the 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 \$9,286,000 and \$8,381,000, and accumulated amortization of \$2,534,000 and \$1,205,000 at June 30, 2020 and June 30, 2019, 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. The balance of this obligation under capital lease was \$1,716,000 and \$2,175,000 at June 30, 2020 and June 30, 2019, respectively. The assets under capital lease are included in capital assets with a cost of \$2,435,000, and accumulated amortization of \$771,000 and \$284,000 at June 30, 2020 and June 30, 2019, respectively. Amortization of assets under capital lease is included in depreciation and amortization expense.

During the 2020 fiscal year, the Health System entered into multiple real estate leases in order to support strategic initiatives and contribute to the expansion of clinical services. The real estate leases qualified as capital lease obligations. The combined total of these obligations as of June 30, 2020 was \$9,667,000. The assets are included in capital assets with a cost of \$10,046,000 and the accumulated depreciation for the leases is \$544,000. Amortization of assets under capital lease is included in depreciation and amortization expense.

Note 10: CAPITAL LEASES (Continued)

Capital lease activity for the years ended June 30, 2020 and 2019, was as follows:

	Balance June 30, 2019 Additions Red		Reductions	J	Balance une 30, 2020	Amounts Due Within One Year			
Capital lease obligations	\$ 25,700,452 \$ 13,699,537 \$		\$	(8,814,118)		\$ 30,585,871		5,924,708	
	Balance June 30, 2018		Additions		Reductions		Balance June 30, 2019		Amounts Due /ithin One Year
Capital lease obligations	\$	23,246,342	\$ 11,672,982	\$	(9,218,872)	\$	25,700,452	\$	6,327,586

Minimum future lease payments under capital leases as of June 30, 2020 follow:

	Amount
Years ending June 30:	
2021	\$ 7,495,396
2022	6,724,710
2023	5,557,276
2024	4,295,338
2025-2029	10,949,425
2030-2034	1,579,623
	_
Total minimum payments	36,601,768
Less amount representing interest	(6,015,897)
	_
Present value of net minimum lease payments	30,585,871
Less - current maturities of capital lease obligation	(5,924,708)
Long-term capital lease obligation	\$ 24,661,163

Note 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, 2020, are as follows:

		Amount	
2021	ė.	2 (40 002	
2022	\$	2,648,883 2,371,404	
2023		1,979,497	
2024		1,856,369	
2025		843,057	
2026-2030		1,583,968	
Total minimum payments	\$	11,283,178	

Rental expense for the years ended June 30, 2020 and 2019, was approximately \$3,854,000 and \$3,142,000, respectively.

Note 12: EMPLOYEE RETIREMENT PLANS

Prior to January 2019, the Health System sponsored 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 was a 403(b) retirement plan that allowed employee contributions up to 20% of annual compensation, subject to a maximum dollar limitation. The other retirement plan was a 401(a) retirement plan that allowed employer contributions. In January 2019, the Health System froze the 401(a) plan and continues to maintain it as a "governmental plan" within the definition of Section 3(32) of the Employer Retirement Income Security Act of 1974, as amended. With this change, employer contributions are deposited into the 403(b) retirement plan. The Health System matches 100% of participant contributions into the 403(b) plan up to 5% of compensation as defined by the plan. Employees vest immediately in company contributions. The Health System recorded approximately \$11,005,000 and \$10,051,000 of expense related to these plans during the years ended June 30, 2020 and 2019, 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 \$592,000 and \$1,436,000 for the years ended June 30, 2020 and 2019. The decrease from 2019 to 2020 is related to AUMA employees transitioning to the Health System employer platform.

Note 13: RELATED PARTIES

Related parties for the fiscal years ended June 30, 2020 and 2019, 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.

In 2019, the service fee was based on the percentage of AUMC's net income to operating revenue (as defined) in the Master Lease Agreement. In 2020, the Health System and the Regents amended the Master Lease Agreement to adjust the calculation of the combined service fee to be based on the Health System's net income to operating revenue (as defined). The Master Lease Agreement defined the net income to operating revenue 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

Note 13: RELATED PARTIES (Continued)

The following is a summary of the service fee for the years ended June 30, 2020 and 2019:

2020		2019
465.494	\$	733,894
	465,494	

Research, Education, and Professional Services Agreement

Effective January 1, 2018, 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, 2020 and 2019 were approximately \$36,764,000 and \$26,940,000, 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 years ended June 30, 2020 and 2019 were approximately \$24,095,000 and \$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.

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, 2020 and 2019 were approximately \$21,768,000 and \$15,080,000, 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 year ended June 30, 2019 were approximately \$50,000. There were no payments for fiscal year 2020. These expenses are included in purchased services on the statements of revenues, expenses and changes in net position.

Note 13: RELATED PARTIES (Continued)

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, 2020 and 2019 were approximately \$1,186,000 and \$3,046,000, 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, 2020 and 2019 were \$4,000,000 and \$3,500,000, respectively. 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. In fiscal year 2020, this portion of the agreement was terminated resulting in an increase to the right to use the AU nomenclature. The amount paid to GHSF by the Health System for these services for the year ended June 30, 2019 was \$500,000. These expenses were 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 \$1,896,000 and \$852,000, respectively, for the year ended June 30, 2020, for costs paid to AU for the leased employees. 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.

On August 11, 1999, Regents established an early retirement program incentive for eligible AU employees. Effective 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. Payments to AU were \$5,208,000 and \$5,879,000 for June 30, 2020 and June 30, 2019, respectively. Actual payments to AU are determined annually and are expected to continue 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.

Note 13: RELATED PARTIES (Continued)

Clinical and Administrative Professional Services Agreement

The Health System and AU have entered into a formal Clinical and Administrative Professional Services Agreement (CAPSA) 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 faculty and staff salaries by approximately \$118,981,000 and \$104,579,000 for the years ended June 30, 2020 and 2019, respectively. For fiscal year 2019, CAPSA expenses were included in salaries and wages and employee benefits and payroll taxes. Beginning in fiscal 2020, a change in accounting methodology resulted in performance based payments, medical administrative services, and other physician delegate services provided through the CAPSA were accounted for in purchased services in the amount of \$91,465,000 as of June 30, 2020. The remaining supplemental salary expenses for non-physician positions remained in salaries and wages and employee benefits and payroll taxes and totaled \$27,516,000 as of June 30, 2020.

On a monthly and recurring basis, invoices for shared services, contracted physicians, and numerous other items, as defined in the contracts discussed above, are remitted to the Health System and its component parts by Regents. These amounts are due monthly. At June 30, 2020 and 2019, the Health System owed Regents approximately \$67,305,000 and \$66,512,000, respectively, which is recorded as due to related parties on the accompanying statements of net position. The balance at June 30, 2020 represents approximately two months of outstanding invoices. No interest is charged on these balances.

Augusta University Early Retirement Program

On August 11, 1999, the University established an early retirement program incentive for eligible employees at that date. Effective beginning in fiscal 2002, the Health System agreed to pay the University a portion of the cost of the program, as defined by the agreement. This agreement was last amended effective January 1, 2018. Payments to the University were \$5,208,000 and \$5,879,000 for June 30, 2020 and 2019, respectively. Actual payments to the University are determined annually and are currently expected to continue through 2025. As the employees included within this program were employed by the University and not the Health System, no obligation for this plan is included in the accompanying financial statements.

Note 13: RELATED PARTIES (Continued)

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, 2020 and 2019.

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

June 30,	2020	2019
Lease payments due	\$ 26,106,114	\$ 27,983,678
Unearned income	(4,813,252)	(5,464,154)
Net investment	21,292,862	22,519,524
Current portion	(1,255,961)	(1,226,662)
	\$ 20,036,901	\$ 21,292,862

Future minimum rentals to be received under this lease, including renewed terms at June 30, 2020, are as follows:

Year ending June 30,		Amount
2021	\$ 1,870,708 \$	1,877,564
2022	1,867,054	1,870,708
2023	1,866,190	1,867,054
2024	1,867,702	1,866,190
2025	1,866,466	1,867,702
Thereafter	16,767,994	18,634,460
	\$ 26,106,114 \$	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 \$73,000 and \$78,000 for 2020 and 2019, respectively.

Note 13: RELATED PARTIES (Continued)

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, 2020 and 2019, GHSF held net assets of approximately \$5,213,000 and \$4,808,000, respectively, which use by the Health System is limited by the intent of donors. At June 30, 2020, approximately \$148,000 of GHSF's net assets has been restricted by donors to be maintained in perpetuity. At June 30, 2019, approximately \$140,000 of GHSF's net assets has been restricted by donors to be maintained in perpetuity. As of June 30, 2020 and 2019, other receivables include (\$204,000) and \$124,000 (due to) due from GHSF, respectively.

Medical College of Georgia Foundation, Inc.

The Medical College of Georgia Foundation, Inc. (the Foundation) was 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, 2020 and 2019, the Foundation held net assets of approximately \$2,574,000 and \$2,588,000, respectively, which use by the Health System is limited by the intent of the donors. At June 30, 2020 and 2019, approximately \$1,468,000 and \$1,467,000, respectively, of the Foundation's net assets have been restricted by donors to be maintained in perpetuity.

Note 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 statement 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 additional coverage with third parties coverage 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, 2020 have not exceeded this commercial coverage in any of the five preceding years.

Note 14: COMMITMENTS AND CONTINGENCIES (Continued)

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, 2020 and 2019:

	Accrued Professional Liability Costs		Accrued Workers Compensation Claims			Accrued poloyee Health Care Claims	Total
Balance at June 30, 2018 Claims incurred and changes in estimates Claims payments	\$	17,027,210 6,968,480 (4,863,313)		826,217 1,059,701 (1,043,649)	\$	1,748,000 17,675,293 (17,619,293)	\$ 19,601,427 25,703,474 (23,526,255)
Balance at June 30, 2019 Claims incurred and changes in estimates Claims payments		19,132,377 6,887,966 (4,233,875)	١	842,269 468,392 (309,429)		1,804,000 18,371,685 (18,445,685)	21,778,646 25,728,043 (22,988,989)
Balance at June 30, 2020	\$	21,786,468	\$	1,001,232	\$	1,730,000	\$ 24,517,700

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.

Note 14: COMMITMENTS AND CONTINGENCIES (Continued)

Under the amended and restated agreement, the aggregate amount of required payments at June 30, 2020 (given no early termination), are as follows:

Fiscal year ending June 30:	Amount
2021	\$ 16,360,176
2022	11,045,760
2023	10,125,588
2024	10,359,876
2025	10,575,516
Thereafter	33,638,406
	\$ 92,105,322

Note 15: SUBSEQUENT EVENTS

The Health System evaluated its June 30, 2020 financial statements for subsequent events through August 31, 2020, the date the financial statements were available to be issued. In July 2020, the Health System received a cash payment of \$2.2 million under the CARES Act Rural Provider Relief funds.

AU Health Systems, Inc. (a component unit of the State of Georgia) Required Supplementary Information Schedule of Changes in Net OPEB Liability and Related Ratios Last 10 Fiscal Years*

For the years ended June 30,		2020	2019	2018
Total OPEB liability				
Service cost	\$	515,804 \$	526,822 \$	5,413,604
Interest	т.	215,050	208,919	1,543,743
Differences between expected and actual experience		315,686	714,316	(44,538,003)
Changes of assumptions		(624,764)	(408,257)	-
Benefit payments		(539,070)	(448,856)	(956,216)
Net change in total OPEB liability		(117,294)	592,944	(38,536,872)
Total OPEB liability - beginning		6,758,623	6,165,679	44,702,551
Total OPEB liability - ending (a)	\$	6,641,329 \$	6,758,623 \$	6,165,679
Plan fiduciary net position				
Contributions - employer		539,070	448,856	956,216
Benefit payments		(539,070)	(448,856)	(956,216)
Net change in plan fiduciary net position		-	-	-
Plan fiduciary net position - beginning		-	-	-
Plan fiduciary net position - ending (b)		-	-	<u>-</u>
Net OPEB liability - ending (a) - (b)	\$	6,641,329 \$	6,758,623 \$	6,165,679
Plan fiduciary net position as a percentage of the total OPEB liability		0.00%	0.00%	0.00%
Covered-employee payroll	\$	1,926,046	*	***
Net OPEB liability as a percentage of covered-employee payroll		344.82%	-	-
Contributions as a percentage of covered-employee payroll		27.99%	-	-

Notes to Required Supplementary Information - Schedule of Changes in Net OPEB Liability and Related Ratios There have been no changes to the plan provisions since the last valuation.

The following: changes were made to the actuarial assumptions and methods:

- 1. The discount rate was changed from 3.23% to 3.07% based on the S&P 500 Municipal Bond Index as of April 1, 2020.
- 2. The trend rate for future increases in the tuition benefit was changed from 7% to 6% to more accurately reflect expected experience.

^{*}Information is not available for years prior to 2018. This schedule is intended to show information for 10 years and additional years will be presented as it becomes available.

^{**}Covered-employee payroll amount does not include faculty physicians contracted from the University during the year. As these are not employees of AU Health Systems, Inc., no payroll data is available. As such, we have excluded these payroll expenses from our totals.

^{***}Covered-employee payroll amount was not available for prior years due to change in payroll software.

AU Health Systems, Inc. (a component unit of the State of Georgia) Combining Statement of Net Position

			Obligated	Group			No	onobligated Group)	
As of June 30, 2020	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Nonobligated Group	Eliminations	Total	Total AU Health System
Assets and Deferred Outflows										
Current assets:										
Cash and cash equivalents	\$ 130,181,494 \$	5,624,706	\$ 4,644,839	. ,- , -	\$ -	\$ 142,462,768	\$ 8,757,063	\$ -	\$ 8,757,063	\$ 151,219,831
Short-term investments	31,100,737	-	-	7,478,355	-	38,579,092	-	-	-	38,579,092
Cash equivalents internally designated for self- insurance liability funding	-	_	_	_	_	_	3,548,312	_	3,548,312	3,548,312
Short-term investments internally designated for self-insurance liability funding	_	_	_	_	_	_	2.958.451	_	2.958.451	2.958.451
Cash held by trustee under indenture agreement	_	_	_	_	_	_	1,235,936	_	1,235,936	1,235,936
Investments held by trustee under indenture							1,200,000		.,200,000	1,200,000
agreement, current portion	_	9,562,832	_	_	_	9,562,832	929,230	_	929,230	10,492,062
Patient accounts receivable, net of allowance		0,002,002				0,002,002	020,200		020,200	10, 102,002
for doubtful accounts	106,606,329	7,027,824	4,278,489	_	(118,861)	117,793,781	1,444,652	_	1,444,652	119,238,433
Due from third-party payors	14,624,557	7,386,660	-	_	(1.10,001.)	22,011,217	-,,002	_	-, ,	22,011,217
Other receivables	10,392,135	4,100,412	_	107.662	(429,302)	14,170,907	(379,901)	384.468	4,567	14,175,474
Inventory	23,931,313	-	101,722	-	(,,	24,033,035	69,491	-	69,491	24,102,526
Net investment in direct financing lease		_	-	-	_		1,255,961	_	1,255,961	1,255,961
Other current assets	15,682,216	3,561,452	38,432	-	(1,095,404)	18,186,696	35,844	_	35,844	18,222,540
			·		,					
Total current assets	332,518,781	37,263,886	9,063,482	9,597,746	(1,643,567)	386,800,328	19,855,039	384,468	20,239,507	407,039,835
Noncurrent assets:										
Investments internally designated for self-										
insurance liability funding	-	-	-	-	-	-	12,497,273	-	12,497,273	12,497,273
Long-term investments	92,559,181	-	-	14,442,845	-	107,002,026	-	-	-	107,002,026
Investments held by trustee under indenture agreement	-	4,731,380	-	-	-	4,731,380	-	-	-	4,731,380
Capital assets, net	241,299,310	6,051,059	163,040	-	-	247,513,409	7,158,294	-	7,158,294	254,671,703
Net investment in direct financing lease, less										
current portion	-		-	-	.	-	20,036,901	-	20,036,901	20,036,901
Notes receivable - related parties		70,845,432	-	-	(70,845,432)		.		. .	-
Intercompany receivables (payables)	18,624,201	(35,857,513)	(10,590,179)	28,304,326	14,666,676	15,147,511	(599,696)	(14,547,815)	(15,147,511)	
Other assets	34,921,592	174,267	-	11,100,474	(12,638,641)	33,557,692	-	-	-	33,557,692
Total noncurrent assets	387,404,284	45,944,625	(10,427,139)	53,847,645	(68,817,397)	407,952,018	39,092,772	(14,547,815)	24,544,957	432,496,975
Total assets	719,923,065	83,208,511	(1,363,657)	63,445,391	(70,460,964)	794,752,346	58,947,811	(14,163,347)	44,784,464	839,536,810
Deferred outflows	2,862,771	836,190	<u>-</u>		<u>-</u>	3,698,961	<u>-</u>			3,698,961
Total assets and deferred outflows	\$ 722,785,836 \$	84,044,701	\$ (1,363,657)	\$ 63,445,391	\$ (70,460,964)	\$ 798,451,307	\$ 58,947,811	\$ (14,163,347)	\$ 44,784,464	\$ 843,235,771

-Continued-

AU Health Systems, Inc. (a component unit of the State of Georgia) Combining Statement of Net Position (Continued)

				Obligated	No	•					
As of June 30, 2020	AUMC		AUHS	RWSH	AUMA	Eliminations	Total	Nonobligated Group	Eliminations	Total	Total AU Health System
Liabilities, Deferred Inflows and Net Position											
Current liabilities:											
Accounts payable	\$ 62,90	9,534 \$	3,448,688	\$ 1,212,191	\$ 511,951	\$ 384,468	\$ 68,466,832	\$ 1,921,634	\$ (429,302)	\$ 1,492,332	\$ 69,959,164
Accrued salaries and wages	8,15	2,044	2,289,283	285,926	107,122	-	10,834,375	16,310	-	16,310	10,850,685
Accrued compensated absences	17,86	9,169	4,132,706	630,434	923,100	-	23,555,409	44,501	-	44,501	23,599,910
Accrued expenses and other current liabilities	4,01	0,430	6,852,053	1,688	365,575	-	11,229,746	114,802	-	114,802	11,344,548
Due to related party - service fee	46	5,494	-	-	-	-	465,494	-	-	-	465,494
Due to related parties	15,09	5,379	22,186,515	18,956	29,740,686	-	67,041,536	60,676	-	60,676	67,102,212
Due to third-party payors	(2,94	3,969)	1,312,500	1,750,000	_	-	118,531	-	-	-	118,531
Unearned revenue	62,00	0,001	4,487,875	1,134,969	-	-	67,622,845	170,118	-	170,118	67,792,963
Current portion of accrued professional liability costs		-	1,221,790	-	-	-	1,221,790	4,224,828	-	4,224,828	5,446,618
Current portion of obligations under capital lease	5,59	3,165	202,612	8,862	-	-	5,804,639	120,069	-	120,069	5,924,708
Current portion of long-term debt	4,36	0,000	-	-	-	-	4,360,000	970,000	-	970,000	5,330,000
Total current liabilities	177,51	1,247	46,134,022	5,043,026	31,648,434	384,468	260,721,197	7,642,938	(429,302)	7,213,636	267,934,833
Noncurrent liabilities:											
Long-term debt, net of current	97,76	0,000	84,126,823	-	-	-	181,886,823	20,498,632	-	20,498,632	202,385,455
Obligations under capital lease, net of current	20,49	1,656	2,950,004	-	-	-	23,441,660	1,219,503	-	1,219,503	24,661,163
Long-term debt, intercompany	70,84	5,432	-	-	-	(70,845,432)	-	-	-	-	-
Accrued postemployment benefits		-	6,641,329	-	-	-	6,641,329	-	-	-	6,641,329
Accrued professional liability costs, net of current		-	3,665,368	-	-	-	3,665,368	12,674,482	-	12,674,482	16,339,850
Interest rate swap liability	28,18	1,020	-	-	-	-	28,181,020	-	-	-	28,181,020
Other liabilities	2,81	5,633	73,055	-	-	-	2,888,688	-	-	-	2,888,688
Total noncurrent liabilities	220,09	3,741	97,456,579	-	-	(70,845,432)	246,704,888	34,392,617	-	34,392,617	281,097,505
Total liabilities	397,60	4,988	143,590,601	5,043,026	31,648,434	(70,460,964)	507,426,085	42,035,555	(429,302)	41,606,253	549,032,338
Deferred inflows		-	872,879	-	-	-	872,879	-	-	-	872,879
Net position:											
Net investment in capital assets	46,12	4,649	2,898,444	-	154,178	-	49,177,271	5,128,557	-	5,128,557	54,305,828
Unrestricted	279,05	6,199	(63,317,223)	(6,406,683)	31,642,779	-	240,975,072	11,783,699	(13,734,045)	(1,950,346)	239,024,726
Total net position	325,18	0,848	(60,418,779)	(6,406,683)	31,796,957	-	290,152,343	16,912,256	(13,734,045)	3,178,211	293,330,554
Total liabilities, deferred inflows and net position	\$ 722,78	5,836 \$	84,044,701	\$ (1,363,657)	\$ 63,445,391	\$ (70,460,964)	\$ 798,451,307	\$ 58,947,811	\$ (14,163,347)	\$ 44,784,464	\$ 843,235,771

AU Health Systems, Inc. (a component unit of the State of Georgia) Combining Statement of Revenues, Expenses and Changes in Net Position

•	Obligated Group						Nonobligated Group			
For the year ended June 30, 2020	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Nonobligated Group	Eliminations	Total	Total AU Health System
Operating revenues:										
Net patient service revenue	\$ 716,903,286	\$ 124,498,948 \$	19,273,866	\$ -	\$ (447,291) \$	860,228,809	\$ 5,030,565	\$ (751,837)	\$ 4,278,728	\$ 864,507,537
Revenue from contractual services	32,500,563	-	-	· _	- (, - , -	32,500,563	-	-	-	32,500,563
Other operating revenue	89,438,760	141,962,896	33,239	98,903,518	(232,866,906)	97,471,507	7,794,275	(7,721,196)	73,079	97,544,586
Intercompany revenue (expense)	<u> </u>	<u> </u>	<u> </u>	-	(966,980)	(966,980)	<u> </u>	966,980	966,980	<u> </u>
Total operating revenues	838,842,609	266,461,844	19,307,105	98,903,518	(234,281,177)	989,233,899	12,824,840	(7,506,053)	5,318,787	994,552,686
Operating expenses:										
Salaries and wages	248,236,870	73,284,259	11,652,998	3,581,462	681	336,756,270	1,680,069	(182,366)	1,497,703	338,253,973
Employee benefits and payroll taxes	31,384,921	65,714,648	1,185,054	-	229,854	98,514,477	541,680	(229,700)	311,980	98,826,457
Purchased services	64,136,827	131,503,065	1,303,863	89,957,988	(131,951,491)	154,950,252	153,062	(153,062)	· -	154,950,252
Purchased/transferred services between intercompanies	23,325,716	(23,325,716)	-	-	-	-	-	-	-	-
Medical and surgical supplies	264,171,183	2,014,396	1,994,998	-	(1,024,032)	267,156,545	1,885,042		1,885,042	269,041,587
Insurance	2,483,732	9,480,295	193,560	-		12,157,587	6,673,698	(6,624,525)	49,173	12,206,760
Non-medical supplies and other expenses	135,585,843	29,230,884	2,776,902	4,916,581	(101,536,189)	70,974,021	1,345,813	(369,364)	976,449	71,950,470
Depreciation and amortization	35,201,895	891,217	59,158	-		36,152,270	281,592	-	281,592	36,433,862
Information technology and telecommunications	29,280,935	2,891,402	470,119	-	-	32,642,456	76,777	-	76,777	32,719,233
Repairs and maintenance	16,675,365	628,065	386,409	-	-	17,689,839	161,100	-	161,100	17,850,939
Total operating expenses	850,483,287	292,312,515	20,023,061	98,456,031	(234,281,177)	1,026,993,717	12,798,833	(7,559,017)	5,239,816	1,032,233,533

-Continued-

AU Health Systems, Inc.
(a component unit of the State of Georgia)
Combining Statement of Revenues, Expenses and Changes in Net Position (Continued)

	Obligated Group						Nonobligated Group			
For the year ended June 30, 2020	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Nonobligated Group	Eliminations	Total	Total AU Health System
Operating income (loss)	(11,640,678)	(25,850,671)	(715,956)	447,487	-	(37,759,818)	26,007	52,964	78,971	(37,680,847)
Nonoperating revenue:										
Interest expense	(9,092,699)	(80,243)	(4,164)	-	-	(9,177,106)	(811,896)	-	(811,896)	(9,989,002)
Investment income, net	5,471,945	7,492	-	1,164,427	-	6,643,864	1,187,572	(486,648)	700,924	7,344,788
Loss on asset impairment	-	-	-	-	-	-	-		-	-
Unrealized (loss) gain on interest rate swap	(8,095,619)	-	-	-	-	(8,095,619)	-	-	-	(8,095,619)
Net gain (loss) on disposition of capital assets	41,516	-	-	-	-	41,516	(11,842)	-	(11,842)	29,674
CARES Act funding	45,228,728	2,453,174	472,663	-	-	48,154,565	45,124	-	45,124	48,199,689
Supplemental contribution to the Augusta University Early										
Retirement Program	(4,943,178)	(1,099,147)	-	-	-	(6,042,325)	-	-	-	(6,042,325)
Increase (decrease) in net position before service fee,										
additions to permanent endowments, restricted		(0.4)	(2.4- 4)			(2.22.4.222)		(100.00.1)		()
contributions and restricted investment income	16,970,015	(24,569,395)	(247,457)	1,611,914	-	(6,234,923)	434,965	(433,684)	1,281	(6,233,642)
Nonoperating expense - service fee	(465,494)	-	-	-	-	(465,494)	-	-	-	(465,494)
Increase (decrease) in net position before restricted										
contributions and restricted investment income	16,504,521	(24,569,395)	(247,457)	1,611,914	_	(6,700,417)	434,965	(433,684)	1,281	(6,699,136)
Change in restricted contributions	1,926,737	9,034	(247,457)	1,011,914	_	1,935,771	2,116,002	(2,116,002)	1,201	1,935,771
Change in received containations	1,520,707	0,004				1,500,771	2,110,002	(2,110,002)		1,000,771
Increase (decrease) in net position	18,431,258	(24,560,361)	(247,457)	1,611,914	-	(4,764,646)	2,550,967	(2,549,686)	1,281	(4,763,365)
Net position, beginning 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
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October 1, 2019 equity of SCCC	-	-	-	-	-	-	(1,303,869)	1,303,869	-	-
Net position, end of year	\$ 325,180,848 \$	(60,418,779) \$	(6,406,683)	\$ 31,796,957	\$ - :	\$ 290,152,343	\$ 16,912,256	\$ (13,734,045)	\$ 3,178,211	\$ 293,330,554