

### **Table of Contents**



	Page
REPORT Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
FINANCIAL STATEMENTS Statements of Net Position	14
Statements of Revenue, Expenses and Changes in Net Position	16
Statements of Cash Flows	18
Notes to Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) Schedule of Changes in Net OPEB Liability and Related Ratios	68
SUPPLEMENTARY INFORMATION Schedule I – Combining Statement of Net Position	69
Schedule II – Combining Statement of Revenues, Expenses and Changes in Net Position	71
OTHER SUPPLEMENTARY INFORMATION Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements  Performed in Accordance with Government Auditing Standards	73



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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 years ended June 30, 2021 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinions.

### **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, 2021 and 2020, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, on pages 4 through 13, and schedules of changes in net OPEB liability and related ratios, on page 68, 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 69 through 72 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.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2021, on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health System's internal control over financial reporting and compliance.

CARR, RIGGS & INGRAM, LLC

Caux Rigge & Ingram, L.L.C.

Enterprise, Alabama August 31, 2021

### 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, 2021, 2020, and 2019. 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 14.

AU Health System was organized in 2010 to achieve joint coordination and strategic planning among Augusta University ("AU"), AU Medical Center, Inc. ("AUMC"), AU Medical Associates, Inc. ("AUMA"), other affiliated entities, including the educational activities of Augusta University ("AU") 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.

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 2021 fiscal year, the Medical Center discharged over 19 thousand patients for an excess of 116 thousand patient days, provided 506 thousand clinic visits, performed over 17 thousand surgical cases and treated more than 74 thousand emergency room visits. In late March through the end of the 2020 fiscal year and again in January 2021 through February 2021, 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.

### 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 and again from January 2021 through February 2021, 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-inplace 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, 2021 and 2020, the Health System recognized non-operating income of \$2.7 million and \$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 Accelerated and Advance Medicare payments program due to the revisions to that program under the CARES Act. The remaining advance payments are recognized as unearned revenue on the Statement of Net Position. As of June 30, 2021, the Health System had repaid \$9.3 million in accelerated payments with a balance of \$58.2 million remaining in unearned revenue on the statement of net position.

### **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,		2021	2020	2019
Assets				
Cash, cash equivalents, and short-term investments	\$	104,350	\$ 189,799	\$ 120,979
Cash and short-term investments held by trustee unde	r			
indenture agreement		6,065	11,728	16,294
Other current assets		257,672	205,513	210,849
Long-term investments		115,796	107,002	100,858
Investments held by trustee under indenture		3,717	4,731	3,895
Capital assets, net		264,556	254,672	251,547
Other noncurrent assets		59,001	66,093	58,983
Total assets	\$	811,157	\$ 839,538	\$ 763,405
Deferred outflows of resources		3,850	3,699	
Liabilities				
Current portion of long-term debt	\$	1,010	\$ 5,330	\$ 5,165
Other current liabilities		260,984	262,606	188,304
Long-term debt, less current installments		201,303	202,385	208,120
Interest rate swap obligation		20,604	28,181	20,085
Other noncurrent liabilities		59,714	50,531	43,637
Total liabilities		543,615	549,033	465,311
Deferred inflows of resources		1,514	873	
Net investment in capital assets		43,843	54,306	53,294
Unrestricted		226,035	239,025	244,800
Total liabilities, deferred inflows and net position	\$	815,007	\$ 843,237	\$ 763,405

Unrestricted cash and investments decreased \$76.6 million or 25.8% to \$220.1 million. Unrestricted cash and investments grew \$75.0 million, or 33.8%, to \$296.8 million during 2020. The Health System finished fiscal year 2021 with 73.2 days cash on hand, down from prior years' 107.7 days cash on hand. 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. Amounts due under Medicare Accelerated Payments have not reduced unrestricted cash and investments to calculate days cash on hand.

In fiscal year 2021, notable changes in cash and cash equivalents relate to the operating results in addition to intentional acceleration of principal payment on obligations under capital lease, and repayment of advance Medicare payments. 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.

Other current assets increased by \$52.2 million, or 25.4%, as compared to a decrease of \$5.3 million, or 2.5%, in fiscal year 2020. Patient accounts receivable, net of allowance for doubtful accounts, increased \$15.5 million, or 13%, in 2021 due to collection improvement processes. 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. As a result of improved revenue cycle processes in fiscal year 2021, the Health System recorded a \$10 million reduction to the allowance for doubtful accounts.

Other current assets were also impacted by third party receivables increasing \$30.0 million, or 136%, in fiscal year 2021, and \$7.9 million, or 55.7%, in fiscal year 2020 primarily due to the timing of payments for Georgia's Upper Payment Limit program and the new state directed payments program for Medicaid managed care participants.

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 years.

Long-term investment movement was due to a combination of investment income and realized and unrealized gains and losses in 2020 and 2021. In fiscal year 2021, the Health System also changed investment managers and investing strategy resulting in a shift between short-term versus long-term investments.

As of June 30, 2021, 2020 and 2019, the Health System had \$264.5 million, \$254.6 million, and \$251.5 million, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the accompanying financial statements. In 2021, 2020 and 2019, the Health System purchased new capital assets totaling \$29.4 million, \$27.4 million, and \$29.1 million, respectively.

Other noncurrent assets decreased \$7.1 million, or 10.7%, in fiscal year 2021 and increased \$7.1 million, or 12.1%, in fiscal year 2020 due to fluctuations of required collateralization of interest rate swaps. A total of \$20.6 million, \$28.2 million, and \$20.2 million was posted at the end of fiscal years 2021, 2020, and 2019, respectively.

Other current liabilities decreased \$1.6 million in fiscal year 2021 and increased \$74.3 million in fiscal year 2020. In 2021, the Health System made repayments of \$9.3 million in advance Medicare payments. In 2020, unearned revenue of \$67.4 million was recorded for advanced Medicare payments under the Accelerated and Advance Payments Program which was offered by the Centers for Medicare and Medicaid Services as part of the government's response to the COVID-19 pandemic.

Other notable changes in other current liabilities in 2021 and 2020 were due to the timing of payments to suppliers and vendors and related party transfers.

Long term debt, less current installments, decreased \$1.1 million, or 0.5%, in fiscal year 2021 due to regularly scheduled principal payments offset with new equipment and real estate leases. In 2021, the Health System also refunded the Series 2014A and 2014B Bonds with the Series 2021A Bonds, restructuring the schedule of the principal payments of the bonds. 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.

Other noncurrent liabilities increased \$9.2 million and \$6.9 million for fiscal years ended June 30, 2021 and 2020, respectively. The increase in 2021 is attributable to increased accrued professional liability and additions of new equipment and real estate capital leases. The fiscal year 2020 increase is related to changes in the mark-to-market value of the interest rate swap liability.

The decrease in net position invested in capital assets of \$10.5 million or 19.3% 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. 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).

Unrestricted net position decreased by \$13.0 million, or 5.4% from June 30, 2020 to June 30, 2021 and decreased by \$5.8 million or 2.4% from June 30, 2019 to June 30, 2020. The Health System's total net position declined in fiscal year 2021 by \$23.5 million, and in fiscal year 2020 by \$4.8 million. The decrease in net position in 2021 was due to less favorable results from operations impacted by COVID-19, 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) For the years ended June 30,		2021		2020	2019
Operating Revenues  Net patient service revenue  Other operating revenue	\$	934,118 154,373	\$	864,508 130,045	\$ 794,434 110,558
Total operating revenues		1,088,491		994,553	904,992
Operating Expenses Salaries and wages Employee benefits and payroll taxes Purchased services Medical and surgical supplies Insurance Depreciation and amortization Other operating expenses		377,023 109,573 159,213 296,338 13,974 37,060 131,708		338,254 98,826 154,950 269,042 12,207 36,434 122,521	294,345 93,251 130,716 209,357 13,829 37,116 140,608
Total operating expenses	:	1,124,889	1	,032,234	919,222
Operating (loss) income		(36,398)		(37,681)	(14,230)
Nonoperating Revenues (Expenses)					
Interest expense		(9,533)		(9,989)	(9,557)
Investment income, net		13,388		7,345	8,344
Loss on asset impairment		- 7 F76		- (0.007)	(8,879)
Unrealized (loss) gain on interest rate swap  Net gain (loss) on disposition of capital assets		7,576 (102)		(8,097) 30	(5,267) (60)
CARES Act funding		2,746		48,200	(60)
Supplemental contribution to the Augusta University		2,740		40,200	
Early		(5,631)		(6,042)	(6,833)
(Decrease) increase in net position before service fee and	t				
restricted contributions		(27,954)		(6,234)	(36,482)
Nonoperating expense – service fee		-		(465)	(734)
(Decrease) increase in net position before additions to					
restricted contributions	\$	(27,954)	\$	(6,699)	\$ (37,216)

The Health System's net patient service revenue, net of allowances for contractual discounts, charity care and bad debts, totaled \$934.1 million as of June 30, 2021, an increase of \$69.6 million or 8.1% over fiscal year 2020. Fiscal year 2020 also demonstrated strong revenue growth of \$70.1 million, or 8.8%, over fiscal year 2019. The growth in net patient revenue in 2021 was attributable to acuity of inpatient care and growth in both outpatient surgical cases and outpatient visits. Fiscal year 2020 was 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 \$751 thousand, or 5.7%, in 2021 and \$2.3 million, or 21.4%, in 2020.

The Georgia Medicaid upper payment limit revenue decreased \$5.3 million, or 30.6%, in 2021 and increased \$3.0 million or 20.6% in 2020. The South Carolina Medicaid disproportionate share program revenue increased \$380 thousand, or 5.9% in 2021 and decreased \$489 thousand, or 7.0%, in 2020. In fiscal year 2021, the State of Georgia began to administer the Medicaid Directed Payment Program for providers participating in the State Medicaid Managed Care program with a net reimbursement of approximately \$4.1 million in fiscal year 2021.

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 \$19.9 million in 2021 and \$21.9 million in 2020 due to retail pharmacy expansion.

Salaries and wages increased during fiscal year 2021 by \$38.8 million, or 11.5% and in 2020 by \$43.9 million, or 14.9%. The main reason for the increase in salaries and wages for fiscal year 2021 was due to the onboarding of information technology employees. The Health System had previously received information technology services as part of a shared administrative and support service agreement with Augusta University, and the expense was accounted for in purchased services as part of the Research Education and Professional Services Agreement. Additionally, in fiscal years 2021 and 2020, 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 2021 and 2020, wages for clinical staff contracted through agency staffing increased \$7.7 million and \$15.7 million, respectively, due to increased hourly rates stemming from high demand and shortages of nursing staff during the COVID-19 pandemic. The Health System also paid \$1.3 million of nursing incentives for COVID-19 related shifts. In order to incentivize clinical staff, the Health System also implemented additional measures of compensating clinical staff at increased hourly rates.

Employee benefits and payroll taxes increased \$10.7 million, or 10.9%, and \$5.6 million, or 6.0%, in fiscal years 2021 and 2020, respectively. The increase in employee benefits and payroll taxes in 2021 was due to a rise in group health expense, which increased \$7.2 million due to a 7% increase in the number of plan members and increased costs of medical and pharmacy claims. In addition, employee benefits and payroll taxes increased in fiscal years 2021 and 2020 for FICA taxes from additional salaries and wages paid as described in the paragraph above. In fiscal year 2020 employee benefits and payroll taxes increased due to a full year of Advanced Practice Providers on the Health System payroll. Another factor for the increase in 2020 was a higher accrual of uncompensated absences as caused by staffing constraints and increased workload resulting from the COVID-19 pandemic.

Purchased services increased by \$4.3 million and \$24.2 million in fiscal years 2021 and 2020, respectively. In 2021 and 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 2021 and 2020 are expenses related to the COVID-19 pandemic for physicians to staff telemedicine, ICUs and other hospital related functions. In 2020, the clinical support of faculty salaries to the university increased due to the strategic physician recruitment start-up funding. Purchased services also reflects \$4.0 million in fiscal years 2021 and 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 \$27.3 million, or 10.1%, in fiscal year 2021 and \$59.7 million, or 28.5%, in fiscal year 2020. The COVID-19 pandemic has created above normal expense inflation in medical and surgical supplies. In 2021 and 2020, medical and surgical supplies also includes \$5.4 million and \$1.4 million, respectively, in expense related to lab reagents for the COVID-19 pandemic laboratory testing. In addition to inflation, in 2020 growth in adjusted patient days of 8.0% contributed to increases in medical and surgical supply expense. Pharmaceutical growth was driven by oncology expansion as well as retail pharmacy expansion in both fiscal years 2020 and 2021. Pharmaceutical expense for specialty and retail pharmacies increased \$13.3 million and \$13.9 million in 2021 and 2020, 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 an increase of \$1.8 million and a decrease of \$1.6 million in fiscal years 2021 and 2020, respectively, related to fluctuations in professional liability insurance expense.

In fiscal year 2021, other operating expense increased \$9.2 million, or 7.5%, from increased collection expense. In addition, information technology software contracts moved from purchased services to information technology expense. In fiscal year 2020, other operating expense decreased \$18.1 million, or 12.9%. 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 information technology services from AU.

Non-operating 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 2021, interest expense decreased slightly by \$0.5 million, or 4.6%, net of capitalized interest, due to the decline of interest rates on variable debt offset by interest payments on new

obligations under capital lease. 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.

Investment income increased \$6.0 million, or 82.3%, in fiscal year 2021 and decreased in fiscal year 2020 by \$1.0 million, or 12.0%, as a result of general market conditions.

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 and in 2021 restructured with Series 2021A Bonds. Decreases in LIBOR result in unrealized losses and increases in LIBOR result in unrealized gains. The Health System recorded unrealized gains of \$7.6 million in fiscal year 2021 and recorded unrealized losses of \$8.1 million and \$5.3 million in fiscal years 2020 and 2019, respectively.

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, 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. There is no service fee payment due for fiscal year ended June 30, 2021.

Tax Changes. Beginning March 27, 2020, all employers could 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. At June 30, 2021, the Health System has deferred tax payments of \$12.3 million in accrued salaries and wages on the statement of net position.

### **Debt Activity**

On October 23, 2018, the Health System issued \$80.9 million of Series 2018 revenue bonds through the Development Authority of Richmond County, with fixed interest rates ranging from 4% to 5%, and with an average interest rate of 4.472%. Proceeds from the bonds were to be used to finance and refinance certain renovation projects and to purchase new and replacement equipment. Refinanced projects were initially financed with AUMC funds and the note was 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, 2021 was \$1.2 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. In fiscal year 2021 the Health System entered into two additional real estate leases. The combined outstanding total of these obligations as of June 30, 2021 was \$14.4 million.

On June 29, 2021, the Health System refunded its 2014 Bonds with the 2021A Bonds (2021A Bonds) which are a direct bank placement of bonds with Bank of America and collateralized by the Master Trust Indenture. A benefit of refunding the 2014 bonds was the elimination of more restrictive bank covenants than the Master Trust Indenture. The 2021A Bonds are variable rate with 1.05 basis points above the SIFMA index adjusting periodically. The effective interest rate on June 30, 2021 was 1.08%. Principal payments are due annually beginning in 2023 through 2040. The outstanding principal on the 2021A bonds was \$98.1 million as of June 30, 2021.

On August 21, 2020, the Health System entered into a capital lease obligation to purchase multiple pieces of diagnostic imaging equipment. The balance of this obligation under capital lease was \$3.0 million at June 30, 2021.

On May 27, 2021, the Health System entered into a capital lease obligation to purchase multiple pieces of power surgical equipment. The balance of this obligation under capital lease was \$4.3 million at June 30, 2021.

In fiscal year 2021, 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**

On August 12, 2021, the Health System received a credit rating downgrade from Moody Investors Services from Baa3 to Ba2. Based on the terms of the variable-to-fixed rate swap on the 2021A Bonds, the counterparties could terminate the swap due to the downgrade resulting in a termination payment of approximately \$20.6 million to the counterparties. The Health System is novating the swap with a new counterparty and is scheduled to close after the audit report date. Collateral will be returned from the original counterparties and posted with the new counterparty.

### **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 Allen Butcher, Chief Financial 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,		2021		2020
Assets and Deferred Outflows				
Current assets				
Cash and cash equivalents	\$	53,504,761	\$	151,219,831
Short-term investments	•	50,845,085	·	38,579,092
Cash equivalents internally designated for				, ,
self-insurance liability funding		7,022,643		3,548,312
Short-term investments internally designated for				
self-insurance liability funding		4,078,645		2,958,451
Cash held by trustee under indenture agreement		1,436,800		1,235,936
Investments held by trustee under indenture agreement		4,627,746		10,492,062
Patient accounts receivable, net of allowance for				, ,
doubtful accounts of \$92,031,000 in 2021 and \$89,387,000				
in 2020		134,705,268		119,238,433
Due from third-party payors		51,987,110		22,011,217
Other receivables		15,328,528		14,175,474
Inventory		22,887,766		24,102,526
Net investment in direct financing lease		1,289,348		1,255,961
Other current assets		20,373,245		18,222,540
Total current assets		368,086,945		407,039,835
Noncurrent assets				
Investments internally designated for self-insurance		42 020 257		12 407 272
liability funding		12,829,257		12,497,273
Long-term investments		115,795,839		107,002,026
Investments held by trustee under indenture agreement, net				. =
net of current		3,716,603		4,731,380
Net investment in direct financing lease, less current portion		18,747,553		20,036,901
Other assets		27,424,822		33,557,692
Total noncurrent assets		178,514,074		177,825,272
Capital assets				
Land		19,778,907		20,115,269
Construction in progress		28,171,363		23,484,063
Depreciable capital assets, net		216,605,241		211,072,371
Total capital assets, net		264,555,511		254,671,703
Total assets		811,156,530		839,536,810
Deferred outflows		3,849,810		3,698,961
		-,,-		-,,
Total assets and deferred outflows	\$	815,006,340	\$	843,235,771

-Continued-

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

June 30,		2021	2020
Liabilities, Deferred Inflows and Net Position			
Current liabilities			
Accounts payable	\$	<b>75,913,381</b> \$	69,959,164
Accrued salaries and wages	Y	20,538,437	10,850,685
Accrued compensated absences		26,588,266	23,599,910
Accrued expenses and other current liabilities		10,759,089	11,344,548
Due to related party - service fee		-	465,494
Due to related parties		56,109,783	67,102,212
Due to third-party payors		-	118,531
Unearned revenue		58,341,715	67,792,963
Current portion of accrued professional liability costs		6,688,898	5,446,618
Current portion of obligations under capital lease		6,044,435	5,924,708
Current portion of long-term debt		1,010,000	5,330,000
		_,0_0,000	2,223,233
Total current liabilities		261,994,004	267,934,833
Long-term liabilities			
Long-term debt, net of current		201,302,509	202,385,455
Obligations under capital lease, net of current		30,185,897	24,661,163
Other post-employment benefits		6,321,518	6,641,329
Accrued professional liability costs, net of current		20,066,692	16,339,850
Interest rate swap liability		20,604,321	28,181,020
Other liabilities		3,139,530	2,888,688
Total long-term liabilities		281,620,467	281,097,505
Total liabilities		543,614,471	549,032,338
Deferred inflows		1,513,867	872,879
Net position			
Net investment in capital assets		43,842,536	54,305,828
Unrestricted		226,035,466	239,024,726
			233,027,720
Total net position		269,878,002	293,330,554
Total liabilities, deferred inflows and net position	\$	<b>815,006,340</b> \$	843,235,771
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## 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,	2021	2020
Operating Revenue		
Net patient service revenue before		
provision for uncollectible accounts	\$ 1,004,782,653	\$ 938,584,043
Provision for uncollectible accounts	(70,664,617)	(74,076,506)
Net patient service revenue	934,118,036	864,507,537
Revenue from contractual services	30,602,507	32,500,563
Other operating revenue	123,770,163	97,544,586
Total operating revenues	1,088,490,706	994,552,686
Operating Expenses		
Salaries and wages	377,022,394	338,253,973
Employee benefits and payroll taxes	109,573,298	98,826,457
Purchased services	159,212,618	154,950,252
Medical and surgical supplies	296,338,275	269,041,587
Insurance	13,974,270	12,206,760
Non-medical supplies and other expenses	77,109,521	71,950,470
Depreciation and amortization	37,060,254	36,433,862
Information technology and telecommunications	35,398,738	32,719,233
Repairs and maintenance	19,199,020	17,850,939
Total operating expenses	1,124,888,388	1,032,233,533
Operating loss	(36,397,682)	(37,680,847)
		-Continued-

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

For the years ended June 30,	 2021	2020
Nonoperating Revenue (Expenses)		
Interest expense	(9,533,472)	(9,989,002)
Investment income, net	13,387,746	7,344,788
Unrealized gain (loss) on interest rate swap	7,576,699	(8,095,619)
Net gain (loss) on disposition of capital assets	(101,883)	29,674
CARES Act funding	2,745,547	48,199,689
Supplemental contribution to the Augusta University		
Early Retirement Program	(5,630,844)	(6,042,325)
Total nonoperating revenue (expenses)	8,443,793	31,447,205
(Decrease) in net position before service fee, additions to permanent endowments, restricted contributions and restricted investment income Nonoperating expense - service fee	(27,953,889)	(6,233,642) (465,494)
		(403,434)
(Decrease) in net position before restricted contributions  Change in restricted contributions for capital assets	(27,953,889) 4,501,337	(6,699,136) 1,935,771
(Decrease) in net position	(23,452,552)	(4,763,365)
Net position - beginning of year	293,330,554	298,093,919
Net position - end of year	\$ <b>269,878,002</b> \$	293,330,554

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

For the years ended June 30,	2021	2020
Operating Activities		
Cash received from and on behalf of patients	\$ 888,872,794	\$ 867,700,625
Other receipts from operations	152,903,599	132,214,241
Cash paid to and on behalf of employees	(474,239,395)	(434,086,771)
Cash paid to suppliers	(601,250,223)	(549,843,352)
Net cash provided by (used in) operating activities	(33,713,225)	15,984,743
Noncapital Financing Activities		
Receipt of CARES Act funds	2,745,547	48,199,690
Receipt (repayment) of advance Medicare payments	(9,275,808)	67,422,844
Payment to related party - service fee	(465,494)	(733,894)
Supplemental contribution to the Augusta University		
Early Retirement Program	(5,630,844)	(6,042,325)
Net cash provided by (used in) noncapital financing activities	(12,626,599)	108,846,315
Capital and Related Financing Activities		
Principal paid on revenue bonds	(103,090,000)	(5,165,000)
Principal paid on line of credit	-	(1,104,188)
Purchases of capital assets	(28,107,495)	(25,776,937)
Proceeds from bond issuance	98,085,000	-
Proceeds from disposition of capital assets	417,157	64,044
Payment of principal on obligations under capital leases	(15,102,429)	(8,814,119)
Interest payments	(9,533,472)	(10,915,501)
Return (payment) of collateral on interest rate swap mark to market	7,258,627	(6,600,000)
Principal received from direct financing lease	1,255,961	1,226,662
Interest received from direct financing lease	614,747	650,902
Capital contributions	4,501,337	1,935,771
Net cash used in capital and related financing activities	(43,700,567)	(54,498,366)
Investing Activities		
Interest and dividends on investments	3,268,346	3,608,145
Purchases of investments	(561,117,177)	(287,692,115)
Proceeds from sales of investments	553,849,347	287,882,693
Purchase of Surgery Center of Columbia County	-	(1,700,000)
,	(2.222.22)	<u>, , , , , , , , , , , , , , , , , , , </u>
Net cash provided by (used in) investing activities	(3,999,484)	2,098,723
Net increase (decrease) in cash and cash equivalents	(94,039,875)	72,431,415
Cash and cash equivalents - beginning of year	156,004,079	83,572,664
Cash and cash equivalents - end of year	\$ 61,964,204	\$ 156,004,079

-Continued-

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

For the years ended June 30,		2021		2020
Reconciliation of operating loss to net cash				
provided by (used in) operating activities:				
Operating loss	\$	(36.397.682)	\$	(37,680,847)
Adjustments:	•	(,,	т	(01)000,011
Depreciation and amortization		37,060,254		36,433,862
Provision for doubtful accounts		70,664,618		74,076,506
Amortization of loan payable premium		(397,946)		(404,511)
Changes in:		(221)212)		(101,0==)
Patient accounts receivable		(86,131,453)		(59,388,017)
Due to/from third-party payors		(30,094,424)		(12,499,639)
Other receivables		(1,153,054)		2,940,569
Inventory		1,214,760		(3,455,727)
Other current assets		(2,150,906)		1,334,175
Deferred ouflows of resources		(150,849)		(3,698,961)
Accounts payable		7,359,536		9,973,019
Due to related parties		(10,992,429)		465,379
Unearned revenue		(175,440)		232,761
Accrued expenses and other current liabilities		12,090,649		4,513,891
Other liabilities		250,842		(267,393)
Deferred inflows of resources		640,988		872,879
Other post-employment benefits		(319,811)		(117,294)
Accrued professional liability costs		4,969,122		2,654,091
Net cash provided by (used in) operating activities	Ġ	(33,713,225)	¢	15,984,743
The cash provided by (asea in) operating activities	٧	(33,713,223)	٧	13,364,743
Deconciliation of each and each aguivalents to the				
Reconciliation of cash and cash equivalents to the statement of net position:				
Cash and cash equivalents	\$	53,504,761	\$	151,219,831
Cash equivalents internally designated for self-insurance	Ą	33,304,701	۲	131,213,631
liability funding		7,022,643		3,548,312
Cash held by trustee under indenture agreement		1,436,800		1,235,936
		1,430,000		
Total cash and cash equivalents	\$	61,964,204	\$	156,004,079
Supplemental schedule of noncash investing and financing				
activities				
	\$	(1 ADE 210)	ç	(2 672 102)
Change in capital additions included in accounts payable Capital additions under capital lease obligation	Ą	(1,405,319)	Ş	(3,672,183)
Increase in fair value of investments		20,746,890 10,969,831		13,699,538
				2,756,941
Change in fair value of collateral		(284,774)		366,957

### **Note 1: DESCRIPTION OF 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.

All intercompany amounts have been eliminated in consolidation.

### **Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **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

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of Presentation (continued)

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 non-operating 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.

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 32-bed licensed 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 following LLC's:

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.

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Scope of Statements (continued)

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.

AUCC Aiken Dermatology, LLC is a limited liability company organized to own and operate a dermatology medical practice in Aiken, South Carolina.

These LLC entities do not have termination dates.

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

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

AUMC is the sole equity member and has sole voting control of each of the following LLC's:

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 and SCCC is included as a blended component of the Health System's financial position.

On October 1, 2019, AUMC established AU Health Imaging, LLC (AUHI). AUHI is a limited liability company formed to provide a full range of diagnostic and screening radiology services. AUHI opened on September 28, 2020.

On October 1, 2019, AUMC established AU Health AirCare, LLC (AirCare). AirCare is a limited liability company formed to operate an air ambulance service in and around Augusta, GA. AirCare opened on June 22, 2021.

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Scope of Statements (continued)

These LLC entities do not have termination dates.

### **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 approximately \$9,996,000 and \$15,558,000 for the years ended June 30, 2021 and 2020, 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 equity through mutual/commingled funds and fixed income instruments. 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.

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Inventories**

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

### **Capital Assets**

Capital assets are stated at cost on the date of acquisition. The Health System's capitalization policy for assets includes all items with a 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. Gifts or contributions of capital assets, and assets received in a service concession arrangement are recorded at acquisition value at the time received. 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. No material impairment charges to long-lived assets were recorded for the years ended June 30, 2021 and June 30, 2020.

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **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 2021 and 2020 were not material.

### **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 years ended June 30, 2021 and 2020, no impairment was identified.

At June 30, 2021 and 2020, deferred inflows and outflows of resources were comprised of the following amounts:

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

June 30,	2021	2020
Deferred outflows of resources		
Arising from SCCC business combination	\$ <b>2,862,771</b> \$	2,862,771
OPEB (experience losses)	987,039	836,190
Total deferred outflows of resources	\$ <b>3,849,810</b> \$	3,698,961
Deferred inflows of resources		
OPEB (change of assumptions)	\$ <b>1,513,867</b> \$	872,879

### **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

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Indigent and Charity Care (continued)

does not pursue collection of amounts determined to qualify as indigent or charity care, they are not reported as revenue.

### **Income Taxes**

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

### **Net Investment in Direct Financing Leases**

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

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

### Statement of Revenues, Expenses and Changes in Net Position

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

### **Advertising Expense**

Advertising is expensed as incurred. Total advertising expense incurred was approximately \$1,262,000 and \$2,096,000 for the years ended June 30, 2021 and 2020, respectively, and is included in nonmedical supplies and other expenses in the accompanying statements of revenues, expenses and changes in net position.

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Recently Adopted 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. GASB 84 did not have an impact on the financial statements.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (GASB 89). The objectives of GASB 89 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. GASB 89 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 GASB 89 are effective for reporting periods beginning after December 15, 2020.

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. GASB 90 had no impact on the financial statements.

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*. This statement provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. GASB 95 had no impact on the financial statements.

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Pending Accounting Pronouncements**

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations* (GASB 91). The primary objectives of GASB 91 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. GASB 91 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 GASB 91 are effective for reporting periods beginning after December 31, 2021.

In January 2020, the GASB issued statement No. 92, *Omnibus 2020* (GASB 92). The objectives of GASB 92 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 GASB 92 are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued Statement No. 93, Replacement of Interbank Offered Rates. The purpose of this statement is to address accounting and financial reporting implications that result from the replacement of interbank offered rate (IBOR) — most notably, the London Interbank Offered Rate (LIBOR). This statement achieves this objective by (1) providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment, (2) clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate, (3) clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable, (4) removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, (5) identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of the interest rate swap, and (6) clarifying the definition of reference rate, as it is used in Statement 53, as amended.

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Pending Accounting Pronouncements (continued)

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021.

In March 2020, the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. This Statement is effective for fiscal years beginning after June 15, 2022.

In May 2020, the GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This Statement is effective for fiscal years beginning after June 15, 2022.

In June 2020, the GASB issued statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance consistency, and comparability of the accounting and financial reporting for

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Pending Accounting Pronouncements (continued)**

Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The requirements for this statement are effective for reporting periods beginning after June 15, 2021.

### Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, August 31, 2021. See Note 16 for relevant disclosure(s). No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

### **Note 3: 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:

For the years ended June 30,	2021	2020
Gross patient revenue	\$ 4,028,774,376	\$ 3,703,057,960
Less: Provision for contractual and other adjustments	(2,757,140,076)	(2,523,433,724)
Less: Provision for doubtful accounts	(70,664,617)	(74,076,506)
Less: Provision for charity care	(266,851,647)	(241,040,193)
Net patient service revenue	\$ 934,118,036	\$ 864,507,537

### 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 2017.

Revenue from the Medicare program accounted for approximately 39% and 37% of the Health System's gross patient service revenue for the years ended June 30, 2021 and 2020, respectively.

### Note 3: NET PATIENT SERVICE REVENUE (Continued)

### 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 2018.

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 \$12,031,000 and \$17,336,000 in fiscal 2021 and 2020, respectively.

In fiscal year 2021, the State of Georgia began to administer the Medicaid Directed Payment Program (DPP) for providers participating in the State Medicaid Managed Care program. The Health System's net reimbursement benefit associated with the DPP program totaled approximately \$4,100,000 in fiscal 2021.

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, 2021 and 2020, the Health System recorded net revenue from this program of approximately \$13,954,000 and \$13,202,000, 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 \$6,842,000 and \$6,462,000 in fiscal 2021 and 2020, 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 17% and 19% of the Health System's gross patient service

### Note 3: NET PATIENT SERVICE REVENUE (Continued)

### Medicaid (continued)

revenue for fiscal years 2021 and 2020, respectively. Net disproportionate share reimbursement to the Health System under all of the programs described above totaled approximately \$36,928,000 in fiscal 2021 and \$37,000,000 in fiscal 2020. Material reductions in future reimbursement, if any, 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.

### **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 years ended June 30, 2021 and 2020, the Health System received cash payments and recognized nonoperating income of \$2.7 million and \$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. 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.

### Note 3: NET PATIENT SERVICE REVENUE (Continued)

### Nonoperating Income (continued)

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 Relief Fund monies, later increased by subsequent legislation.

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 has formally accepted the terms and conditions associated with the receipt of Relief Fund payments the Health System has received.

During the years ended June 30, 2021 and 2020, the Health System recognized approximately \$2.7 million and \$48.2 million, respectively, of Relief Fund income included as nonoperating income in the Health System's accompanying statements 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 and subsequent legislation also alleviates some of the financial strain on hospitals, physicians, and other healthcare providers and states through a series of Medicare and Medicaid payment policies that temporarily increase Medicare and Medicaid reimbursement and allow for added flexibility, as described below.

### Note 3: NET PATIENT SERVICE REVENUE (Continued)

### Nonoperating Income (continued)

- The Coronavirus Aid, Relief, and Economic Security (CARES) Act suspended the sequestration payment adjustment percentage of 2% applied to all Medicare Fee-for-Service (FFS) claims from May 1 through December 31, 2020. The Consolidated Appropriations Act, 2021, extended the suspension period to March 31, 2021. An Act to Prevent Across-the-Board Direct Spending Cuts, and for Other Purposes, signed into law on April 14, 2021, extends the suspension period to December 31, 2021.
- 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 (set to expire on December 31, 2021) as declared by the Secretary of HHS.
- The scheduled reduction of \$4 billion in federal Medicaid DSH allotments in FFY 2020, as mandated by the Affordable Care Act, is suspended until October 1, 2024. Also, the federal DSH allotment reduction for FFY 2024 is set at \$8 billion for each year through termination in FFY 2027.
- The CARES Act expanded the Medicare Accelerated and Advance payments 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 and advance payments for Medicare Part A and Part B suppliers. Under the Continuing Appropriations Act, 2021 and Other Extensions Act, repayment began one year from the issuance date of each provider or supplier's accelerated or advance payment. After the first 12 months, Medicare will automatically recoup 25 percent of Medicare payments otherwise owed to the provider or supplier for eleven months. At the end of the eleven-month period, recoupment will increase to 50 percent for another six months. If the provider or supplier is unable to repay the total amount of the accelerated or advance payment during this timeperiod (a total of 29 months), CMS will issue demand letters requiring repayment of any outstanding balance, subject to an interest rate of four percent consistent with the Continuing Appropriations Act, 2021. During the six months ended June 30, 2020, the Health System's hospitals and other providers applied for and received approximately \$67.4 billion of accelerated payments, which were recorded in unearned revenue on the statements of net position. As of June 30, 2021, the Health System had repaid \$9.3 million in accelerated and advance payments with a balance of \$58.2 million remaining in unearned revenue on the statements of net position.

### Note 3: NET PATIENT SERVICE REVENUE (Continued)

### Nonoperating Income (continued)

• 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 the 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 2021 and 2020, the Health System generated substantial revenues from its pharmacy operations, which have grown significantly in recent years. Pharmacy revenues totaled approximately \$97,489,000 and \$77,550,000 for the fiscal years ended June 30, 2021 and 2020, 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 4: 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,	<b>2021</b> 2020			
				_
Charity care:				
Foregone charges	\$	266,852,000	\$	241,040,000
Estimated Cost		74,509,000		67,190,000

### Note 5: 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:

As of June 30,	2021	2020
Commercial and other third-party payors	51%	51%
Medicaid	15%	17%
Medicare	32%	30%
Self pay	2%	2%
Total	100%	100%

### Note 6: CASH, CASH EQUIVALENTS AND INVESTMENTS

The Health System's bank balances are as follows:

June 30,	2021	2020
Insured (FDIC) Uninsured, uncollateralized or collateralized by securities held by the pledging institution, its trust department	\$ 5,377,852	\$ 4,975,406
or agent in other than the Health System's name	65,432,381	157,942,658
Total	\$ 70,810,233	\$ 162,918,064
Carrying amount (cash and cash equivalents)	\$ 61,964,204	\$ 156,004,079

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

### Note 6: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

for substantially all depository accounts. As of June 30, 2021 and 2020, approximately \$65,432,000 and \$157,943,000, respectively, of the Health System's bank balance was uninsured or uncollateralized.

A summary of investments follows:

7. January of investments			Investment Maturity								
				Less than						More than	-
June 30, 2021		Fair Value		1 Year		1 to 5 Years	6	to 10 Years		10 Years	Percentage
Investment type											
Debt securities:											
U.S. treasuries	\$	4,905,654	\$	-	\$	4,905,654	\$	_	\$	-	2.56%
U.S. agencies		926,789	·	926,789		-		-	·	-	0.48%
Corporate debt		655,429		-		-		-		655,429	0.34%
Mortgage/asset-backed securities		6,763,886		3,697,283		3,066,603		-		-	3.52%
		13,251,758		4,624,072		7,972,257		-		655,429	
Equities and other:											
Equity-domestic		-									0.00%
Equity-international		4,078,645									2.13%
Mutual Bond Funds (Long Term)		123,714,012									64.47%
Mutual Bond Funds (Short Term)		50,800,649									26.47%
Accrued interest and dividends		48,111									0.03%
Total investments	\$	191,893,175	\$	4,624,072	\$	7,972,257	\$	-	\$	655,429	100.00%
						Investmen	t Ma	aturity			_
				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:											
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%

Note 6: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

					Investme	nt Rat	ings			_	
June 30, 2021		Fair Value	AAA		AA		Α		BAA		N/A or Unrated
Interest Rates			0% - 3.11%		0.03%						
Investment type											
Debt securities:											
U.S. treasuries	\$	4,905,654	\$ -	\$	-	\$	-	\$	-	\$	4,905,654
U.S. agencies		926,789	926,787		-		-		-		2
Corporate debt		655,429	5,429		650,000		-		-		-
Mortgage/asset-backed securities		6,763,886	6,763,886		-		-		-		-
	\$	13,251,758	\$ 7,696,102	\$	650,000	\$	_	\$	-	\$	4,905,656
		<u> </u>	<u> </u>		<u> </u>	-					· ·
					Investme	nt Kat	ings			-	NI / A
June 30, 2020		Fair Value	AAA		AA		Α		BAA		N/A or Unrated
Interest Rates			0% - 6.00%	0.	85% - 5.19%	.65	% - 3.9%	1	.3% - 5.45%		
Investment type											
Debt securities:											
U.S. treasuries	\$	32,713,524	\$ 27,798,123	\$	-	\$	_	\$	-	Ś	4,915,401
U.S. agencies	,	29,518,482	22,323,669	т.	4,418,726		2,776,085	,	-	т	2
Corporate debt		43,515,755	6,746,699		5,731,422		),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	3,376,370	\$	10,437,349	\$	4,915,403

In fiscal year 2020, the Health System utilized five investment managers. In April 2021, the Health System entered new investment management agreements and reduced the number of investment managers to two. 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, 2021 and 2020.

### Note 6: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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 returns (annualized basis) are over a full market cycle (three to five years). Over any five-year moving time period, the investments' annualized returns should meet or exceed the median returns of their respective peer group.

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. In order to maintain the target asset mix for the total assets, the Health System's investment policy allows for the portfolio to be fully invested.

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	45%	50%	55%
Fixed income assets - domestic	45%	50%	55%

### 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:

				202	1			
9		Level 1		Level 2	Leve	l 3		Total
Equity - domestic and international	\$	4,078,645	\$	-	\$	_	\$	4,078,645
U.S. treasuries	Ą	4,905,654	Ų	-	Y	_	Ţ	4,905,654
U.S. agencies		926,789		-		-		926,789
Corporate debt		-		655,453		-		655,453
Money market		-		-		-		-
Mortgage/asset-backed securities		-		6,767,543		-		6,767,543
Mutual bond funds		50,801,103		123,757,988		-		174,559,091
Total investments	\$	60,712,191	\$	131,180,984	\$	-	\$	191,893,175

Note 6: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

	 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	\$	-		\$ 1	.76,260,284

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

### Foreign Equity:

The funds in the foreign equity category invest in companies located outside of the United States. The benchmark index used for comparison is the MSCI ACWI Ex-US (All Country World) Index.

### Mid Capitalization Equity (Index):

The funds in the mid-capitalization category invest in companies of various sizes and mixed characteristics, putting it between the small and large capitalization categories, and usually will invest in companies that fall in the range between \$1.5 billion and \$10 billion. The benchmark index used for comparison is the DJ US Completion Total Stock Market TR USD Index.

### Large Capitalization Growth Equity:

The funds in the large capitalization growth category invest in companies that are projected to grow faster than the overall stock market. Typically the market value for large cap companies will be over \$5 billion. The benchmark index used for comparison is the Russell 1000 Growth Index.

### Large Capitalization Value Equity:

The funds in the large capitalization value category invest in companies that are less expensive that the market as a whole, measured by lower P/E and P/B ratios. Typically, the market value for large cap companies will be over \$10 billion. The benchmark index used for comparison is the Russell 1000 Value Index.

### Note 6: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

### **S&P 500 Index**:

The funds in this category construct portfolios in an attempt to track the S&P 500 Index, a widely used benchmark for large capitalization. The benchmark index used for comparison is the S&P 500 Index.

### **Small Capitalization Equity:**

The funds in the small capitalization category invest in companies between \$300 Million and \$2 Billion. The benchmark index used for comparison is the Russell 2000 Index.

### Fixed Income

The objective of the fixed-income portion of the Portfolio assets should be both to provide a secure, above-average stream of income (i.e., income in excess of U.S. Treasury Bill rates) and to provide a relatively stable market value base. The benchmark index used for comparison will be the Bloomberg Barclays US Aggregate Bond TR USD.

This Fixed Income duration range is between 3 to 6 years, with a short-term duration not to exceed 3 years. Fixed-income investments may include U.S. issues of: Government and Agency obligations, marketable corporate bonds, mortgage- or asset-backed securities, and preferred stocks with sinking funds as deemed prudent by the investment manager. Not more than 5% of the fixed-income investments, at market, is invested in securities of any one issuer, except government and agency or government backed obligations, unless prior approval is received from the Health System.

Fixed-income investments must be rated "Baa3" (investment grade) or better by the Moody's and "BBB-" (investment grade) or better by the Standard & Poor's rating agencies with emphasis toward "A" or higher quality issues. Up to 10% are allowed to be invested in those issues rated no lower than "Ba" by Moody's and "BB" by Standard & Poor's.

### **Cash Equivalent Investments**

Cash Equivalent investments include any instrument issued by, guaranteed by, or insured by the U.S. Government, agencies, or other full faith instruments; commercial paper issued by domestic corporations which is rated both "P-1" and "A-1" by the Moody's and Standard & Poor's rating agencies, respectively; and commingled, short-term cash reserve funds managed generally in accordance with the principles set forth above.

### Note 6: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Investment income, net is comprised of the following:

For the years ended June 30,	2021	2020
Dividend and interest income	\$ <b>3,383,192</b> \$	4,700,752
Net realized gain on investments	10,775,785	310,138
Net change in unrealized gain (loss) on investments	(343,027)	2,813,761
Management fees	(428,204)	(479,863)
Investment income, net	\$ <b>13,387,746</b> \$	7,344,788

### **Note 7: CAPITAL ASSETS**

Capital asset additions, retirements and balances are as follows for the years ended June 30, 2021 and 2020:

	Balance		Retirements/	Balance
	June 30, 2020	Additions	Transfers	June 30, 2021
Capital assets, not being depreciated Land Construction in progress	\$ 20,115,269 23,484,063	\$ - 28,240,815	\$ (336,362) (23,553,516)	\$ 19,778,907 28,171,363
Capital assets, not being depreciated	43,599,332	28,240,815	(23,889,878)	47,950,270
Capital assets, being depreciated Leasehold improvements	199,271,648	9,160,212	-	208,431,860
Equipment Technology & software	282,594,273 96,509,297	30,043,656 3,571,898	(3,773,927) (5,849,877)	308,864,002 94,231,318
Capital assets, being depreciated	578,375,218	42,775,767	(9,623,804)	611,527,181
Less accumulated depreciation for				
Leasehold improvements	(96,955,624)	(12,620,903)	-	(109,576,527)
Equipment Technology & software	(184,388,414) (85,958,809)	(19,316,475) (5,122,841)	3,591,249 5,849,877	(200,113,640) (85,231,773)
Total accumulated depreciation	(367,302,847)	(37,060,219)	9,441,126	(394,921,939)
Total capital assets being depreciated, net	211,072,371	5,715,548	(182,678)	216,605,241
Capital assets, net	\$ 254,671,703	\$ 33,956,363	\$ (24,072,556)	\$ 264,555,511

Note 7: CAPITAL ASSETS (Continued)

	Balance		Retirements/	Balance
	June 30, 2019	Additions	Transfers	June 30, 2020
Capital assets, not being depreciated				
Land	\$ 20,115,269	\$ -	\$ -	\$ 20,115,269
Construction in progress	28,737,006	24,676,916	(29,929,859)	23,484,063
Capital assets, not being depreciated	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
Capital assets, being depreciated	532,760,930	46,683,500	(1,069,212)	578,375,218
Less 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)
Total accumulated depreciation	(330,065,852)	(38,283,677)	1,046,682	(367,302,847)
Total capital assets being depreciated, net	202,695,078	8,399,823	(22,530)	211,072,371
Capital assets, net	\$ 251,547,353	\$ 33,076,739	\$ (29,952,389)	\$ 254,671,703

Depreciation expense, which includes amortization of assets under capital leases, totaled approximately \$37,060,000 and \$38,284,000 for the years ended June 30, 2021 and 2020, respectively. There were no significant asset impairments for the years ended June 30, 2021 and 2020.

Construction in progress at June 30, 2021 consists of construction projects, medical equipment deployment and information technology upgrades. Estimated costs to complete these various projects total approximately \$38,387,000 at June 30, 2021. The estimated costs that will be funded from the bond proceeds total approximately \$8,495,000 and the remaining will be funded with operating cash.

### Note 8: ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

The composition of accrued expenses and other current liabilities follows:

June 30,	2021	2020
Accrued for employee healthcare claims Accrued for workers' compensation claims Interest payable Other accrued expenses	\$ 2,364,000 \$ 1,117,874 3,634,090 3,643,125	1,730,000 1,001,232 4,747,291 3,866,025
	\$ <b>10,759,089</b> \$	11,344,548

### **Note 9: DEBT**

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

	2021	2020
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
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 Development Authority of Richmond County Revenue Bonds, Series 2018 Tax Exempt Bonds, payable in varying amounts beginning in 2019 through 2038, with variable interest rates	-	51,060,000
initially reset monthly  Development Authority of Richmond County Revenue Bonds, Series 2021A Tax Exempt Bonds, payable in varying amounts beginning in 2021 through 2038, with variable interest rates	80,945,000	80,945,000
initially reset monthly  Development Authority of Richmond County Revenue Bonds,  CRC Series 2014A Tax Exempt Bonds, payable in varying amounts beginning in 2015 through 2034, with variable	98,085,000	-
interest rates initially reset monthly	19,160,000	20,130,000
Unamortized premium and unamortized discount  Less - current portion of long-term debt	198,190,000 4,122,509 (1,010,000)	203,195,000 4,520,455 (5,330,000)
	\$ 201,302,509	\$ 202,385,455

**Note 9: DEBT (Continued)** 

Long-term debt activity for the year ended June 30, 2021 was as follows:

		Balance						Balance		nounts aue Vithin One		
	Ju	ne 30, 2020	A	Additions Reduc		Reductions		Reductions		ine 30, 2021		
Development Authority of Richmond												
County Revenue Bonds, Series 2014A												
Tax Exempt Bonds Development Authority of Richmond	\$	51,060,000	\$	-	\$	(51,060,000)	\$	-	\$	-		
County Revenue Bonds, Series 2014B												
Tax Exempt Bonds		51,060,000		-		(51,060,000)	\$	-		-		
Development Authority of Richmond												
County Revenue Bonds, Series 2018												
Tax Exempt Bonds		84,126,824		-		(233,449)	\$	83,893,375		-		
Development Authority of Richmond												
County Revenue Bonds, Series 2021												
Tax Exempt Bonds		-	g	98,085,000		-	\$	98,085,000		-		
Development Authority of Richmond												
County Revenue Bonds, CRC Series												
2014A Tax Exempt Bonds		21,468,632		-		(1,134,498)	\$	20,334,134		1,010,000		
	\$ 2	207,715,456	\$ 9	98,085,000	\$	(103,487,947)	\$	202,312,509	\$	1,010,000		

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

	Balance	A 1 1995	D 1 11	Balance	Amounts due Within One
	June 30, 2019	Additions	Reductions	June 30, 2020	Year
Line of credit	\$ -	\$ 1,104,188	\$ (1,104,188)	\$ -	\$ -
Development Authority of Richmond County Revenue Bonds, Series 2014A					
Tax Exempt Bonds Development Authority of Richmond	53,170,000	-	(2,110,000)	51,060,000	2,180,000
County Revenue Bonds, Series 2014B					
Tax Exempt Bonds Development Authority of Richmond	53,170,000	-	(2,110,000)	51,060,000	2,180,000
County Revenue Bonds, Series 2018					
Tax Exempt Bonds Development Authority of Richmond	84,360,271	-	(233,448)	84,126,823	-
County Revenue Bonds, CRC Series					
2014A Tax Exempt Bonds	22,584,695	-	(1,116,063)	21,468,632	970,000
	\$ 213,284,966	\$ 1,104,188	\$ (6,673,699)	\$ 207,715,455	\$ 5,330,000

### Note 9: DEBT (Continued)

Each of the outstanding bond issuances, as described in the above chart, 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, 2018, and 2021A 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 2014A and 2014B 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.

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 were variable rate bonds that incurred interest at a rate of 68% of LIBOR plus 79 basis points and were 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 were variable rate bonds that incurred interest at a rate of 68% of the sum of LIBOR and 125 basis points and were 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 was intended to maintain the after-tax return to the bank holding the 2014B Bonds. The annual effective interest rate on the 2014 Bonds was 4.530% and 4.810% for fiscal years 2021 and 2020, respectively.

### Series 2021A Bonds

On June 29, 2021, the Health System refunded its 2014 Bonds with the 2021A Bonds (2021A Bonds) which are a direct bank placement of bonds with Bank of America. The 2021A Bonds are variable rate with 1.05 basis points above the SIFMA index adjusting periodically. The effective interest rate on June 30, 2021 was 1.08%. Principal payments are due annually beginning in fiscal year 2023 through 2040. The 2021A Bonds are generally secured through the trust indenture by the gross revenues of the Health System.

### Note 9: DEBT (Continued)

### Series 2021A Bonds (continued)

The bond 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, 2021 and 2020, the Health System's management believes it is 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 has continued to be in effect with the 2014 Bonds and the 2021A Bonds.

The Swap matures on July 1, 2037. The notional amount of the Swap at June 30, 2021 and 2020 was \$97,390,000 and \$102,120,000, 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 2021A Bonds approximate the notional amount of the Swap at all times. Under the Swap, the Health System pays the counterparty interest at a fixed rate of 3.302% and receives interest payments at a variable rate computed as 68% of LIBOR.

The fair value of the Swap is recorded as an asset or liability, depending on whether the termination of the Swap would result in amounts due to the Health System or the Swap counterparty. At June 30, 2021 and 2020, the fair value of the Swap represented a liability to the Health System in the amount of \$20,604,000 and \$28,181,000, 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, 2021 and 2020, the Health System had \$20,636,000 and \$28,180,000 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, 2021 and 2020, 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, 2021 and 2020, 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

### Note 9: DEBT (Continued)

### Swap (continued)

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, 2021 and 2020 was 4.742% and 4.472%, respectively. Principal payments are due annually beginning in fiscal year 2024 through December 2040.

### Series 2014A 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.

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, 2021 and 2020 was 4.3% and 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, 2021, 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.

### Note 9: DEBT (Continued)

### Series 2014A Cancer Research Center, LLC (CRC) Bonds (continued)

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, 2021, debt service requirements of the debts were as follows:

	2018 and 2021A Revenue Bonds				201	4 CRC Bonds					
For the year ending June 30,	P	rincipal		Interest*		nterest Rate Swaps, Net	Principal		Interest*		Total
2022	<u>,</u>	·	,	4.766.060	ć	2 474 002	 1 010 000	ć	706 444	ć	0.745.244
2022	\$	-	\$	4,766,968	\$	3,171,902	\$ 1,010,000	\$	796,444	\$	9,745,314
2023		6,910,000		4,766,968		3,171,902	1,060,000		744,694		16,653,564
2024		7,785,000		4,676,090		2,948,445	1,115,000		690,319		17,214,853
2025		8,810,000		4,547,032		2,717,711	1,170,000		633,194		17,877,936
2026		9,805,000		4,376,703		2,479,054	1,230,000		573,194		18,463,951
2027-2031	4	8,795,000		18,603,838		8,670,222	6,940,000		2,046,488		85,055,547
2032-2036	4	8,720,000		12,428,314		4,073,171	6,635,000		519,128		72,375,613
2037-2040	4	8,205,000		3,735,352		378,035	-		-		52,318,387
				_			 _		_		
Total investments	\$ 17	9,030,000	\$	57,901,265	\$	27,610,441	\$ 19,160,000	\$	6,003,460	\$	289,705,165

<sup>\*</sup>Amounts included are based on rates in effect as of June 30, 2021.

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, Series 2021A Bonds, and Series 2014 CRC Bonds during the years ended June 30:

For the years ended June 30,	2021	2020
Interest cost Capitalized, net of investment income Charged to operations	\$ 746,556 7,899,047	\$ 860,443 8,251,474
	\$ 8,645,603	\$ 9,111,917

### Line of Credit

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 \$1,104,188 with an annual effective interest rate of 5.25%. The line of credit was paid in full at June 30, 2020.

### Note 9: DEBT (Continued)

### *Line of Credit (continued)*

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

	2021	2020
Interest cost Charged to operations	\$ - \$	41,188

### Note 10: 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. 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 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

### Plan Provisions (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, 2021	At June 30, 2020
Non-faculty participants:		
Actives (covered)	21	21
Retirees (covered)	40	41
Faculty participants:		
Actives (covered)	402	390
Retirees (covered)	66	63

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, 2021 and 2020, the Health System contributed approximately \$490,000 and \$539,000, respectively, to the Plan for current premiums or claims. For the years ended June 30, 2021 and 2020, Plan members receiving benefits contributed approximately \$7,000 and \$2,000, respectively, for current premiums or claims.

	Retiree		Spouse
Pre-65 non-faculty annual premium at June 30, 2021	\$	6,619	\$ 8,274
Post-65 non-faculty annual premium at June 30, 2021		N/A	N/A

*Tuition Benefits*: Eligible retirees are allowed to continue coverage under the college tuition benefit, which reimburses eligible dependents for up to four years in an undergraduate program and up to

### Note 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

### Plan Provisions (continued)

four years in a graduate program. Tuition reimbursements are subject to limitations based on the average program costs supplied by the University.

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

	An	nual Cost	Trend Rate
Non-faculty participants:			
Pre-65 medical claims - Per retiree/spouse	\$	12,409	6.8% 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)		2,428	5.5%

<sup>\*6.8%</sup> graded uniformly to 5.0% over a 6-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, 2021 and 2020:

Note 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

	2021	2020	2019
Beginning balance July 1	\$ <b>6,641,329</b> \$	6,758,623 \$	6,165,679
Service cost	510,035	515,804	526,822
Interest Experience losses	212,024 (850,239)	215,050 315,686	208,919 714,316
Changes of assumptions Contributions - employer	298,455 (490,086)	(624,764) (539,070)	(408,257) (448,856)
Net changes	(319,811)	(117,294)	592,944
Ending balance June 30	\$ <b>6,321,518</b> \$	6,641,329 \$	6,758,623

For the years ended June 30, 2021 and 2020, the Health System recorded a related expense (income), as shown as follows:

		2021	2020	2019
Service cost	\$	<b>510,035</b> \$	515,804 \$	526,822
Interest	-	212,024	215,050	208,919
Experience losses		19,973	114,444	79,368
Changes of assumptions		(81,618)	(114,780)	(45,362)
OPEB expense (income)	\$	<b>660,414</b> \$	730,518 \$	769,747

The following represents the net OPEB liability as of June 30, 2021 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:

	Deci	Decrease 5.8% reasing to 4% ver 6 Years	De	ecreasing to 5% ver 6 Years	1% Increase 7.8% Decreasing to 6% Over 6 years		
Net OPEB liability	\$	5,682,466	\$	6,321,518	\$	7,100,490	

The following represents the net OPEB liability at June 30, 2021 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:

### Note 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

	19	6 Decrease			19	% Increase
	6.19	6.1% Decreasing		rrent 7.1%		
		to 4%	De	creasing to		to 6%
	0\	ver 7 Years	5%	Over 7 Years	0	ver 7 years
Net OPEB liability	\$	5,998,489	\$	6,641,329	\$	7,420,164

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

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

### **Actuarial Methods and Assumptions**

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

### **Summary of Actuarial Assumptions**

*Valuation Date* – July 1, 2020 with a measurement date of April 1, 2021 and reporting date of June 30, 2021

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

### Note 10: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

### **Summary of Actuarial Assumptions (continued)**

Disability Rates – None Assumed

Withdrawal Rates:

	Less than One			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	-	-	-	

### 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 1.91% per annum for 2021 and 3.07% for 2020 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 before age 65.

### **Note 11: 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 \$69,363,000 and \$66,479,000, and accumulated amortization of \$53,617,000 and \$47,306,000 at June 30, 2021 and June 30, 2020, respectively. Amortization of assets under capital lease is included in depreciation and amortization expense.

On August 2, 2016, the Health System entered into an agreement (the MSA) with a global healthcare diagnostics company (the Diagnostic Alliance Partner) to innovate the delivery of healthcare diagnostics in a new business model. Under the MSA agreement, the Diagnostic Alliance Partner provides 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 \$10,727,000 and \$9,286,000, and accumulated amortization of \$4,098,000 and \$2,534,000 at June 30, 2021 and June 30, 2020, 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 \$1,237,640 and \$1,716,000 at June 30, 2021 and June 30, 2020, respectively. The assets under capital lease are included in capital assets with a cost of \$2,435,000, and accumulated amortization of \$1,258,000 and \$771,000 at June 30, 2021 and June 30, 2020, respectively. Amortization of assets under capital lease is included in depreciation and amortization expense.

### **Note 11: CAPITAL LEASES (Continued)**

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, 2021 was \$9,033,000. The assets are included in capital assets with a cost of \$10,046,000 and the accumulated depreciation for the leases is \$1,476,000. Amortization of assets under capital lease is included in depreciation and amortization expense. In fiscal year 2021, the addition of two more real estate leases had total obligations of \$5,336,000 as of June 30, 2021. The assets are included in capital assets with a cost of \$5,682,000 and accumulated depreciation is \$448,000.

On August 21, 2020, the Health System entered into a capital lease obligation to purchase multiple pieces of diagnostic imaging equipment. The balance of this obligation under capital lease was \$2,977,000 at June 30, 2021. The assets under capital lease are included in capital assets with a cost of \$3,390,000, and accumulated amortization of \$411,000 at June 30, 2021. Amortization of assets under capital lease is included in depreciation and amortization expense.

On May 27, 2021, the Health System entered into a capital lease obligation to purchase multiple pieces of power surgical equipment. The balance of this obligation under capital lease was \$4,339,000 at June 30, 2021. The assets under capital lease are included in capital assets with a cost of \$4,410,000, and accumulated amortization of \$74,000 at June 30, 2021. Amortization of assets under capital lease is included in depreciation and amortization expense.

Capital lease activity for the years ended June 30, 2021 and 2020, was as follows:

	Ju	Balance ine 30, 2020	Additions	Reductions	J	Balance une 30, 2021		mounts Due thin One Year
Capital lease obligations	\$	30,585,871	\$ 17,963,648	\$ (12,319,187)	\$	36,230,332	\$	6,044,435
	Ju	Balance ine 30, 2019	Additions	Reductions	J	Balance une 30, 2020		mounts Due thin One Year
Capital lease obligations	Ś	25,700,452	\$ 13,699,537	\$ (8,814,118)	\$	30,585,871	Ś	5,924,708

### **Note 11: CAPITAL LEASES (Continued)**

Minimum future lease payments under capital leases as of June 30, 2021 are as follows:

	Amount
Years ending June 30:	
2022	\$ 7,618,620
2023	7,114,979
2024	6,412,507
2025	6,493,936
2026	4,222,974
2027-2031	10,422,152
2032-2036	238,051
Total minimum payments	42,523,218
Less amount representing interest	(6,292,886)
Present value of net minimum lease payments	36,230,332
Less - current maturities of capital lease obligation	(6,044,435)
Long-term capital lease obligation	\$ 30,185,897

### **Note 12: OPERATING LEASES**

The Health System also leases various equipment and real property under noncancelable operating leases that expire in various years through 2046. Future minimum rental payments required under such leases having an initial or remaining term of more than one year at June 30, 2021, are as follows:

	Amount
2022	\$ 2,575,441
2023	2,155,486
2024	1,879,631
2025	866,628
2026	669,894
2027-2046	1,595,373
Total minimum payments	\$ 9,742,453

Rental expense for the years ended June 30, 2021 and 2020, was approximately \$3,766,000 and \$3,854,000, respectively.

### **Note 13: 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 14). 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 \$11,855,000 and \$11,005,000 of expense related to these plans during the years ended June 30, 2021 and 2020, 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 \$691,000 and \$592,000 for the years ended June 30, 2021 and 2020.

### **Note 14: RELATED PARTIES**

Related parties for the fiscal years ended June 30, 2021 and 2020, 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.

### Note 14: RELATED PARTIES (Continued)

### Service Fee

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

The combined service fee is 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

The following is a summary of the service fee for the years ended June 30, 2021 and 2020:

	2021	2020
Performance-based service fee	\$ - \$	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, 2021 and 2020 were approximately \$46,020,000 and \$36,764,000, 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, 2021 and 2020 were approximately \$23,384,000 and \$24,095,000. 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.

### Note 14: RELATED PARTIES (Continued)

### **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, 2021 and 2020 were approximately \$12,465,000 and \$21,768,000, respectively. These payments are included in purchased services in the accompanying statements of revenues, expenses and changes in net position.

The cost of the "shared service" level function services are allocated to each entity through the operations and services agreement. Payments to the Health System by AU for these services for the years ended June 30, 2021 and 2020 were approximately \$884,000 and \$1,186,000, 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 both years ended June 30, 2021 and 2020 were \$4,000,000. These expenses are included in purchased services on the statements of revenues, expenses and changes in net position.

### **Personnel Agreement**

The Health System has entered into a personnel agreement whereby the Health System leases certain AU employees from Regents (the Personnel Agreement). The employees must have accrued at least 10 years of service at the effective date of the transfer and related agreements and choose not to become employees of the Health System. Leased employees remain employees of Regents. The Health System has the right to direct and control the leased employees in the performance of their duties and has the right to cancel or reject the assignment of any leased employee, provided that such is not otherwise prohibited by law. Included in salaries and wages and in employee benefits and payroll taxes are approximately \$1,080,000 and \$684,000, respectively, for the year ended June 30, 2021, for costs paid to AU for the leased employees. 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.

### Note 14: 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 \$120,676,000 and \$118,981,000 for the years ended June 30, 2021 and 2020, respectively. Of these amounts, performance based payments, medical administrative services, and other physician delegate services provided through the CAPSA are accounted for in purchased services in the amount of \$93,840,000 and \$91,465,000 for the years ended June 30, 2021 and 2020, respectively. The remaining supplemental salary expenses for non-physician positions remained in salaries and wages and employee benefits and payroll taxes and totaled \$26,836,000 and \$27,516,000 for the years ended June 30, 2021 and 2020, respectively.

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, 2021 and 2020, the Health System owed Regents approximately \$56,068,000 and \$67,305,000, respectively, which is recorded as due to related parties on the accompanying statements of net position. The balance at June 30, 2021 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 \$5,631,000 and \$6,042,000 for June 30, 2021 and 2020, respectively. Actual payments to the University are determined annually and are currently expected to continue through 2026. 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. 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 14: 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, 2021 and 2020.

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

June 30,		2021	2020
Lease payments due	\$ 24,23	<b>35,406</b> \$	26,106,114
Unearned income	(4,19	98,505)	(4,813,252)
Net investment	20,03	86,901	21,292,862
Current portion	(1,28	39,348)	(1,255,961)
	\$ 18,74	1 <b>7,553</b> \$	20,036,901

Future minimum rentals to be received under this lease, including renewed terms at June 30, 2021, are as follows:

Year ending June 30,	Amount
2022	\$ 1,867,054
2023	1,866,190
2024	1,867,702
2025	1,866,466
2026	1,867,352
Thereafter	14,900,642
	\$ 24,235,406

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 \$80,000 and \$73,000 for 2021 and 2020, respectively.

### Note 14: 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, 2021 and 2020, GHSF held net assets of approximately \$6,517,000 and \$5,213,000, respectively, which use by the Health System is limited by the intent of donors. At June 30, 2021, approximately \$195,000 of GHSF's net assets have been restricted by donors to be maintained in perpetuity. At June 30, 2020, approximately \$148,000 of GHSF's net assets have been restricted by donors to be maintained in perpetuity. As of June 30, 2021 and 2020, other receivables include \$117,000 and \$78,000 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, 2021 and 2020, the Foundation held net assets of approximately \$3,418,000 and \$2,574,000, respectively, which use by the Health System is limited by the intent of the donors. At June 30, 2021 and 2020, approximately \$1,470,000 and \$1,468,000, respectively, of the Foundation's net assets have been restricted by donors to be maintained in perpetuity.

### **Note 15: 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 contractual obligations and torts. Examples are: theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illness, injuries to visitors, natural disasters, medical malpractice and employee health, dental and accident benefits. The Health System is self-insured for employee health coverage, up to a certain limit per individual claim. The Health System is self-insured for workers compensation coverage, up to a certain limit per individual claim. The Health System has additional coverage with third parties providing coverage in excess of those limits with deductibles and coverage limits based upon experience and market conditions. Commercial insurance coverage is purchased for other significant exposures, including professional and general liability excess of a self-insured program as described below. Claims settled through June 30, 2021 have not exceeded this commercial coverage in any of the five preceding years.

### Note 15: COMMITMENTS AND CONTINGENCIES (Continued)

AUMC is self-insured for professional and general 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 and general liability to the captive. Accrued professional and general 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, 2021 and 2020:

	_	Accrued rofessional ability Costs	Co	Accrued Workers ompensation Claims	Accrued ployee Health Care Claims	Total
Balance at June 30, 2019 Claims incurred and changes in estimates Claims payments	\$	19,132,377 6,887,966 (4,233,875)	\$	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 Claims incurred and changes in estimates Claims payments		21,786,468 9,692,830 (4,723,708)		1,001,232 655,354 (538,712)	1,730,000 24,980,186 (24,346,186)	24,517,700 35,328,370 (29,608,606)
Balance at June 30, 2021	\$	26,755,590	\$	1,117,874	\$ 2,364,000	\$ 30,237,464

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.

Under the amended and restated agreement, the aggregate amount of required payments at June 30, 2021 (given no early termination), are as follows:

Note 15: COMMITMENTS AND CONTINGENCIES (Continued)

Fiscal year ending June 30:	Amount
2022	\$ 11,045,760
2023	10,125,588
2024	10,359,876
2025	10,575,516
2026	10,789,656
Thereafter	22,848,750
	\$ 75,745,146

### **Note 16: SUBSEQUENT EVENTS**

The Health System evaluated its fiscal year 2021 financial statements for subsequent events through August 31, 2021, the date the financial statements were available to be issued. On August 12, 2021, the Health System received a credit rating downgrade. Based on the terms of the variable-to-fixed rate swap on the 2021A Bonds, the downgrade is a termination event and the counterparties can terminate the swap resulting in a termination payment of approximately \$20,600,000 to the counterparties. The Health System is novating the swap with a new counterparty. The current counterparties are working with the new counterparty where collateral will be returned from the original counterparties and posted with the new counterparty. The new counterparty will have the option to terminate the swap if the Health System were to receive a credit rating downgrade to below BB+ or Ba1.

As a result of the credit rating downgrade, the fixed rate payable by the Health System on the swap increased to 3.362%. The variable rate on the 2021A bonds increased to 3.00 basis points above the SIFMA index, adjusting periodically, as a result of the downgrade.

No adjustments to the accompanying financial statements have been made as a result of this downgrade, and Note 9 reflects the information as it was at June 30, 2021. The future interest payments shown in Note 9 for the Series 2021A bonds will increase due to the downgrade.

# 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,	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ <b>510,035</b> \$	515,804 \$	526,822 \$	5,413,604
Interest	212,024	215,050	208,919	1,543,743
Differences between expected and actual experience	(850,239)	315,686	714,316	(44,538,003)
Changes of assumptions	298,455	(624,764)	(408,257)	-
Benefit payments	(490,086)	(539,070)	(448,856)	(956,216)
Net change in total OPEB liability	(319,811)	(117,294)	592,944	(38,536,872)
Total OPEB liability - beginning	6,641,329	6,758,623	6,165,679	44,702,551
Total OPEB liability - ending (a)	\$ <b>6,321,518</b> \$	6,641,329 \$	6,758,623 \$	6,165,679
Plan fiduciary net position				
Contributions - employer	490,086	539,070	448,856	956,216
Benefit payments	(490,086)	(539,070)	(448,856)	(956,216)
Net change in plan fiduciary net position	-	-	-	-
Plan fiduciary net position - beginning	-	-	-	
Plan fiduciary net position - ending (b)	-	-	-	
Net OPEB liability - ending (a) - (b)	\$ <b>6,321,518</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%	0.00%
**Covered-employee payroll	***	***	***	***
Net OPEB liability as a percentage of covered-employee payroll	-	-	-	-
Contributions as a percentage of covered-employee payroll	-	-	-	-

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 3.07% to 1.91% based on the S&P 500 Municipal Bond 20-Year High Grade Rate Index as of April 1, 2021.
- 2. The trend rate for future increases in the tuition benefit was changed from 6% to 5.5% 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.

<sup>\*\*\*</sup>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

			Obligate	Nonobligated Group			-			
							Nonobligated			Total AU
As of June 30, 2021	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Group	Eliminations	Total	Health System
Assets and Deferred Outflows										
Current assets:										
Cash and cash equivalents	\$ 26,654,335	\$ 17,149,233	\$ 3,347,107	\$ 1,573,347	\$ -	\$ 48,724,022	\$ 4,780,739	\$ -	\$ 4,780,739	\$ 53,504,761
Short-term investments	50,634,505	-	-	210,580	-	50,845,085	-	-	-	50,845,085
Cash equivalents internally designated for self-				•						
insurance liability funding	-	-	-	-	-	-	7,022,643	-	7,022,643	7,022,643
Short-term investments internally designated for										
self-insurance liability funding	-	-	-	-	-	-	4,078,645	-	4,078,645	4,078,645
Cash held by trustee under indenture agreement	79,531	-	-	-	_	79,531	1,357,269	-	1,357,269	1,436,800
Investments held by trustee under indenture	·						-			
agreement, current portion	-	3,700,957	-	-	-	3,700,957	926,789	-	926,789	4,627,746
Patient accounts receivable, net of allowance							-			
for doubtful accounts	120,929,891	8,528,003	3,936,868	-	(286,590)	133,108,172	1,597,096	-	1,597,096	134,705,268
Due from third-party payors	35,024,541	17,652,163	(689,594)	-	-	51,987,110	-	-	-	51,987,110
Other receivables	11,730,911	4,636,455	1,175	57,007	(1,128,506)	15,297,042	31,486	-	31,486	15,328,528
Inventory	22,570,331	-	159,095	-	-	22,729,426	158,340	-	158,340	22,887,766
Net investment in direct financing lease	-	278,442	-	-	(278,442)	-	1,289,348	-	1,289,348	1,289,348
Other current assets	17,475,572	4,572,640	38,840	-	(1,796,145)	20,290,907	82,338	-	82,338	20,373,245
Total current assets	285,099,617	56,517,893	6,793,491	1,840,934	(3,489,683)	346,762,252	21,324,693	-	21,324,693	368,086,945
Noncurrent assets:										
Investments internally designated for self-										
insurance liability funding	_	_	_	_	_	_	12,829,257	_	12,829,257	12,829,257
Long-term investments	87,903,665			27,892,174	_	115,795,839	12,023,237		12,023,237	115,795,839
Investments held by trustee under indenture	87,903,003	3,716,603	_	27,032,174	_	3,716,603	_	_	_	3,716,603
Capital assets, net	239,197,777	9,347,631	243,824	_	_	248,789,232	15,766,279	_	15,766,279	264,555,511
Net investment in direct financing lease, less	233,137,777	3,347,031	243,024	_	_	240,703,232	13,700,273	_	13,700,273	204,333,311
current portion	_	3,230,890	_	_	(3,230,890)	_	18,747,553	_	18,747,553	18,747,553
Notes receivable - related parties		77,743,032		_	(77,743,032)	_	10,747,555		10,747,333	10,747,333
Intercompany receivables (payables)	84,936,778	(96,154,325)	(9,871,529)	24,087,560	14,175,772	17,174,256	(3,285,073)	(13,889,183)	(17,174,256)	_
Other assets	25,795,815	286,079	6,848	8,791,279	(7,455,199)	27,424,822	(3,203,073)	(13,003,103)	(17,174,230)	27,424,822
owner assets	23), 33,623	200,075	0,0 .0	0,732,273	(1)100)200)	27,121,022				27,121,022
Total noncurrent assets	437,834,035	(1,830,090)	(9,620,857)	60,771,013	(74,253,349)	412,900,752	44,058,016	(13,889,183)	30,168,833	443,069,585
Total assets	722,933,652	54,687,803	(2,827,366)	62,611,947	(77,743,032)	759,663,004	65,382,709	(13,889,183)	51,493,526	811,156,530
Deferred outflows	2,862,771	987,039	-	-	-	3,849,810	-	-	-	3,849,810
Total assets and deferred outflows	\$ 725,796,423	\$ 55,674,842	\$ (2,827,366)	\$ 62,611,947	\$ (77,743,032)	\$ 763,512,814	\$ 65,382,709	\$ (13,889,183)	\$ 51,493,526	\$ 815,006,340

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

	Obligated Group					Nonobligated Group			-	
A	ALINAC	ALILIC	DWCH	411844	Filminations	Takal	Nonobligated	Filminations	Tatal	Total AU
As of June 30, 2021	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Group	Eliminations	Total	Health System
Liabilities, Deferred Inflows and Net Position										
Current liabilities:										
Accounts payable	\$ 65,989,516		\$ 1,761,280		\$ -	\$ 73,455,799	\$ 3,586,088	\$ (1,128,506)		
Accrued salaries and wages	15,772,115	3,850,847	576,608	266,829	-	20,466,399	72,038	-	72,038	20,538,437
Accrued compensated absences	18,673,152	5,698,987	605,256	1,500,110	-	26,477,505	110,761	-	110,761	26,588,266
Accrued expenses and other current liabilities	3,271,615	7,014,138	(46)	364,037	-	10,649,744	109,345	-	109,345	10,759,089
Due to related party - service fee	-	-	-	-	-	-	-	-	-	-
Due to related parties	15,896,014	15,236,740	17,956	24,920,408	-	56,071,118	38,665	-	38,665	56,109,783
Due to third-party payors	-	-	-	-	-	-	-	-	-	-
Unearned revenue	53,749,228	3,647,422	767,115	-	-	58,163,765	177,950	-	177,950	58,341,715
Current portion of accrued professional liability costs		1,485,460	-	-	-	1,485,460	5,203,438	<del>-</del>	5,203,438	6,688,898
Current portion of obligations under capital lease	4,694,040	639,764	-	-	-	5,333,804	989,072	(278,441)	710,631	6,044,435
Current portion of long-term debt	-	-	-	-	-	-	1,010,000	-	1,010,000	1,010,000
Total current liabilities	178,045,680	42,855,721	3,728,169	27,474,024	-	252,103,594	11,297,357	(1,406,947)	9,890,410	261,994,004
Noncurrent liabilities:										
Long-term debt, net of current	98,085,000	83,893,375	_	_	-	181,978,375	19,324,134	-	19,324,134	201,302,509
Obligations under capital lease, net of current	19,035,679	7,646,504	_	_	-	26,682,183	6,734,604	(3,230,890)	3,503,714	30,185,897
Long-term debt, intercompany	77,743,032	-	-	-	(77,743,032)	-	-	-	-	· · · -
Accrued postemployment benefits	-	6,321,518	-	-	-	6,321,518	-	-	_	6,321,518
Accrued professional liability costs, net of current	-	4,456,379	-	-	-	4,456,379	15,610,313	-	15,610,313	20,066,692
Interest rate swap liability	20,604,321	-	-	-	-	20,604,321	-	-	_	20,604,321
Other liabilities	3,077,808	61,722	-	-	-	3,139,530	-	-	-	3,139,530
Total noncurrent liabilities	218,545,840	102,379,498	-	-	(77,743,032)	243,182,306	41,669,051	(3,230,890)	38,438,161	281,620,467
Total liabilities	396,591,520	145,235,219	3,728,169	27,474,024	(77,743,032)	495,285,900	52,966,408	(4,637,837)	48,328,571	543,614,471
Deferred inflows	-	1,513,867	-	-	-	1,513,867	-	-	-	1,513,867
Net position:										
Net investment in capital assets	40,986,774	1,061,365	243,824	_	_	42,291,963	5,059,905	(3,509,332)	1,550,573	43,842,536
Unrestricted	288,218,129	(92,135,609)	(6,799,359)	35,137,923	-	224,421,084	7,356,396	(5,742,014)	1,614,382	226,035,466
Total net position	329,204,903	(91,074,244)	(6,555,535)	35,137,923	-	266,713,047	12,416,301	(9,251,346)	3,164,955	269,878,002
Total liabilities, deferred inflows and net position	\$ 725,796,423	\$ 55,674,842	\$ (2,827,366)	\$ 62,611,947	\$ (77,743,032)	\$ 763,512,814	\$ 65,382,709	\$ (13,889,183)	\$ 51,493,526	\$ 815,006,340

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

	Obligated Group						No	1		
For the year ended June 30, 2021	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Nonobligated Group	Eliminations	Total	Total AU Health System
Operating revenues:										
Net patient service revenue	\$ 772,804,699	\$ 136,076,638	\$ 18,163,292	\$ -	\$ (1,130,412)	\$ 925,914,217	\$ 9,035,231	\$ (831,412)	\$ 8,203,819	\$ 934,118,036
Revenue from contractual services	30,602,507	-	-	-	-	30,602,507	-	-	-	30,602,507
Other operating revenue	114,546,581	160,477,131	124,756	104,037,222	(255,496,323)	123,689,367	9,186,773	(9,105,977)	80,796	123,770,163
Intercompany revenue (expense)	-	-	-	-	(3,386,002)	(3,386,002)	-	3,386,002	3,386,002	-
Total operating revenues	917,953,787	296,553,769	18,288,048	104,037,222	(260,012,737)	1,076,820,089	18,222,004	(6,551,387)	11,670,617	1,088,490,706
Operating expenses:										
Salaries and wages	267,526,580	88,853,489	12,056,950	4,829,747	-	373,266,766	3,755,628	-	3,755,628	377,022,394
Employee benefits and payroll taxes	31,217,369	76,356,746	1,118,862	(52,413)	499,378	109,139,942	932,734	(499,378)	433,356	109,573,298
Purchased services	72,730,406	129,412,972	1,505,304	93,455,553	(137,920,917)	159,183,318	361,277	(331,977)	29,300	159,212,618
Purchased/transferred services between intercompanies	25,750,662	(25,750,662)	-	-	-	-	-	-	-	-
Medical and surgical supplies	284,462,889	7,373,007	2,162,596	-	(1,165,714)	292,832,778	3,505,497	-	3,505,497	296,338,275
Insurance	3,179,087	10,640,560	98,786	-	-	13,918,433	8,672,646	(8,616,809)	55,837	13,974,270
Non-medical supplies and other expenses	159,516,084	29,512,411	2,802,295	4,626,423	(121,545,817)	74,911,396	2,549,556	(351,431)	2,198,125	77,109,521
Depreciation and amortization	34,680,780	1,165,725	65,880	-	-	35,912,385	1,147,869	-	1,147,869	37,060,254
Information technology and telecommunications	27,177,466	7,648,989	474,550	-	-	35,301,005	97,733	-	97,733	35,398,738
Repairs and maintenance	17,759,600	741,080	362,828	-	-	18,863,508	335,512	-	335,512	19,199,020
Total operating expenses	924,000,923	325,954,317	20,648,051	102,859,310	(260,133,070)	1,113,329,531	21,358,452	(9,799,595)	11,558,857	1,124,888,388

-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, 2021	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Nonobligated Group	Eliminations	Total	Total AU Health System
Operating income (loss)	(6,047,136)	(29,400,548)	(2,360,003)	1,177,912	120,333	(36,509,442)	(3,136,448)	3,248,208	111,760	(36,397,682)
Nonoperating revenue:										
Interest expense	(8,407,730)	(346,857)	(156)	-	-	(8,754,743)	(899,062)	120,333	(778,729)	(9,533,472)
Investment income, net	10,562,169	129,143	-	2,163,054	(120,333)	12,734,033	2,106,355	(1,452,642)	653,713	13,387,746
Loss on asset impairment	-	-	-	-	-	-	-		-	-
Unrealized (loss) gain on interest rate swap	7,576,699	-	-	-	-	7,576,699	-	-	-	7,576,699
Net gain (loss) on disposition of capital assets	(102,897)	1,014	-	-	-	(101,883)	-	-	-	(101,883)
CARES Act funding	534,240	-	2,211,307	-	-	2,745,547	-	-	-	2,745,547
Supplemental contribution to the Augusta University Early										
Retirement Program	(4,592,627)	(1,038,217)	-	-	-	(5,630,844)	-	-	-	(5,630,844)
Increase (decrease) in net position before service fee,										
additions to permanent endowments, restricted										
contributions and restricted investment income	(477,282)	(30,655,465)	(148,852)	3,340,966	-	(27,940,633)	(1,929,155)	1,915,899	(13,256)	(27,953,889)
Nonoperating expense - service fee	-	-	-	-	-	-	-	-	-	
Increase (decrease) in net position before restricted										
contributions and restricted investment income	(477,282)	(30,655,465)	(148,852)	3,340,966		(27,940,633)	(1,929,155)	1,915,899	(13,256)	(27,953,889)
Change in restricted contributions	4,501,337	(30,033,403)	(140,032)	3,340,900		4,501,337	(2,566,800)	2,566,800	(13,230)	4,501,337
Change in restricted contributions	4,301,337		-		-	4,301,337	(2,300,600)	2,300,000		4,301,337
Increase (decrease) in net position	4,024,055	(30,655,465)	(148,852)	3,340,966	-	(23,439,296)	(4,495,955)	4,482,699	(13,256)	(23,452,552)
Net position, beginning 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
Net position, end of year	\$ 329,204,903	\$ (91,074,244)	\$ (6,555,535)	\$ 35,137,923	\$ - \$	266,713,047	\$ 12,416,301	\$ (9,251,346)	\$ 3,164,955	\$ 269,878,002



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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors AU Health Systems, Inc.

We have audited, in accordance with the 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, the 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, 2021, 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, and have issued our report thereon dated August 31, 2021.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Health System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with

those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CARR, RIGGS & INGRAM, LLC

Can, Rigge & Ingram, L.L.C.

Enterprise, Alabama August 31, 2021