AU Health System, Inc. (a component unit of the State of Georgia) **FINANCIAL STATEMENTS** June 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audits of the Financial Statements

Opinion

We have audited the accompanying financial statements of AU Health System, Inc. (a component unit of the State of Georgia) (the "Health System") as of and for the years ended June 30, 2023 and 2022, 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.

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, 2023 and 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Health System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Health System adopted Governmental Accounting Standards Board ("GASB") Statement No. 96, Subscription-based Information Technology Arrangements, which required certain balances in the fiscal year 2022 financial statements to be restated. Additional 2022 balances were also restated to conform to the 2023 presentation. Our opinion is not modified with respect to these matters.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether
 due to fraud or error, and design and perform audit procedures responsive to those risks.
 Such procedures include examining, on a test basis, evidence regarding the amounts and
 disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit
 procedures that are appropriate in the circumstances, but not for the purpose of expressing
 an opinion on the effectiveness of the Health System's internal control. Accordingly, no such
 opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Health System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 16, and schedules of changes in net OPEB liability and related ratios, on page 80, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. Schedule I – Combining statement of net position and Schedule II – Combining statement of revenues, expenses and changes in net position on pages 81 through 84 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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, including 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 September 6, 2023, 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

Carr, Riggs & Chyram, L.L.C.

Enterprise, Alabama September 6, 2023

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, 2023, 2022, and 2021. The Health System was organized in 2010 as a nonprofit corporation and is considered a special purpose government entity as well as a component unit of the State of Georgia. This discussion has been prepared by management and should be read in conjunction with the Health System's financial statements and notes thereto, which begin on page 17.

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 2023 fiscal year, the Medical Center discharged over 21 thousand patients for an excess of 120 thousand patient days, provided 576 thousand clinic visits, performed over 19 thousand surgical cases and treated more than 81 thousand emergency room visits. Beginning in late March 2020 through the end of the 2023 fiscal year, the Health System has experienced spikes of COVID-19 which have resulted in cyclical declines in inpatient and outpatient procedures.

Impact of COVID-19 Pandemic

The COVID-19 pandemic continued to affect the Health System's patients, communities, employees, and business operations through fiscal 2023. Since March 2020, the Health System has experienced cyclical spikes in the presence of COVID-19 followed by waning periods of the virus' prevalence. Fiscal years 2022 and 2021 saw heavy impacts from COVID reducing patient revenue as availability of services were reduced due to staffing shortages, patient exposures, and voluntary surgical reductions in an effort to maintain inpatient bed capacity. Lingering marketplace factors related to COVID include increased supply chain costs and high employee vacancies, leading to incremental utilization of premium labor alternatives such as extra duty, temporary agency staffing, and retention pay. COVID-19 led to a significant decline in elective medical services to include preventative screenings and surgical services, related to patients' hesitancy to physically return to medical facilities. Overall, in fiscal year 2022 market inpatient admissions had declined 9% from pre-pandemic fiscal year 2019 levels, including a 2% decrease in inpatient admissions from fiscal year 2021 to fiscal year 2022. The reduction was even more prevalent in surgical discharges, which are heavily correlated to preventative screening services; surgical discharges in the Health System's total market declined 17% since fiscal year 2019 and the Health System experienced a 6% decline year over year fiscal year 2021 to fiscal year 2022.

Impact of COVID-19 Pandemic (continued)

The Health System recognized a return in volumes in fiscal year 2023. Inpatient admissions increased 11% over fiscal year 2022 and exceeded pre-pandemic levels. Surgical discharges also increased 14% from 2022 to 2023. 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 years ended June 30, 2022 and 2021, the Health System recognized non-operating income of \$10.6 million and \$2.7 million on the accompanying statement of revenues, expenses, and changes in net position due to grants from the Relief Fund. Included in the CARES Act was the Employee Retention Credit, a refundable tax credit against certain employment taxes equal to 50% of qualified wages an eligible employer paid to its employees. For the year ended June 30, 2022, the Health System recognized non-operating income of \$28.7 million for the employee retention credit. Additionally, 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. For the years ended June 30, 2023 and 2022, the Health System repaid \$4.4 million and \$53.7 million, respectively, in accelerated payments. At June 30, 2022 and 2021, the remaining balance of accelerated payments was \$4.4 million and \$58.2 million, respectively, reflected in unearned revenue on the statement of net position. At June 30, 2023, there was no remaining balance for the accelerated payments.

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.

Restatement of Prior Year Net Position

The previously issued financial statements for the year ended June 30, 2022, issued September 6, 2022, have been restated for a change in accounting principle related to the recognition of information technology subscriptions and right-of-use assets (GASB Statement No. 96). Additionally, patient credit balances for AUMA have been reclassified from patient accounts receivable in current assets to accounts payable in current liabilities.

Table 1 – Restatement of Prior Year Net Position

The net position as of June 30, 2022 was affected by the restatement as follows:

(in thousands)	As Previously			Increase		As
June 30, 2022		Reported		ecrease)	F	Restated
Assets						
Other current assets	\$	283,823	\$	3,905	\$	287,728
Capital assets, net		277,918		35,303		313,221
Liabilities						
Current portion of subscription liability		-		8,582		8,582
Other current liabilities		198,016		5,771		203,787
Subscription liability, net of current		-		26,206		26,206
Net Position						
Net investment in capital assets		47,717		(580)		47,137
Unrestricted		194,072		(771)		193,301

Table 2 – 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)			Restated	
June 30,		2023	2022	2021
Assets				
Cash, cash equivalents, and short-term investments	\$	108,458	\$ 125,891	\$ 104,350
Cash and short-term investments held by trustee	*	200, 100	ψ 123)331	φ 10 1,000
under indenture agreement		7,209	4,495	6,065
Other current assets		279,064	287,728	257,880
Long-term investments		-	-	115,796
Investments held by trustee under indenture				
agreement, net of current		-	100	3,717
Capital assets, net		300,792	313,221	276,398
Other noncurrent assets		20,951	34,575	60,296
Total assets		716,474	766,010	824,502
Deferred outflows of resources		2,718	3,702	3,850
				_
Total assets and deferred outflows	\$	719,192	\$ 769,712	\$ 828,352
Liabilities Current portion of long term debt	\$	02.200	¢ 7,070	ć 1.010
Current portion of long-term debt Current portion of lease liability	Þ	92,290	\$ 7,970	\$ 1,010
Current portion of lease liability Current portion of subscription liabilities		9,307 8,900	8,977 8,582	8,729
Other current liabilities		201,209	203,787	- 254,562
Long-term debt, less current installments		99,624	192,943	201,303
Lease liabilities, net of current		30,407	37,409	39,978
Subscription liabilities, net of current		27,368	26,206	-
Interest rate swap obligation		-	10,337	20,604
Other noncurrent liabilities		27,663	27,270	26,388
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Total liabilities		496,768	523,481	552,574
Deferred inflows of resources		4,927	5,793	6,167
Net investment in capital assets		49,542	47,137	50,190
Unrestricted		167,955	193,301	219,421
		_		
Total liabilities, deferred inflows, and net position	\$	719,192	\$ 769,712	\$ 828,352

Unrestricted cash and investments decreased \$17.4 million, or 13.8%, to \$108.5 million during 2023. Unrestricted cash and investments decreased \$94.3 million, or 42.8%, to \$125.9 million during 2022. The Health System finished fiscal year 2023 with 30.9 days cash on hand, down from prior years' 39.4 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.

In fiscal years 2023 and 2022, notable changes in cash and cash equivalents relate to the operating results, in addition to intentional acceleration of principal payment on the lease liability, and repayment of \$6.1 million of deferred employer Social Security tax for each year. Additionally, the Health System made repayments of advance Medicare payments totaling \$4.4 million and \$53.7 million in fiscal years 2023 and 2022, respectively.

Cash and 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. In fiscal year 2023, cash and investments held by trustee increased by \$2.7 million. The Health System funded a debt reserve account for \$4.3 million for the 2021A Bonds debt service, which was offset by reimbursement for capital improvements of \$1.8 million. The decreases in fiscal year 2022 were due to reimbursements for capital improvements of \$5.2 million.

Other current assets decreased by \$8.7 million, or 3.0%, as compared to an increase of \$29.8 million, or 11.6%, in fiscal year 2022, as restated. Patient accounts receivable, net of allowance for doubtful accounts, decreased \$10.1 million, or 7.4%, in 2023 due to increased and faster cash collections. Patient accounts receivable, net of allowance for doubtful accounts, increased \$1.3 million, or 0.9%, in 2022 due to slow cash collections.

Other current assets were also impacted by due from third-party payors decreasing \$500 thousand, or 1.4%, in fiscal year 2023, compared to increasing \$18.9 million, or 36.3%, in fiscal year 2022 primarily due to the timing of payments for state administered supplemental payment programs and accruals of expected cost report settlements.

Other current assets also contain other receivables, which decreased \$4.3 million from June 30, 2022 to June 30, 2023, while increasing \$34.9 million from June 30, 2021 to June 30, 2022. In fiscal year 2022, the Health System filed amended tax returns to claim the Employee Retention Tax Credit, which is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. This resulted in an increase to other receivables of \$33.4 million in 2022. In fiscal year 2023, the Health System received \$6.6 million of the ERTC credits, with \$26.8 million as the remaining balance left to receive.

The Health System had no long-term investments for the fiscal years ended June 30, 2023 and 2022. In fiscal year 2022, the Health System moved all long-term investments into short-term funds to mitigate the effects of poor market performance. The shift in long-term to short-term investments designated for self-insurance liability funding resulted in a \$12 million shift from other noncurrent to other current assets.

As of June 30, 2023, 2022, and 2021, the Health System had \$300.8 million, \$313.2 million, as restated, and \$276.4 million, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the accompanying financial statements. In 2023, 2022, and 2021, the Health System purchased new capital assets totaling \$22.7 million, \$30.3 million, and \$29.4 million respectively. GASB No. 96, Subscription-Based Information Technology Arrangements, was adopted July 1, 2022, retroactive to July 1, 2021. Under this new guidance, all contracts allowing for the Health System to use another entity's information technology software alone or in combination with tangible capital assets for a period greater than 12 months are recorded as both a right-of-use asset in capital assets and a subscription liability. Scheduled payments thereafter are allocated between the discount amortization to interest expense and the principal payment in the reduction of the outstanding liability. Amortization of the ROU subscription asset flows through depreciation and amortization expense monthly using straight-line basis over the life of the subscription.

Other noncurrent assets decreased \$13.6 million, or 39.4%, in fiscal year 2023 and \$25.7 million, or 42.7%, in fiscal year 2022. In fiscal year 2023, the interest rate swap was terminated, resulting in a decrease of \$10.3 million in noncurrent assets. Fluctuations of required collateralization of interest rate swaps resulted in posted collateral of \$10.3 million and \$20.6 million at the end of fiscal years 2022 and 2021.

The excess of the Surgery Center of Columbia County, LLC (SCCC) purchase price over assets acquired was recorded as deferred outflows of resources. Deferred outflows of resources also include other post-employment benefits (OPEB) experience losses and change of assumptions. In fiscal year 2023, the SCCC deferred outflow was impaired resulting in an adjustment to deferred outflows of resources of \$2.8M. Additionally, the Health System financed multi-year insurance policies for the construction of a hospital in Columbia County, Georgia. The down payment for the financing agreement will be amortized over the months for which it applies. Otherwise, fluctuations in the deferred outflows of resources between fiscal years are a result of changes in OPEB experience losses and change in assumptions.

Other current liabilities decreased \$2.6 million, or 1.3%, in fiscal year 2023 and decreased \$50.8 million, or 19.9%, in fiscal year 2022, as restated. In 2023 and 2022, the Health System made repayments of \$4.4 million and \$53.7 million in advance 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 2023 and 2022 were due to the timing of payments to suppliers and vendors and related party transfers.

Long term debt, inclusive of current installments, decreased \$9.0 million, or 4.7%, and \$1.4 million, or 0.7%, and in fiscal year 2023 and 2022, respectively, due to regularly scheduled principal payments. In 2022, 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.

Lease liability, long term and current, decreased \$6.7 million, or 14.4%, and \$2.3 million, or 4.8%, in fiscal years 2023 and 2022, respectively, due to regularly scheduled principal payments, offset with new equipment and real estate leases.

GASB No. 96, Subscription-Based Information Technology Arrangements, was adopted July 1, 2022, retroactive to July 1, 2021. Under this new guidance, contracts allowing for the Health System to use another entity's information technology software are recorded as both a right-of-use asset in capital assets and a subscription liability. The subscription liability, long term and current, on June 30, 2023 and June 30, 2022, as restated, was \$36.3 million and \$34.8 million, respectively.

In fiscal year 2023, the interest rate swap obligation was terminated. In fiscal year 2022, the interest rate swap obligation decreased \$10.3 million, or 49.8%, due to reductions in the mark-to-market value of the interest rate swaps.

Other noncurrent liabilities increased \$400 thousand and \$900 thousand for fiscal years ended June 30, 2023 and 2022, respectively. The increase in 2023 and 2022 is attributable to increased accrued professional liability costs.

In June 2017, the GASB issued Statement No. 87, *Leases*. Under this statement, a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. Deferred inflows of resources primarily consist of the future period expected payments from a lessee. AUMC entered into an agreement with AU to lease a medical office building owned by AUMC and located on the Health Sciences campus. The lease agreement was for a ten-year period and totaled \$3,659,000. The entire lease contract was prepaid by AU with occupancy starting July 2020. The upfront payments are included in deferred inflows and amortized monthly for revenue recognition as the lease progresses.

For fiscal years 2023 and 2022, net position invested in capital assets increased \$2.4 million, or 5.1%, and decreased \$3.1 million, or 6.1%, respectively. The fluctuations in net position invested in capital assets were primarily due to the difference in capital expenditures made from operating funds (as opposed to bond proceeds, leases, and subscription liabilities) and the depreciation and disposal of existing capital assets. Debt-financed capital assets are not reflected in net assets invested in capital assets until the related debt is extinguished.

Unrestricted net position decreased by \$25.3 million from June 30, 2022, as restated, to June 30, 2023, and decreased by \$26.1 million from June 30, 2021, to June 30, 2022, as restated. The Health System's total net position declined in fiscal year 2023 by \$22.9 million and in fiscal year 2022 by \$29.2 million, as restated. The decrease in net position in 2023 and 2022 was due to less favorable results from operations.

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.

Restatement of Prior Year Net Position

The previously issued financial statements for the year ended June 30, 2022, issued September 6, 2022, have been restated for a change in accounting principle related to the recognition of information technology subscriptions and right-of-use assets (GASB Statement No. 96). Additionally, in fiscal year 2023, in order to better align salaries for Health System hired employees versus salaries for faculty and staff reimbursed to Augusta University, the Health System implemented classification changes for certain payments to Augusta University for salaries and benefits of physicians, advanced practice providers, and other clinical support staff. The Health System has restated the June 30, 2022 and 2021 statements of revenues, expenses, and change in net position for comparison purposes, with the exception of 2021 for GASB 96, as this was deemed impractical.

Table 3 – Restatement of Prior Year Net Position

The change in net position as of June 30, 2022 was affected by the restatement as follows:

(in thousands)	As	As Previously		Increase		As
June 30, 2022		Reported	([ecrease)		Restated
Operating Expenses						
Salaries and wages	\$	405,706	\$	(26,613)	\$	379,092
Employee benefits and payroll taxes		111,787		(24,322)		87,465
Purchased services		160,440		50,935		211,375
Depreciation and amortization		42,866		8,582		51,448
Other operating expenses		136,235		(8,909)		127,326
Total operating expenses		1,198,193		(327)		1,197,865
Operating (loss) income		(64,623)		327		(64,296)
Nonoperating Items:						
Interest expense		(10,720)		(1,678)		(12,398)
(Decrease) increase in net position before service	ce fee	and				
restricted contributions		(31,213)		(1,351)		(32,564)
(Decrease) increase in net position before						
additions to restricted contributions		(35,561)		(1,351)		(36,912)
(Decrease) increase in net position		(35,561)		(1,351)		(36,912)

The change in net position as of June 30, 2021 was affected by the restatement as follows:

(in thousands)	Α	As Previously		Increase		As										
June 30, 2021		Reported		Reported		Reported		Reported		Reported		Reported (De		ecrease)		Restated
Operating Expenses																
Salaries and wages	\$	377,022	\$	(28,161)	\$	348,861										
Employee benefits and payroll taxes		109,573		(24,174)		85,399										
Purchased services		159,213		52,335		211,548										

Table 4 – Change in Net Position

A summary of the Health System's statements of revenues, expenses and changes in net position is presented as follows:

(in thousands) June 30,	2023	Restated 2022	Restated 2021
Operating Revenues			
Net patient service revenue	\$ 1,141,111	\$ 949,892	\$ 934,118
Other operating revenue	169,622	183,676	154,346
other operating revenue	103,022	100,070	154,540
Total operating revenues	1,310,733	1,133,568	1,088,464
Operating Expenses			
Salaries and wages	419,745	379,092	348,860
Employee benefits and payroll taxes	91,591	87,465	85,399
Purchased services	217,479	211,375	211,548
Medical and surgical supplies	378,554	322,764	296,338
Insurance	15,653	18,395	13,974
Depreciation and amortization	53,141	51,448	40,064
Other operating expenses	146,588	127,325	128,670
Tabel according according	4 222 754	4 407 064	4.424.054
Total operating expenses	1,322,751	1,197,864	1,124,854
Operating loss	(12,018)	(64,296)	(36,390)
Nonoperating Revenues (Expenses)			
Interest expense	(11,142)	(12,398)	(9,863)
Investment income, net	2,529	(4,349)	13,435
Loss on asset impairment	(5,267)	-	-
Gain on interest rate swap	3,291	10,268	7,576
Net loss on disposition of capital assets	(61)	-	(102)
CARES Act funding	-	10,592	2,746
Employee retention credit	-	28,690	-
Supplemental contribution to the Augusta University			
Early Retirement Program	(4,350)	(5,419)	(5,631)
(Decrease) increase in net position before additions			
to restricted contributions	\$ (27,018)	\$ (36,912)	\$ (28,229)

The Health System's net patient service revenue, net of allowances for contractual discounts, charity care and bad debts, totaled \$1.1 billion as of June 30, 2023, an increase of \$191.2 million or 20.1% over fiscal year 2022. Growth in admissions of 11% and surgical volume growth of 7%, contributed to increases in net patient service revenue from 2022 to 2023. Fiscal year 2022 also demonstrated revenue growth of \$15.8 million, or 1.7%, over fiscal year 2021. The establishment of AU Health AirCare, LLC and AU Health Imaging, LLC in fiscal year 2021 led to increased revenue for the Health System in fiscal year 2022. Additionally, fiscal year 2022 net patient revenue was impacted by growth in surgical volumes and acuity of inpatient care, as well as the continued growth in the delivery of outpatient care.

Net patient service revenue is also comprised of other state supplemental payments. State directed supplemental payments were recorded at the gross amount rather than the net amount in fiscal year 2023, resulting in an increase to net patient service revenue and a decrease to other operating revenues in the amount of \$57.9 million. Additionally in July 2022, the Georgia Department of Community Health announced approval of a new hospital directed payment program called Georgia's Advancing Innovation to Deliver Equity (GA-AIDE). The gross amount received for GA-AIDE in fiscal year 2023 was \$33.4 million. For state fiscal year 2023 and moving forward, the Department of Community Health changed the disproportionate share hospital payment allocation methodology to increase payments to state-owned and rural hospitals. The change in allocation methodology increased the Health System's gross disproportionate share payment by approximately \$40.0 million from fiscal year 2022 to fiscal year 2023. In fiscal year 2022, the State of Georgia extended the Medicaid Directed Payment Program to hospitals participating in the State Medicaid Managed Care program. In fiscal year 2022, the Health System recorded net reimbursement in net patient service revenue of \$6.6 million for the new hospital program.

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 \$31.2 million, or 23.9%, and \$32.8 million, or 33.6%, in 2023 and 2022, respectively, due to retail pharmacy expansion. In fiscal year 2021, the Health System also received private contributions of \$4.7 million to support testing and vaccination efforts against the COVID-19 pandemic.

Salaries and wages increased \$40.7 million, or 10.7%, and \$30.2 million, or 8.7%, in fiscal years 2023 and 2022, respectively. In fiscal years 2023 and 2022, 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. Full time equivalents (FTE) grew by 185 in fiscal year 2023, with an increase in overtime and differential payments of \$4.7 million and \$2.6 million, respectively. Wages for clinical staff contracted through agency staffing decreased \$6.5 million, or 18.1%, in fiscal year 2023, and increased \$1.2 million, or 3.4%, in fiscal year 2022. The decrease in fiscal year 2023 was due to the creation of an in-house temporary staffing program while reducing the number of external agency nurses required. The in house temporary staffing program yielded higher per hour rates than traditional hired staff. The increase in fiscal year 2022 for agency staffing expenses was due to increased hourly rates stemming from high demand and shortages of nursing staff during the COVID-19 pandemic. In 2023 and 2022, the Health System also paid \$5.4 million and \$5.7 million, respectively, of patient care incentives for agreements to work shifts above an employee's hired commitment hours for a certain period of time. 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 \$4.1 million, or 4.1%, and increased \$2.1 million, or 2.4%, in fiscal years 2023 and 2022, respectively. FICA taxes increased from additional salaries and wages paid in fiscal years 2023 and 2022 as described in the paragraph above. The increases in hourly wage rates also resulted in increased value of paid time off hours. Additionally, in fiscal year 2023, the Health System made changes to the other post-employment benefits (OPEB) plan which led to a reduction in OPEB expense of \$4.2 million, but also a one-time increase in reimbursement of medical expenses.

Purchased services increased by \$6.1 million and decreased \$200 thousand, or 2.9% and (0.1%), in fiscal years 2023 and 2022, respectively. In 2023, the Health System increased funding for expansion of graduate medical education programs for residents and fellows. Purchased services also reflect \$4.0 million in fiscal years 2023 and 2022 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 \$55.8 million, or 17.3%, in fiscal year 2023 and \$26.4 million, or 8.9%, in fiscal year 2022. The COVID-19 pandemic created above normal expense inflation in medical and surgical supplies. Increases in cancer infusions, organ transplants and surgical volumes were the main drivers of the increase in medical and surgical supplies in 2023. In addition to inflation, in 2022, growth in adjusted patient days of 4.2%, along with increased usage of personal protective equipment due to the public health emergency, 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 2023 and 2022. Pharmaceutical expenses for specialty and retail pharmacies increased \$19.6 million and \$22.1 million in 2023 and 2022, respectively, for which there is favorable revenue reflected in other operating revenue.

Insurance expenses include insurance premiums such as malpractice, workers compensation, professional liability, as well as insurance deductibles paid during the fiscal year. The Health System experienced a decrease of \$2.7 million, or 14.9%, and an increase of \$4.4 million, or 31.6%, in fiscal years 2023 and 2022, respectively, related to increased premiums in professional and general liability insurance expenses.

Depreciation and amortization increased \$1.7 million, or 3.3%, from fiscal year 2022, restated, to fiscal year 2023 primarily due to the completion of information technology projects from prior years. Depreciation and amortization increased from fiscal year 2021 to fiscal year 2022, restated, by \$11.4 million, or 28.4%, primarily resulting from the implementation of GASB No. 96.

In fiscal year 2023, other operating expenses increased \$19.3 million, or 15.1%, as compared to fiscal year 2022, as restated. Restructuring expense of \$8.5 million includes attorney fees and contracted leadership specializing in healthcare restructuring and support services. A portion of this contract was recorded as non-medical supplies and other expenses for contracted executive leadership. Also included in other operating expenses was an information technology contract to resolve the number of licenses used for various software, which was recorded at \$3.4 million in fiscal year 2023. In fiscal year 2022, other operating expenses, as restated, decreased \$1.3 million, or 1.0%, as compared to fiscal year 2021 from the reclassification of information technology expenses to depreciation due to the implementation of GASB No. 96.

Non-operating items consist of interest expense, investment income, unrealized gain or loss on interest rate swap, loss on asset impairment, net loss on disposition of capital assets, CARES Act funding, Employee Retention Credit, and supplemental contribution to the University Early Retirement Program.

During fiscal year 2023, interest expense decreased from 2022, as restated, by \$1.3 million, or 10.1%, resulting from the termination of the interest rate swap. With the termination of the swap, fixed interest payments on the 2021A bonds in the amount of 3.362% were no longer required to be paid. During fiscal year 2022, as restated, interest expense increased from 2021 by \$2.5 million, or 25.7%, due to increasing rates on variable rate debt and the addition of new building and equipment leases, combined with the implementation of GASB No. 96 for subscriptions.

Investment income increased \$6.9 million, or 158.2%, and decreased \$17.8 million, or 132.4%, in fiscal year 2023 and 2022, respectively. In fiscal 2022, the Health System moved to a less volatile investment strategy to mitigate the effects of unfavorable market conditions.

The Health System recorded changes to the fair value of the interest rate swap associated with the Series 2021A Bonds as unrealized gains or losses. Changes to the fair value of the interest rate swap occurred 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 resulted in unrealized losses and increases in LIBOR result in unrealized gains. The Health System terminated the swap in 2023. Gains of \$3.3 million, \$10.3 million, and \$7.6 million were recorded in fiscal years 2023, 2022, and 2021, respectively.

The Health System recorded an impairment of assets of \$5.3 million in fiscal year 2023. No impairment was recorded in fiscal years 2022 and 2021. Impairment of capital assets in fiscal year 2023 was \$2.5 million and impaired deferred inflows related to the original purchase of the Surgery Center of Columbia County, LLC were \$2.8 million.

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. There was no service fee payment due for fiscal years ended June 30, 2023, 2022, and 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 were required to be paid in equal amounts over two years, with payments due in December 2021 and December 2022. On June 30, 2023, the Health System had no deferred tax payments. Deferred tax payments of \$6.1 million were in accrued salaries and wages on the statements of net position on June 30, 2022.

Debt Activity

In fiscal year 2023, the Health System entered into short-term financing agreements totaling \$2.7 million for two multi-year insurance policies for the construction of a hospital in Columbia County, Georgia. The builders' risk policy of \$489 thousand was financed for ten months with an effective interest rate of 8.18%. The policy covering construction project losses and liability was in the amount of \$2.3 million and was financed for eleven months with an effective interest rate of 7.99%. The balance of notes payable was \$2.0 million at June 30, 2023.

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 AU Medical Center funds and the note was issued on July 27, 2012.

Debt Activity (continued)

On June 29, 2021, the Health System refunded its 2014 Series Bonds with the 2021A Series Bonds (2021A Bonds) which are a direct bank placement of bonds 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 an index rate of 2.25 basis points above the SIFMA index adjusting periodically. The annual effective interest rate on June 30, 2023 was 4.12%. The index rate of 2.25 basis points expires on October 15, 2023 and a mandatory tender is required on this date. The outstanding principal on the 2021A bonds was \$91.2 million as of June 30, 2023.

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

Effective August 29, 2023, AUHS and Wellstar Health System, Inc., a Georgia nonprofit corporation ("WHS"), consummated their affiliation (the "Transaction") pursuant to a Membership Substitution Agreement dated as of August 29, 2023. As a result of the Transaction, WHS became the sole corporate member of AUHS, AUHS changed its corporate legal name to Wellstar MCG Health, Inc. ("WMCG"), and the health system operated by AUHS became a part of the health system operated by WHS. By virtue of WHS becoming the sole corporate member of AUHS, WHS became the ultimate parent corporation of AUHS and its affiliates, AUMC, AUMA, and RWSH, which, as a result of the Transaction, changed its corporate legal name to Wellstar MCG Health Warm Springs, Inc. ("WRWSH").

Pursuant to the Second Amended and Restated Master Lease, (i) AUMC continues to lease the AUMC Main Campus from the Board of Regents, now for a term ending September 1, 2063, unless previously terminated in accordance with its terms; and (ii) to exercise the Board of Regent's option, in its sole discretion, to terminate the Second Amended and Restated Master Lease, the Board of Regents continues to be obligated to pay an early termination amount which equals the sum of the principal of, accrued interest, and make-whole or redemption premium, if any, on the Bonds.

With respect to the 2021A Bonds, on August 29, 2023, the put date was extended from October 15, 2023 to September 1, 2024. Additionally, the interest rate was changed effective September 1, 2023 to be equal to 79% of Daily SOFR plus a spread.

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 Waite Popejoy, Chief Financial Officer, 1120 15th Street (BI 2090), Augusta, Georgia 30912.

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

June 30,	2023	Restated 2022
Assets and Deferred Outflows		
Current assets		
Cash and cash equivalents	\$ 73,478,213	\$ 40,528,934
Short-term investments	34,980,078	85,362,424
Cash equivalents internally designated for		
self-insurance liability funding	10,551,862	2,660,606
Short-term investments internally designated for		
self-insurance liability funding	21,189,810	20,517,287
Cash held by trustee under indenture agreement	1,608,603	1,521,941
Investments held by trustee under indenture agreement Patient accounts receivable, net of allowance for	5,600,314	2,972,791
doubtful accounts of \$138,511,000 in 2023 and		
\$119,984,000 in 2022	125,853,675	135,973,866
Due from third-party payors, net	32,660,784	33,126,131
Other receivables	45,964,708	50,242,236
Inventory	26,121,879	25,559,461
Current portion of lease receivable	1,371,160	1,493,163
Other current assets	15,350,140	18,155,600
	, , ,	, , , , , , , , , , , , , , , , , , ,
Total current assets	394,731,226	418,114,440
Noncurrent assets		
Investments held by trustee under indenture agreement, net		
of current	-	100,000
Lease receivable, less current portion	16,053,812	17,424,972
Other assets	4,897,045	17,149,984
Total and a support accepts	20 050 057	24.674.056
Total noncurrent assets	20,950,857	34,674,956
Capital Assets		
Land	19,060,925	19,060,925
Construction in progress	25,869,056	24,875,217
Depreciable capital assets, net	255,862,439	269,284,815
Total capital assets, net	300,792,420	313,220,957
Total assets	716,474,503	766,010,353
Deferred outflows	2,717,519	3,702,204
	_,,00	5,. 52,251
Total assets and deterred outflows	\$ 719,192,022	\$ 769,712,557

(Continued)

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

June 30,	2023	Restated 2022
Liabilities, Deferred Inflows and Net Position		
Current liabilities	00 700 604 6	00 004 445
Accounts payable	\$ 90,790,634 \$	83,894,415
Accrued salaries and wages	13,130,360	17,432,322
Accrued compensated absences	25,881,226	26,308,094
Accrued expenses and other current liabilities	9,676,039	10,875,419
Due to related parties	50,670,618	53,181,359
Unearned revenue	204,005	4,708,681
Current portion of accrued professional liability costs	8,830,232	7,387,189
Notes payable	2,025,692	-
Current portion of subscription liabilities	8,900,360	8,582,462
Current portion of lease liabilities	9,307,068	8,977,020
Current portion of long-term debt	92,290,000	7,970,000
Total current liabilities	311,706,234	229,316,961
Long-term liabilities		
Long-term debt, net of current	99,624,204	192,943,296
Lease liabilities, net of current	30,406,606	37,409,321
Subscription liabilities, net of current	27,368,347	26,205,692
Other post-employment benefits	1,172,170	5,108,880
Accrued professional liability costs, net of current	26,490,695	22,161,569
Interest rate swap liability	-	10,336,669
		, ,
Total long-term liabilities	185,062,022	294,165,427
Total liabilities	496,768,256	523,482,388
Deferred inflows	4,926,561	5,792,545
Not position		
Net position	40 542 250	47.400.040
Net investment in capital assets	49,542,258	47,136,842
Unrestricted	167,954,947	193,300,782
Total net position	217,497,205	240,437,624
Total liabilities, deferred inflows and net position	\$ 719,192,022 \$	769,712,557

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

For the years ended June 30,	2023	Restated 2022
Operating Revenue		
Net patient service revenue before		
provision for uncollectible accounts	\$ 1,222,629,504 \$	1,053,623,287
Provision for uncollectible accounts	(81,518,992)	(103,730,796)
Net patient service revenue	1,141,110,512	949,892,491
Revenue from contractual services, net (Note 2)	(12,295,488)	32,378,448
Other operating revenue	181,918,112	151,297,126
Total operating revenues	1,310,733,136	1,133,568,065
Operating Expenses		
Salaries and wages	419,744,864	379,091,667
Employee benefits and payroll taxes	91,591,035	87,464,920
Purchased services	217,478,827	211,375,345
Medical and surgical supplies	378,554,314	322,764,043
Insurance	15,653,343	18,395,316
Non-medical supplies and other expenses	88,973,368	83,300,736
Depreciation and amortization	53,141,220	51,448,267
Information technology and telecommunications	27,268,326	23,627,483
Repairs and maintenance	21,831,442	20,396,379
Restructuring expense	8,514,969	
Total operating expenses	1,322,751,708	1,197,864,156
Operating loss	(12,018,572)	(64,296,091)
		(Continued)

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

For the years ended June 30,	2023	Restated 2022
Nonoperating Revenue (Expenses)		_
Interest expense	(11,142,249)	(12,397,772)
Investment income, net	2,528,796	(4,349,172)
Loss on asset impairment	(5,265,533)	(!)
Unrealized gain on interest rate swap	3,290,669	10,267,651
Net loss on disposition of capital assets	(61,346)	(289)
CARES Act funding	-	10,592,174
Employee retention credit	-	28,690,259
Supplemental contribution to the Augusta University		
Retirement Program	(4,349,894)	(5,418,779)
Total nonoperating revenue (expenses)	(14,999,557)	27,384,072
(Decrease) in net position before restricted		
contributions	(27,018,129)	(36,912,019)
Restricted contributions for capital assets	4,077,710	7,738,434
Decrease in net position	(22,940,419)	(29,173,585)
Net position - beginning of year, as restated (Note 2)	240,437,624	269,611,209
Net position - end of year	\$ 217,497,205 \$	240,437,624

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

For the years ended June 30,	2023	Restated 2022
Operating Activities		
Cash received from and on behalf of patients \$	1,151,716,652	\$ 958,705,170
Other receipts from operations	167,222,421	190,978,853
Cash paid to and on behalf of employees	(520,001,438)	(471,155,512)
Cash paid to suppliers	(755,175,067)	(677,674,450)
Net cash provided by operating activities	43,762,568	854,061
Noncapital Financing Activities		
Receipt of CARES Act funds	_	10,592,174
Receipt of ERTC	6,657,129	315,958
Repayment of advance Medicare payments	(4,406,373)	(53,740,663)
Supplemental contribution to the Augusta University	(1)100,010,	(33), 10,003)
Early Retirement Program	(4,349,894)	(5,418,779)
Net cash used in noncapital financing activities	(2,099,138)	(48,251,310)
Capital and Related Financing Activities		
Principal paid on revenue bonds	(8,620,000)	(1,010,000)
Proceeds from short-term borrowing	2,747,707	-
Purchases of capital assets	(22,771,416)	(30,406,416)
Proceeds from disposition of capital assets	1,887	9,628
Principal paid on lease liabilities	(11,444,538)	(16,111,268)
Principal paid on subscription liabilities	(9,302,121)	(9,161,079)
Principal paid on notes payable	(722,016)	-
Interest payments	(11,142,249)	(12,400,758)
Return of collateral on interest rate swap mark to market	3,294,000	10,312,577
Principal received from lease receivable	1,493,163	2,611,812
Interest received from lease receivable	540,275	590,439
Capital contributions	4,077,710	7,738,434
Net cash used in capital and related financing activities	(51,847,598)	(47,826,631)
Investing Activities		
Interest and dividends on investments	1,935,509	4,470,367
Purchases of investments	18,124,770	(267,617,798)
Proceeds from sales of investments	31,051,086	341,118,588
Net cash provided by investing activities	51,111,365	77,971,157
Net increase (decrease) in cash and cash equivalents	40,927,197	(17,252,723)
Cash and cash equivalents - beginning of year	44,711,481	61,964,204
Cash and cash equivalents - end of year \$	85,638,678	\$ 44,711,481

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

For the years ended June 30,		2023		Restated 2022
Reconciliation of operating loss to net cash				
provided by operating activities:				
Operating loss	\$	(12,018,572)	\$	(64,296,091)
Adjustments:				
Depreciation and amortization		53,141,220		51,448,267
Provision for doubtful accounts		81,518,992		103,730,796
Amortization of loan payable premium		(379,092)		(389,216)
Changes in:				
Patient accounts receivable		(71,398,802)		(104,999,395)
Due to/from third-party payors, net		465,347		18,860,979
Other receivables		(2,379,601)		(1,476,421)
Inventory		(562,419)		(2,671,696)
Other current assets		2,777,857		2,287,250
Deferred outflows of resources		(1,878,086)		147,606
Accounts payable		2,043,502		2,718,478
Due to related parties		(2,510,742)		(2,928,423)
Unearned revenue		(98,303)		107,629
Accrued expenses and other current liabilities		(5,928,207)		(2,892,272)
Deferred inflows of resources		(865,984)		(373,960)
Other post-employment benefits		(3,936,710)		(1,212,638)
Accrued professional liability costs		5,772,168		2,793,168
Net cash provided by operating activities	Ś		<u></u>	
The cash provided by operating activities	Ą	43,762,568	\$	854,061
Deconciliation of each and each assistation to the				
Reconciliation of cash and cash equivalents to the				
statements of net position:	.	72 470 212	۲	40 520 024
Cash and cash equivalents	\$	73,478,213	\$	40,528,934
Cash equivalents internally designated for self-insurance liability funding		10 551 962		2 660 606
, -		10,551,862		2,660,606
Cash held by trustee under indenture agreement		1,608,603		1,521,941
Total cash and cash equivalents	\$	85,638,678	\$	44,711,481
Cumplemental schoolule of noncesh investing and financing				
Supplemental schedule of noncash investing and financing				
activities				
Change in capital additions included in accounts payable	\$	4,852,717		
Capital additions under lease liability	\$	(3,002,178)		• • •
Capital additions under subscription liability	\$	(10,941,879)	-	
Increase in fair value of investments	\$	(7,008)		(9,306,268)
Change in fair value of collateral	\$	-	\$	16,175
Asset impairment	\$	(5,265,533)	\$	-

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 Discussion & Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

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.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Scope of Statements (continued)

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 a limited liability company operating as an ambulatory surgery center and provides related services.

AU Health Imaging, LLC is a limited liability company formed to provide a full range of diagnostic and screening radiology services.

AU Health AirCare, LLC is a limited liability company formed to operate an air ambulance service in and around Augusta, GA.

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 a decrease in operating income of approximately \$2,544,000 and \$2,586,000 for the years ended June 30, 2023 and 2022, respectively.

Restatement of Prior Year Financial Statements

The previously issued financial statements for the year ended June 30, 2022, issued September 6, 2022, have been restated for a change in accounting principle related to the recognition of GASB Statement No. 96 for subscription-based information technology agreements (SBITA) and right-of-use assets. The implementation of this statement requires restatements in the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows to record the cumulative effect of recording the original basis of the subscription assets less accumulated depreciation, net of the respective subscription liability as of June 30, 2022.

Additionally, patient credit balances for AUMA have been reclassified from patient accounts receivable in current assets to accounts payable in current liabilities on the statement of net position. In fiscal year 2023, in order to better align salaries for Health System hired employees versus salaries for faculty and staff reimbursed to Augusta University, the Health System implemented classification changes for certain payments to Augusta University for salaries and benefits of physicians, advanced practice providers, and other clinical support staff. The Health System has restated the June 30, 2022 statement of revenues, expenses, and change in net position for comparison purposes.

As Previously

Increase

The financial statements as of June 30, 2022, were restated as follows:

	As Fleviously	increase	
June 30, 2022	Reported	(Decrease)	As Restated
Statement of Net Position:			
Assets and Deferred Outflows			
Current assets			
Patient accounts receivable, net of allowance			
for doubtful accounts	\$ 130,217,286	\$ 5,756,580	\$ 135,973,866
Other current assets	20,007,618	(1,852,018)	18,155,600
Noncurrent assets	, ,	(, , , ,	, ,
Capital assets, net	277,917,661	35,303,296	313,220,957
Liabilities and Net Position			
Current liabilities			
Accounts payable	78,137,835	5,756,580	83,894,415
Accrued expenses and other current liabilities	10,861,161	14,258	10,875,419
Current portion of subscriptions payable	-	8,582,462	8,582,462
Noncurrent liabilities			
Subscriptions payable, net of current	-	26,205,692	26,205,692
Net position			
Invested in capital assets, net of related debt	47,717,098	(580,256)	47,136,842
Unrestricted	194,071,660	(770,878)	193,300,782

Restatement of Prior Year Financial Statements (continued)

The financial statements as of June 30, 2022, were restated as follows:

	As Previously	Increase	
June 30, 2022	Reported	(Decrease)	As Restated

Statement of Revenues, Expenses, and Change in Net Position:

	_		
Operating expenses:			
Salaries and wages	\$ 405,704,932	\$ (26,613,265)	\$ 379,091,667
Employee benefits and payroll taxes	111,787,232	(24,322,312)	87,464,920
Purchased services	160,439,768	50,935,577	211,375,345
Non-medical supplies and other expenses	83,472,736	(172,000)	83,300,736
Depreciation and amortization	42,866,920	8,581,347	51,448,267
Information technology and telecommunications	32,364,063	(8,736,580)	23,627,483
Total operating expenses	1,198,191,389	(327,233)	1,197,864,156
Operating (loss) income	(64,623,324)	327,233	(64,296,091)
Nonoperating items:			
Interest expense	(10,719,405)	(1,678,367)	(12,397,772)
Total nonoperating items	29,062,439	(1,678,367)	27,384,072
(Decrease) increase in net position	(35,560,885)	(1,351,134)	(36,912,019)
Net position, beginning of year, as previously reported	269,611,209	-	269,611,209
Net position, end of year	241,788,758	(1,351,134)	240,437,624

Restatement of Prior Year Financial Statements (continued)

The financial statements as of June 30, 2022, were restated as follows:

June 30, 2022	As Previously Reported	Increase (Decrease)	As Restated
Statement of Cash Flows:			
Operating Activities			
Cash received from and on behalf of patients	\$ 964,461,750	\$ (5,756,580)	\$ 958,705,170
Cash paid to and on behalf of employees	(522,091,089)	50,935,577	(471,155,512)
Cash paid to suppliers	(643,337,885)	(34,336,565)	(677,674,450)
Net cash provided by (used in) operating activities	(9,988,371)	10,842,432	854,061
Capital and Related Financing Activities		(0.4.64.070)	(0.464.070)
Payment on subscription liability	- (40.740.405)	(9,161,079)	(9,161,079)
Interest payments	(10,719,405)	(1,681,353)	(12,400,758)
Net cash used in capital and related financing activities	(36,984,199)	(10,842,432)	(47,826,631)
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating income (loss)	(64,623,324)	327,233	(64,296,091)
Adjustments:			
Depreciation and amortization	42,866,920	8,581,347	51,448,267
Changes in:			
Patient accounts receivable	(99,242,815)	(5,756,580)	(104,999,395)
Other current assets	367,656	1,919,594	2,287,250
Accounts payable	(3,038,102)	5,756,580	2,718,478
Accrued expenses and other current liabilities	(2,906,530)	14,258	(2,892,272)
Net cash provided by operating activities	(9,988,371)	10,842,432	854,061

Change in Accounting for State Appropriations

Certain programs are administered by the State of Georgia for supplemental funding and are recorded as net patient service revenue. The state administered programs require an intergovernmental funds transfer (IGT) to be sent to the government before the funds are released to the Health System. Through fiscal year 2022, the amounts associated with these programs were recorded net of the IGT amount in net patient service revenue and the full state appropriations were recorded on the financial statements. In fiscal year 2023, the Health System began recording the revenue from the state administered programs at the gross amount in net patient service revenue and reducing the state appropriations by the IGT amount.

Change in Accounting for State Appropriations (continued)

The impacts to state appropriations were as follows:

For the years ended June 30,	2023	2022
Appropriations received from State of Georgia	\$ -	\$ 20,481,894
Appropriations returned to State of Georgia	(10,757,251) -
IGTs accrued for Department of Community Health	(47,119,187) -
IGTs paid by State of Georgia	45,487,100	11,990,404
Other miscellaneous items	93,850	(93,850)
Total	\$(12,295,488) \$ 32,378,448

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.

Other Receivables

Other receivables at June 30, 2023 and 2022 are comprised of the following amounts:

June 30,	2023	2022
Employee Retention Tax Credit	\$ 26,780,158	\$ 33,437,287
Receivable for retail pharmacy	8,060,878	5,558,780
Other non-patient receivables	5,667,440	8,152,436
DCH Graduate Medical Education	4,174,392	1,810,477
Supply cost rebates	1,281,840	1,283,256
Total	\$ 45,964,708	\$ 50,242,236

Inventories

Inventories, consisting primarily of pharmaceuticals and medical supplies, are stated using the average cost method or market value, whichever is lower, using the first in, first out (FIFO) method. The cost of such inventories is recorded as an expense when consumed rather than when purchased.

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. Such assets are recorded at cost if purchases or constructed, except for intangible right-of-use lease assets, the measurement of which is discussed in Notes 11 and 12 below. 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. Leasehold improvements are depreciated over the shorter of the useful life of the underlying asset or the lease term.

Capital Assets (continued)

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
Right-of-use buildings	3 to 15 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
Right-of-use leased equipment	3 to 10 years
Right-of-use subscription-based software	2 to 10 years
Software	3 to 5 years
Vehicles	4 to 10 years

Repairs and maintenance costs are charged to expense as incurred.

Long-Lived Asset Impairment

Long-lived assets are reviewed for impairment if circumstances suggest that there is a significant, unexpected decline in service utility of a long-lived asset. The service utility of a long-lived asset is the usable capacity that at acquisition was expected to be used to provide service. An assessment of recoverability is performed prior to any write-down of assets and an impairment charge is recorded on those assets for which the estimated fair value is below its carrying amount. For the year ended June 30, 2023, impairment of capital assets recorded was \$2,403,000. No material impairment charges to long-lived assets were recorded for the year ended June 30, 2022.

Costs of Borrowing

Premiums or discounts incurred in connection with the issuance of bonds are amortized over the life of the obligations using the interest method, and the unamortized amount is included in the balance of outstanding debt.

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.

Deferred Inflows & Outflows of Resources (continued)

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 deferred outflows of resources.

On an ongoing, not less than annual, basis, AUMC considers qualitative factors to determine if the deferred outflows recorded from this combination are realizable in future periods. For the fiscal year ended June 30, 2022, no impairment was identified. For fiscal year ended June 30, 2023, the SCCC deferred inflow was impaired in the amount of \$2,863,000.

In June 2017, the GASB issued Statement No. 87, *Leases*. Under this statement, a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about leasing activities. Deferred inflows of resources primarily consist of lease payments due from lessees for future periods.

AUMC entered into an agreement with AU to lease a medical office building owned by AUMC and located on the Health Sciences campus. The lease agreement was for a ten-year period and totaled \$3,659,000. The entire lease contract was prepaid by AU with occupancy starting July 2020. The upfront payments are included in deferred inflows and amortized monthly for revenue recognition as the lease progresses.

AUMC entered into short-term financing agreements totaling \$2,748,000 for multi-year insurance policies for the construction of a hospital in Columbia County, Georgia. The balance of the insurance financing agreement, less payments made, were recorded as a deferred outflow of resources and notes payable.

On June 30, 2023 and 2022, deferred inflows and outflows of resources were comprised of the following amounts:

June 30,		2023		2022
Deferred outflows of resources				
Arising from SCCC business combination	\$	_	\$	2,862,771
Insurance financing	•	2,025,692	•	,,
OPEB (experience losses)		691,827		839,433
Total deferred outflows of resources	\$	2,717,519	\$	3,702,204
Deferred inflows of resources				
OPEB (change of assumptions)	\$	(2,395,795)	\$	(2,790,822)
Deferred financing leases		(2,530,766)		(3,001,723)
			•	
Total deferred inflows of resources	\$	(4,926,561)	\$	(5,792,545)

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

Net position is classified as unrestricted and net investment in capital assets 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, reduced by the current balances of any outstanding borrowings used to finance the acquisition or construction of those assets.

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

Net Patient Service Revenue

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

Indigent and Charity Care

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

Income Taxes

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

Leases - Lessor

The Health System records revenues from leases in accordance with GASB No. 87, Leases. Under this standard, the leases with AU qualify as a related party lease receivable. The lease receivable is initially measured at the present value of the lease payments expected to be received during the lease term. The deferred lease inflow of resources is measured as the sum of the initial measurement of the lease receivable, plus any payments received at or before the commencement of the lease term that relates to future period. Lease receipts result in a reduction of the lease receivable and recognition of inflows of revenues.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases - Lessee

GASB No. 87, Leases, was adopted July 1, 2021, retroactive to July 1, 2020. Under this new guidance, all contracts allowing for the Health System to use another entity's asset for a period greater than 12 months must be recorded as both a right-of-use (ROU) asset and a lease liability. The liability is measured using the present value of expected payments over the lease term, less any lease incentives, discounted for the interest rate (whether explicit or implicit). Scheduled payments thereafter are allocated between the discount amortization to interest expense and the principal payment in the reduction of the outstanding liability. The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and direct costs. Depreciation of the ROU asset flows through depreciation expense monthly using straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

The Health System implemented a materiality threshold of \$200 thousand total lease value for ROU asset adoption (\$120 thousand for RWSH). Any contract not meeting the materiality threshold or the 12-month period requirement are recognized as rental expense. The leases not meeting the threshold are tracked and reviewed regularly to ensure the aggregate balance does not pose a material misstatement.

The Health System uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Health System uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of lease liability are composed of fixed payments and term options that the Health System is reasonably certain to exercise.

The Health System monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Leased assets are reported with capital assets and lease liability are reported on the statement of net position.

Subscription-Based Information Technology Arrangements

GASB No. 96, Subscription-Based Information Technology Arrangements (SBITA), was adopted July 1, 2022, retroactive to July 1, 2021. Under this new guidance, all contracts allowing for the Health System to use another entity's information technology software alone or in combination with tangible capital assets (the underlying IT assets) for a period greater than 12 months are recorded as both a right-of-use (ROU) asset and a subscription liability. The liability is measured using the present value of total expected payments over the subscription term, discounted for the interest rate (whether explicit or implicit). Scheduled payments thereafter are allocated between the discount amortization to interest expense and the principal payment in the reduction of the outstanding liability. The ROU asset should be measured as the sum of the initial subscription liability amount, payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Amortization of the ROU subscription asset flows through amortization expense monthly using straight-line basis over the life of the subscription.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subscription-Based Information Technology Arrangements (continued)

The Health System implemented a materiality threshold of \$200 thousand total subscription value for ROU asset adoption. Any contract not meeting the materiality threshold, or the 12-month period requirement are recognized as software subscription expense. The subscriptions not meeting the threshold are tracked and reviewed regularly to ensure the aggregate balance does not pose a material misstatement.

The Health System uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, the Health System uses its estimated incremental borrowing rate as the discount rate for subscriptions.

The subscription term includes the noncancellable period of the subscription. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and term options that the Health System is reasonably certain to exercise.

The Health System monitors changes in circumstances that would require a remeasurement of its subscription and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with capital assets and subscription liabilities are reported on the statement of net position.

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 \$1,424,000 and \$1,910,000 the years ended June 30, 2023 and 2022, respectively, and is included in nonmedical supplies and other expenses in the accompanying statements of revenues, expenses, and changes in net position.

Recently Adopted Accounting Pronouncements

In 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. The Health System adopted GASB 89 for the year ended June 30, 2022, and GASB 89 did not have a material impact on the financial statements.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements (continued)

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 financing of the right to use an underlying asset. Under this statement, a lessor 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. All leases with a term greater than 12 months are recognized as a lease liability and an intangible right-of-use lease asset by the lessee. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. For more information on the effects of the adoption of Statement No. 87, see Notes 2, 7, and 11.

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 15, 2021. The Health System adopted GASB 91 for the year ended June 30, 2023, and GASB 91 did not have an impact on the financial statements.

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, 2022. The Health System adopted GASB 92 for the year ended June 30, 2023, and GASB 92 did not have an impact on the financial statements.

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 an 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)

Recently Adopted Accounting Pronouncements (continued)

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. The Swap on the Series 2021A Bonds was not amended to transition away from LIBOR and was terminated in fiscal year 2023.

In March 2021, the GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements (GASB 94). 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. The Health System adopted GASB 94 for the year ended June 30, 2023, and GASB 94 did not have an impact on the financial statements.

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. The Health System adopted Statement No. 96 for the year ended June 30, 2023. For more information on the effects of the adoption of Statement No. 96, see Notes 2, 7, and 12.

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 (GASB 97). 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 Internal Revenue Code (IRC) Section 457 deferred compensation plans. The requirements for this statement are effective for reporting periods beginning after June 15, 2021. The Health System adopted GASB 97 for the year ended June 30, 2022, and GASB 97 did not have an impact on the financial statements.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pending Accounting Pronouncements

In April 2022, GASB issued GASB Statement No. 99, *Omnibus 2022*. This Statement seeks to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

In June 2022, GASB issued GASB Statement No. 100, Accounting Changes and Error Corrections. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Early application is encouraged.

In June 2022, GASB issued GASB Statement No. 101, Compensated Absences. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

The Health System is evaluating the requirements of the above statements and the impact on reporting.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 6, 2023. See Note 16 for relevant disclosures. 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,	2023	2022
Gross patient revenue	\$ 4,682,804,587 \$	4,357,568,645
Less: Provision for contractual and other adjustments	(3,225,143,196)	(3,087,817,157)
Less: Provision for doubtful accounts	(81,518,992)	(103,730,796)
Less: Provision for charity care	(235,031,887)	(216,128,201)
Net patient service revenue	\$ 1,141,110,512 \$	949,892,491

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 year 2018.

Revenue from the Medicare program accounted for approximately 39% and 33% of the Health System's gross patient service revenue for the years ended June 30, 2023 and 2022, respectively.

Medicaid

Inpatient services rendered to most Medicaid program beneficiaries are reimbursed based upon prospective reimbursement methodologies. Most outpatient services are reimbursed using a retrospective cost-based methodology. The Health System also contracts with certain managed care organizations to receive reimbursement for providing services to Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges or prospectively determined per-diem rates. Final settlement is determined after submission of the annual cost report by the Health System and audits by the Medicaid contractor. The Health System's Medicaid cost reports have been audited and settled for all years through fiscal year 2020.

The State of Georgia administers the Medicaid Upper Payment Limit (UPL) program for providers participating in the State Medicaid program. In fiscal year 2023, the Health System recorded the gross reimbursement benefit associated with the UPL program which totaled approximately \$19,318,000.

In fiscal year 2022, the Health System recorded the net reimbursement benefit associated with the UPL program which totaled approximately \$4,995,000.

Note 3: NET PATIENT SERVICE REVENUE (Continued)

Medicaid (continued)

The State of Georgia administers the Medicaid Directed Payment Program (DPP) for hospital and physician providers participating in the State Medicaid Managed Care program. In fiscal 2023, the Health System recorded the gross reimbursement benefit associated with the DPP program which In fiscal year 2022, the Health System recorded the net totaled approximately \$32,191,000. reimbursement benefit associated with the DPP program which totaled approximately \$13,845,000. 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). For the state fiscal year 2023 and moving forward, the Department of Community Health changed the Disproportionate Share Hospital payment allocation methodology to increase payments to state-owned and rural The change in allocation methodology increased the Health System's gross disproportionate share payment by approximately \$40,000,000 from fiscal year 2022 to fiscal year 2023. In fiscal year 2023, the Health System recorded the gross reimbursement from the program of approximately \$61,405,000. During the year ended June 30, 2022, the Health System recorded net reimbursement from this program of approximately \$14,879,000.

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 \$7,512,000 and \$7,236,000 in fiscal 2023 and 2022, 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 accounted for approximately 17% and 18% of the Health System's gross patient service revenue for fiscal years 2023 and 2022, respectively. In 2023, gross reimbursement under the programs described above was approximately \$153,834,000. Net disproportionate share reimbursement to the Health System under all of the programs described above totaled approximately \$40,954,000 in fiscal 2022. 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 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.

Note 3: NET PATIENT SERVICE REVENUE (Continued)

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.

In fiscal years 2023 and 2022, the Health System generated substantial revenues from its pharmacy operations, which have grown significantly in recent years. Pharmacy revenues totaled approximately \$161,420,000 and \$130,285,000 for the fiscal years ended June 30, 2023 and 2022, 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.

Nonoperating Income

Additional funding for the Public Health and Social Services Emergency Fund ("Relief Fund") was among the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was signed into law on March 27, 2020, and other legislation. In the year ended June 30, 2022, the Health System received cash payments and recognized nonoperating income of \$10,592,000 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 agreed to certain terms and conditions, including, among other things, that the funds were being used for lost operating revenues and COVIDrelated costs, and that the providers would 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. Included in the CARES Act was the Employee Retention Credit, a refundable tax credit against certain employment taxes equal to 50% of qualified wages an eligible employer paid to its employees. For the year ended June 30, 2022, the Health System recognized approximately \$28,690,000 of nonoperating income for Employee Retention Credits. These programs did not continue in fiscal year 2023.

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

As described above, the CARES Act was signed into law on April 24, 2020, authorizing up to \$2 trillion in government spending to mitigate the economic effects of the COVID-19 pandemic. Included in the CARES Act was the Employee Retention Credit, a refundable tax credit against certain employment taxes equal to 50% of qualified wages an eligible employer paid to its employees. Below is a brief overview of certain provisions of the CARES Act and related legislation that have impacted on the Health System's business. Please note that this summary is not exhaustive. Payments received in fiscal years 2023 and 2022 are described above in the nonoperating income section of Note 3.

Note 3: NET PATIENT SERVICE REVENUE (Continued)

Nonoperating Income (continued)

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

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.

Medicare and Medicaid Payment Policy Changes. The CARES Act and subsequent legislation also alleviated 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 allowed for added flexibility, as described below.

- The CARES Act and subsequent legislation suspended the 2% sequestration payment reduction applied to all Medicare Fee-for-Service (FFS) claims from May 1, 2020, through March 31, 2022. A 1% sequestration adjustment was reinstated between April 1, 2022, through June 30, 2022. The original 2% sequestration adjustment was reinstated July 1, 2022, and is still in effect.
- 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. The Department of
 Health and Human Services declared under Section 319 of the Public Health Service Act that
 the public health emergency (PHE) would expire at the end of the day on May 11, 2023.
- The Affordable Care Act (ACA) mandated cuts to Medicaid DSH based on the assumption Medicaid coverage would expand to almost all non-elderly adults under age 65. As originally structured, the ACA called for a total of \$18 billion in Medicaid DSH cuts beginning in FY2014 through 2020. Subsequent legislation has both delayed implementation of the cuts and extended the Medicaid DSH cuts through FY2027. The American Rescue Plan Act of 2021 temporarily increased FYs 2020-2023 Federal DSH allotments because of the COVID-19 Pandemic. Medicaid DSH payment reductions are scheduled to be implemented on October 1, 2023 (FY2024) when \$8 billion in reductions take effect. An \$8 billion DSH payment reduction will continue for each of the next three FYs 2025-27. The need for Medicaid DSH supplemental funding remains essential as the Health System copes with the impacts of financial instability while supporting our mission to treat all patients, regardless of their ability to pay.
- The CARES Act expanded the Medicare Accelerated and Advance payments program, which provided 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, 2022 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 automatically recouped 25 percent of Medicare payments otherwise owed to the provider or supplier for eleven months. At the end of the eleven-month period, recoupment increased to 50 percent for another six months.

Note 3: NET PATIENT SERVICE REVENUE (Continued)

Nonoperating Income (continued)

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

If the provider or supplier was unable to repay the total amount of the accelerated or advance payment during this time-period (a total of 29 months), CMS issued demand letters requiring repayment of any outstanding balance, subject to an interest rate of four percent consistent with the Continuing Appropriations Act, 2021. In fiscal year 2020, the Health System's hospitals and other providers applied for and received approximately \$67,422,000 of accelerated payments, which were recorded in unearned revenue on the statements of net position. For the years ended June 30, 2023 and June 30, 2022, the Health System repaid \$4,406,000 and \$53,741,000, respectively, in accelerated and advance payments. The remaining balance of Medicare accelerated and advance payments on June 30, 2022 was \$4,406,000 in unearned revenue on the statement of net position. The balance of Medicare accelerated and advance payments was paid in full for the fiscal year ended June 30, 2023.

• 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 were available to states beginning on January 1, 2020 provided that states meet certain conditions. The increase in the FMAP is being phased out over the three quarters beginning April 2023 and ending December 2023. An increase in states' FMAP leveraged Medicaid's existing financing structure, which allowed 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 supported 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.

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.

Note 4: CHARITY CARE (Continued)

Foregone charges and the estimated cost of charity care is as follows:

For the years ended June 30,	2023	2022
Charity care:		
Foregone charges	\$ 235,032,000	\$ 216,128,000
Estimated cost	\$ 66,389,000	\$ 59,412,000

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,	2023	2022	
Commercial and other third-party payors	46%	52%	
Medicaid	12%	16%	
Medicare	40%	31%	
Self pay	2%	1%	
Total	100%	100%	

Note 6: CASH, CASH EQUIVALENTS AND INVESTMENTS

The Health System's bank balances are as follows:

As of June 30,	2023	2022
Insured (FDIC) Uninsured, uncollateralized or collateralized by securities held by the pledging institution, its trust department	\$ 5,336,932	\$ 5,102,554
or agent in other than the Health System's name	87,668,051	53,503,041
Total	\$ 93,004,983	\$ 58,605,595
Carrying amount (cash and cash equivalents)	\$ 85,638,678	\$ 44,711,481

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 Health System places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporations (FDIC) covers \$250,000 for substantially all depository accounts. As of June 30, 2023 and 2022, approximately \$87,668,000 and \$53,503,000, respectively, of the Health System's bank balance was uninsured or uncollateralized.

Credit risk is the probability of a financial loss resulting from a borrower's failure to repay a loan. Essentially, credit risk refers to the risk that a lender may not receive the owed principal and interest, which results in an interruption of cash flows and increased costs for collection. Lenders can mitigate credit risk by analyzing factors about a borrower's creditworthiness, such as their current debt load and income. Concentration of credit risk refers to disproportionately large risk exposure to specific credits risks as opposed to a diversified risk profile.

Interest rate risk is the potential for investment losses that can be triggered by a move upward in the prevailing rates for new debt instruments. Interest rate risk can be reduced by buying bonds with different durations, or by hedging fixed-income investments with interest rate swaps, options, or other interest rate derivatives.

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

A summary of investments follows:

A summary of investments it	JIIOWS	·.		Inve	stment N	∕latur	itv			
			Less than		L to 5		o 10	N	lore than	
June 30, 2023		Fair Value	1 Year	١	/ears	Υe	ears		10 Years	Percentage
Investment type										
Debt securities:										
U.S. agencies	\$	5,303,293	\$ 5,303,293	\$	-	\$	-	\$	-	8.599
Mortgage/asset-backed securities		297,021	297,021		-		-		-	0.489
		5,600,314	5,600,314		-		-		-	
Equities and other:										
Mutual Bond Funds (Short Term)		55,940,938	-		-		-		-	90.56%
Accrued interest and dividends		228,950	-		-		-		-	0.37%
Total investments	\$	61,770,202	\$ 5,600,314	\$	-	\$	-	\$	-	100.009
				Inve	stment N	∕latur	ity			
			Less than	1	l to 5	6 t	o 10	Ν	lore than	
June 30, 2022		Fair Value	1 Year	١	ears/	Ye	ears	:	10 Years	Percentage
Investment type										
Debt securities:										
U.S. agencies	\$	2,018,619	\$ 1,918,619	\$	-	\$	-	\$	100,000	1.85%
Mortgage/asset-backed securities		1,053,557	1,053,557		-		-		-	0.97%
		3,072,176	2,972,176		_		_		100,000	
Equities and other:		-,- ,	,- ,						,	
Mutual Bond Funds (Short Term)		105,813,779	-		-		-		-	97.129
Accrued interest and dividends		66,547	-		-		-		-	0.069
Total investments	\$	108,952,502	\$ 2,972,176	\$	_	\$	_	\$	100,000	100.00%

The mutual bond funds (short term) listed above at both June 20, 2023 and 2022 are money market funds, invested entirely in debt issuances of the U.S. Treasury, rated at AAA.

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

		Investment Ratings								
June 30, 2023	Fair Value	AAA	AA		Α		ВА	A		A or ated
Interest Rates		0%								
Investment type										
Debt securities:										
U.S. agencies	\$ 5,303,293	\$ 5,303,291	\$	- \$		_	\$	_	\$	2
Mortgage/asset-			•	·			·		·	
backed securities	297,021	297,021		-		-		-		-
Total	\$ 5,600,314	\$ 5,600,312	\$	- \$		-	\$	-	\$	2
			Invest	ment Ra	tings					
	•								N/.	A or
June 30, 2022	Fair Value	AAA	AA		Α		ВА	A	Unr	ated
Interest Rates		0% - 1.63%								
Investment type										
Debt securities:										
U.S. agencies	\$ 2,018,619	\$ 2,018,617	\$	- \$		_	\$	_	\$	2
Mortgage/asset-	ψ 2,310,013	Ψ 2,010,017	Ψ	Y			Ψ		Ψ.	_
backed securities	1,053,557	1,053,557								
Total	\$ 3,072,176	\$ 3,072,174	\$	- \$		_	\$	_	\$	2

The Health System currently has one investment manager. 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, 2023 and 2022.

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.

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

The Health System's investment policy 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:

		20)23			
	Level 1	Level 2		Level 3		Total
						_
U.S. agencies	\$ 5,303,293	\$ -	\$		-	\$ 5,303,293
Mortgage/asset-backed securities	297,021	-			-	297,021
Mutual bond funds	56,169,888	-			-	56,169,888
						_
Total investments	\$ 61,770,202	\$ -	\$		-	\$ 61,770,202
		20)22			
	Level 1	Level 2		Level 3		Total
						_
U.S. agencies	\$ 918,619	\$ 1,100,615	\$		-	\$ 2,019,234
Mortgage/asset-backed securities	1,053,557	-			-	1,053,557
Mutual bond funds	105,879,711	-			-	105,879,711
Total investments	\$ 107,851,887	\$ 1,100,615	\$		-	\$ 108,952,502

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

Fair Value Measurement – Investments (continued)

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.

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.

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

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.

Investment income (loss), net is comprised of the following:

For the years ended June 30,	2023	2022
Dividend and interest income	\$ 2,638,188 \$	5,067,301
Net realized gain (loss) on investments	62,978	(7,503,124)
Net change in unrealized gain (loss) on investments	(69,986)	(1,803,144)
Management fees	(102,384)	(110,205)
Investment income, net	\$ 2,528,796 \$	(4,349,172)

Note 7: CAPITAL ASSETS

Capital asset additions, retirements and balances are as follows for the years ended June 30, 2023 and 2022:

	Restated									
		Balance			Retirements /			Balance		
	Ju	ne 30, 2022		Additions	Transfers			June 30, 2023		
Capital assets not being depreciated/amortized										
Land	\$	19,060,925	\$		\$	-	\$	19,060,925		
Construction in progress		24,875,216		29,009,770	(2	28,015,931)		25,869,055		
Total capital assets not being depreciated/amortized		43,936,141		29,009,770	(2	28,015,931)		44,929,980		
Capital assets being depreciated/amortized										
Leasehold improvements		226,077,100		9,795,691		-		235,872,791		
Equipment	:	253,252,880		9,819,426		(1,201,680)		261,870,626		
Technology & software		99,890,060		6,881,963		-		106,772,022		
Buildings		39,861,920		-		-		39,861,920		
ROU Assets - Buildings		37,725,015		1,589,848		(371,105)		38,943,757		
ROU Assets - Equipment		13,830,687		2,079,212		(229,030)		15,680,869		
ROU Assets - Land		562,851		(22)		-		562,829		
ROU Assets - SBITA		43,949,233		10,793,623		(550,082)		54,192,773		
Total capital assets being depreciated/amortized		715,149,745		40,959,740		(2,351,898)		753,757,588		
Less accumulated depreciation/amortization										
Leasehold improvements	(:	123,110,856)		(14,244,040)		-		(137,354,896)		
Equipment	(:	195,774,504)		(14,286,273)		1,181,865		(208,878,912)		
Technology & software		(90,470,509)		(5,856,156)		-		(96,326,666)		
Buildings		(14,117,049)		(1,150,685)		-		(15,267,734)		
ROU Assets - Buildings		(8,746,159)		(5,072,723)		371,105		(13,447,777)		
ROU Assets - Equipment		(4,969,956)		(4,364,335)		221,008		(9,113,283)		
ROU Assets - Land		(29,958)		(22,512)		-		(52,470)		
ROU Assets - SBITA		(8,645,938)		(9,357,554)		550,082		(17,453,410)		
Total accumulated depreciation/amortization	(4	445,864,930)		(54,354,278)		2,324,060		(497,895,148)		
Capital assets, net	\$:	313,220,957	\$	15,615,232	\$ (2	28,043,768)	\$	300,792,420		

Note 7: CAPITAL ASSETS (Continued)

	Balance June 30, 2021	Additions	Retirements / Transfers	GASB 96 Restatements	Restated Balance June 30, 2022
Capital assets not being depreciated/amortized					
Land	\$ 19,060,925	\$ -	\$ -	\$ -	\$ 19,060,925
Construction in progress	28,171,361	30,818,530	(34,114,675)	-	24,875,216
Total capital assets not being depreciated/amortized	47,232,286	30,818,530	(34,114,675)	-	43,936,141
Capital assets being depreciated/amortized					
Leasehold improvements	209,149,840	16,927,260	-	-	226,077,100
Equipment	242,629,888	13,555,051	(2,932,058)	-	253,252,880
Technology & software	94,231,318	5,658,742	-	-	99,890,060
Buildings	39,861,920	-	-	-	39,861,920
ROU Assets - Buildings	28,448,862	9,541,801	(265,648)	-	37,725,015
ROU Assets - Equipment	12,093,833	2,033,530	(296,677)	-	13,830,687
ROU Assets - Land	562,851	-	-	-	562,851
ROU Assets - SBITA	-	-	-	43,949,233	43,949,233
Total capital assets being depreciated/amortized	626,978,512	47,716,383	(3,494,383)	43,949,233	715,149,745
Less accumulated depreciation/amortization					
Leasehold improvements	(109,576,526)	(13,534,330)	-	-	(123,110,856)
Equipment	(183,325,932)	(15,352,639)	2,904,067	-	(195,774,504)
Technology & software	(85,231,770)	(5,238,739)		-	(90,470,509)
Buildings	(12,958,224)	(1,158,825)		-	(14,117,049)
ROU Assets - Buildings	(4,209,306)	(4,802,501)		-	(8,746,159)
ROU Assets - Equipment	(2,503,920)	(2,757,371)		-	(4,969,956)
ROU Assets - Land	(7,444)	(22,514)		-	(29,958)
ROU Assets - SBITA	-	(8,645,938)	-	-	(8,645,938)
Total accumulated depreciation/amortization	(397,813,123)	(51,512,857)	3,461,050	-	(445,864,930)
Capital assets, net	\$ 276,397,675	\$ 27,022,057	\$ (34,148,008)	\$ 43,949,233	\$ 313,220,957

Depreciation expense, which includes amortization of assets under right-of-use (ROU) assets, totaled approximately \$53,141,000 and \$51,448,000 for the years ended June 30, 2023 and 2022 as restated, respectively. The Health System recorded impairment of capital assets totaling \$2,403,000 for the year ended June 30, 2023. There were no assets impaired for the year ended June 30, 2022.

Note 7: CAPITAL ASSETS (Continued)

Construction in progress at June 30, 2023 consists of construction projects, medical equipment deployment and information technology upgrades. In fiscal year 2023, the Health System began construction on a project to build a new hospital and medical office building in Columbia County, Georgia. Estimated costs to complete these various projects total approximately \$212,095,000 on June 30, 2023, which includes \$193,141,000 for the estimated costs to complete the project in Columbia County, Georgia. For projects in process, the current funding from the bond proceeds totals approximately \$47,000 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,	2023	Restated 2022
Accrued for employee healthcare claims Accrued for workers' compensation claims Interest payable Other accrued expenses	\$ 3,082,000 \$ 1,433,563 715,251 4,445,225	2,465,000 1,173,700 3,977,197 3,259,522
Total	\$ 9,676,039	10,875,419

Compensated Absences

Compensated absences consist of accrued paid time off (PTO) and deferred compensation. The Health System records accrued PTO at the hourly rate of pay as of June 30, 2023. Employees accrue PTO hours based on the number of years of service with the organization. The maximum number of hours that can be accrued for paid time off is 360 hours. Included in the compensated absences line is the Health System's liability related to the 457(b) Plan. Plans eligible under 457(b) allow employees of the Health System to defer income taxation on retirement savings into future years.

Compensated absences activity for the years ended June 30, 2023 and 2022, was as follows:

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Amounts Due Within One Year
Compensated Absences	\$ 26,308,094	\$ 5,368,800	\$ (5,795,668)	\$ 25,881,226	\$ 25,881,226
	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Amounts Due Within One Year
Compensated Absences	\$ 26,588,266	\$ 6,019,512	\$ (6,299,684)	\$ 26,308,094	\$ 26,308,094

Note 9: DEBTA summary of notes payable follows as of June 30:

		Balance						
	June 30, 2022		Additions		Reductions		June 30, 2023	
Short-term insurance financing	\$	-	\$ 2,747,708	\$	(722,016)	\$	2,025,692	

Notes Payable

In fiscal year 2023, the Health System entered into short-term financing agreements totaling \$2,748,000 for two multi-year insurance policies for the construction of a hospital in Columbia County, Georgia. The builders' risk policy of \$489,000 was financed for ten months with an effective interest rate of 8.18%. The policy covering construction project losses and liability was in the amount of \$2,259,000 and was financed for eleven months with an effective interest rate of 7.994%. The balance of notes payable was \$2,026,000 at June 30, 2023.

Long-Term Debt

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

	2023	2022
Development Authority of Richmond County Revenue Bonds, Series 2018 Tax Exempt Bonds, payable in varying amounts beginning in 2019 through 2038	\$ 80,295,000 \$	80,945,000
Development Authority of Richmond County Revenue Bonds, Series 2021A Tax Exempt Bonds, payable in varying amounts beginning in 2021 through 2038	91,175,000	98,085,000
Development Authority of Richmond County Revenue Bonds, CRC Series 2014A Tax Exempt Bonds, payable in varying amounts beginning in 2015 through 2034, with variable interest rates initially reset monthly	17,090,000	18,150,000
Subtotal Unamortized premium and unamortized discount Less - current portion of long-term debt	188,560,000 3,354,204 (92,290,000)	197,180,000 3,733,296 (7,970,000)
Total	\$ 99,624,204 \$	192,943,296

Note 9: DEBT (Continued)

Long-term Debt (continued)

Long-term debt activity for the year-ended June 30, 2023 was as follows:

	Jı	Balance une 30, 2022	Additions	Reductions	Balance June 30, 2023	due Within One Year
Development Authority of Richmond County Revenue Bonds, Series 2018 Tax Exempt Bonds	\$	83,659,928	\$ - \$	(883,450)	\$ 82,776,478	\$ -
Development Authority of Richmond County Revenue Bonds, Series 2021A Tax Exempt Bonds		98,085,000	-	(6,910,000)	91,175,000	91,175,000
Development Authority of Richmond County Revenue Bonds, CRC Series 2014A Tax Exempt Bonds		19,168,368	-	(1,205,642)	17,962,726	1,115,000
Total	\$	200,913,296	\$ - \$	(8,999,092)	\$ 191,914,204	\$ 92,290,000

Long-term debt activity for the year ended June 30, 2022 was as follows:

								Amounts
		Balance				Balance	C	due Within
	Jı	une 30, 2021	Additions	Reductions	Ju	ine 30, 2022		One Year
Development Authority of Richmond County Revenue Bonds, Series 2018 Tax Exempt Bonds	\$	83,893,375	\$ - \$	(233,447)	\$	83,659,928	\$	-
Development Authority of Richmond County Revenue Bonds, Series 2021A Tax Exempt Bonds		98,085,000	-	-		98,085,000		6,910,000
Development Authority of Richmond County Revenue Bonds, CRC Series								
2014A Tax Exempt Bonds		20,334,134	-	(1,165,766)		19,168,368		1,060,000
Total	\$	202,312,509	\$ - \$	(1,399,213)	\$	200,913,296	\$	7,970,000

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 may grant the lender the ability to accelerate payment demands to the full amount of the outstanding obligation.

Note 9: DEBT (Continued)

Long-term Debt (continued)

The collateral on the 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 2021A 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 were 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.

On June 29, 2021, the Health System refunded its 2014 Bonds with the Series 2021A Bonds (2021A Bonds) which are a direct bank placement of bonds with Bank of America. The 2021A Bonds are variable rate and had an interest rate of 1.05 basis points above the SIFMA index adjusting periodically. In November 2021, the interest rate on the 2021A Bonds adjusted to a variable rate of 1.75 basis points above the SIFMA index adjusting periodically. This was a result of a credit rating downgrade that occurred in August 2021. On August 31, 2022, a memorandum of understanding (MOU) was signed between the Health System and Bank of America, detailing changes affecting the 2021A Bonds and the interest rate swap. The index rate on the bonds was changed from 1.75 basis points above the SIFMA index to 2.25 basis points above the SIFMA index. The mandatory tender was extended from July 1, 2023 to October 15, 2023.

The 2021A Bonds are generally secured through the trust indenture by the gross revenues of the Health System. The effective annual interest rate for the fiscal years ended June 30, 2023 and 2022 was 4.12% and 1.75%, respectively.

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

At June 30, 2022, the Health System was below the threshold for the debt covenant of the maximum annual debt service (MADS) ratio on the 2018 and 2021A Bonds. The terms of the Master Trust Indenture require the Health System to hire a consultant to assist with correcting the financial position. Consultants were hired prior to the end of fiscal 2022 to assist with operations and the financial position. The Master Trust Indenture states that the Health System is in default if the MADS covenant is not met for two consecutive years. The Health System was above the threshold at June 30, 2023. Accordingly, for fiscal years 2023 and 2022, in the opinion of management, the Health System is not in default on the 2018 and 2021A Bonds.

Note 9: DEBT (Continued)

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 continued to be in effect with the 2014 Bonds and the 2021A Bonds. In September 2021 the Health System novated the swap with a new counterparty and the fixed rate was adjusted to 3.362%. In September 2022, the swap was terminated.

The maturity date of the Swap was set to be July 1, 2037. The notional amount of the Swap at June 30, 2022 was \$92,900,000. The notional amount decreased from the initial notional amount of \$135,000,000. The notional value of the Swap declined in conjunction with payments of bond principal although the amortization schedule of the notional value was not realigned with the nominal principal payment schedule of the 2021A Bonds. The principal balance on the bonds approximated the notional amount of the Swap. Under the Swap, the Health System paid the counterparty interest at a fixed rate of 3.362% and received interest payments at a variable rate computed as 68% of LIBOR.

The fair value of the Swap was 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, 2022, the fair value of the Swap represented a liability to the Health System in the amount of \$10,337,000. The Health System or the Swap counterparty was 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, 2022, the Health System had \$10,340,000 posted cash and investment collateral with the Swap counterparty, which is included in other assets in the accompanying statements of net position.

For the fiscal year ended June 30, 2022, the Health System was exposed to credit risk in the amount of the fair value of the Swap. In fiscal year 2022, the Health System had one counterparty, and the Swap counterparty was rated AA by Fitch, Aa2 by Moody's, 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 could terminate the Swap if the other party failed to perform under the terms of the agreement. The counterparty had the option to terminate the Swap if the Health System credit rating is below BB+ or Ba1.

On September 30, 2022, the Swap was terminated due to a credit rating downgrade. The collateral balance of \$7,046,000 was retained by the swap counterparty for the Swap's negative fair value. With the termination of the swap, the variable rate bonds no longer carry a synthetic fixed interest rate. The Health System has no asset or liability recorded for the fiscal year ending June 30, 2023.

Note 9: DEBT (Continued)

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, 2023 and 2022 was 4.435% and 4.432%, respectively. Principal payments are due annually beginning in fiscal year 2024 through July 2039.

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. The Series 2014 CRC Bonds have semi-annual interest payments at interest rates ranging from 3.0% to 5.0%.

The effective interest rate at June 30, 2023 and 2022 was 4.3% and 4.2%, respectively. 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, 2023, 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 a lease receivable in the statement of net position.

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

Note 9: DEBT (Continued)

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

As of June 30, 2023, debt service requirements of the debts were as follows:

	20	18 and 2021A	Re	venue Bonds	2014 CRC Bonds					
For the year ending June 30,		Principal Interest*		Interest*		Principal		Interest*		Total
2024	\$	91,175,000	\$	5,225,375	\$	1,115,000	\$	690,319	\$	98,205,694
2025		1,430,000		3,603,650		1,170,000		633,194		6,836,844
2026		2,195,000		3,493,900		1,230,000		573,194		7,492,094
2027		2,525,000		3,367,650		1,290,000		510,194		7,692,844
2028		2,695,000		3,232,900		1,340,000		457,843		7,725,743
2029-2033		22,280,000		13,612,500		7,495,000		1,476,837		44,864,337
2034-2038		38,170,000		7,985,350		3,450,000		120,741		49,726,091
2039-2040		11,000,000		440,000		-		-		11,440,000
Total	\$	171,470,000	\$	40,961,325	\$	17,090,000	\$	4,462,321	\$	233,983,646

^{*}Amounts included are based on rates in effect as of June 30, 2023.

The following is a summary of interest cost on borrowed funds held by the trustee under the Series 2018 Bonds, Series 2021A Bonds, and Series 2014 CRC Bonds during the years ended June 30:

For the years ended June 30,	2023	2022
Interest cost		
Charged to operations	\$ 8,355,484 \$	8,872,473

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. In fiscal year 2023, the Health System made changes to the plan provisions since the prior year valuation. The following description of the Plan reflects the 2023 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 attained retirement eligibility by the end of 2020 or had 25 or more years of service as of the designation date.

Faculty Participants

At June 30, 2023, nearly all post-retirement benefits for Faculty Participants were eliminated, leaving only a limited remaining OPEB liability for this group. Any outstanding residual payments to Faculty Participants for post-retirement benefits are deemed immaterial for the purposes of this report. For the fiscal year ended June 30, 2022, employees had to 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 were eligible for benefits. Spouses of eligible retirees were covered during the retiree's lifetime. Beneficiaries, VA members, and members who were covered under the Medical College of Georgia Early Retirement Program (ERP) were excluded from participation.

Plan Provisions

Non-Faculty Participants

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

Post-65 Medical Benefits: Coverage under the group health insurance plan ends at age 65. After age 65, eligible retirees and their spouses are allowed to each receive a major medical reimbursement of up to \$500 per plan year. At the end of fiscal year 2023, the major medical reimbursement benefit was terminated.

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

Plan Provisions (continued)

Faculty Participants

At June 30, 2023, nearly all post-retirement benefits for Faculty Participants were eliminated, leaving only limited remaining OPEB liability for this group. Any outstanding residual payments to Faculty Participants for post-retirement benefits are deemed immaterial for the purposes of this report.

For the year ended June 30, 2022, the following plan provisions were in effect:

- 1. 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.
- 2. Tuition Benefits: Eligible retirees are allowed to continue coverage under the college tuition benefit, which reimburses eligible dependents for up to 4 years in an undergraduate program and for up to 4 years in a graduate program. Tuition reimbursements are subject to limitations based on the average program costs supplied by the university.

Membership of the Plan consists of the following:

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, 2023 and 2022, the Health System contributed approximately \$194,000 and \$307,000, respectively, to the Plan for current premiums or claims. For the years ended June 30, 2023 and 2022, Plan members receiving benefits contributed approximately \$10,000 and \$13,000, respectively, for current premiums or claims.

	At June 30, 2023	At June 30, 2022
Non-faculty participants:		
Actives (covered)	16	19
Retirees (covered)	43	42
Faculty participants:		
Actives (covered)	N/A	430
Retirees (covered)	N/A	58

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

Plan Provisions (continued)

	Retiree	Spouse
Pre-65 non-faculty annual premium at June 30, 2023 Post-65 non-faculty annual premium at June 30, 2023	\$ 7,340 \$ N/A	9,208 N/A

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

	Α	nnual Cost	Trend Rate
Non-faculty participants:			
Pre-65 medical claims - Per retiree/spouse	\$	18,697	Getzen model*
Pre-65 administrative fee - Per retiree	·	537	5.0%
Pre-65 stop loss premium - Per retiree		484	8.0%
Pre-65 stop loss premium - Per spouse		993	8.0%
Post 65 total medical reimbursement - Per retiree/spouse		500	No increase
Post-65 medical claims - Per retiree/spouse		500	No Increase
Faculty participants:			
Pre-65 medical claims - Per retiree/spouse		N/A	N/A
Post-65 medical claims - Per retiree/spouse		N/A	N/A
Tuition benefit - Per retiree (up to age 73)		N/A	N/A

^{*6.25%} graded uniformly to 5.20% over 3 years and following the Getzen model thereafter

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, 2023, 2022, and 2021:

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

Annual OPEB Cost and Net OPEB Liability (continued)

	2023	2022	2021
Beginning balance July 1	\$ 5,108,880 \$	6,321,518 \$	6,641,329
Service cost	16,894	636,232	510,035
Interest	33,144	129,963	212,024
Benefit changes	(4,051,193)	-	-
Experience losses	7,458	(350,408)	(850,239)
Changes of assumptions	250,736	(1,321,574)	298,455
Contributions - employer	(193,749)	(306,851)	(490,086)
Net changes	(3,936,710)	(1,212,638)	(319,811)
Ending balance June 30	\$ 1,172,170 \$	5,108,880 \$	6,321,518

For the years ended June 30, 2023, 2022, and 2021, the Health System recorded a related expense (income), as shown as follows:

	2023	2022	2021
			_
Service cost	\$ 16,894 \$	636,232 \$	510,035
Interest	33,144	129,963	212,024
Benefit changes	(4,051,193)	-	-
Experience losses	(11,503)	(18,961)	19,973
Changes of assumptions	22,276	(228,460)	(81,618)
	(
OPEB expense (income)	\$ (3,990,382) \$	518,774 \$	660,414

The following represents the net OPEB liability as of June 30, 2023 using the stated healthcare trend assumption, as well as what the OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage-point lower or one percentage-point higher than the assumed trend rate:

	1	L% Decrease	Current	1% Increase		
Net OPEB liability	\$	1,142,579	\$ 1,172,170 \$	1,203,625		

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

Annual OPEB Cost and Net OPEB Liability (continued)

The following represents the net OPEB liability at June 30, 2023 using the stated discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease	Current	1% Increase		
	3.05%	4.05%	5.05%		
			_		
Net OPEB liability	\$ 1,246,886 \$	1,172,170 \$	1,105,423		

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 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, 2022 with a measurement date of April 1, 2023 and reporting date of June 30, 2023. The results comply with assumptions, methods, and procedures under GASB 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 Pub-2010 Teachers Above Median Income Table with generational mortality improvement projected after year 2010 using Scale MP-2021

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

Summary of Actuarial Assumptions (continued)

Disability Rates – None Assumed

Withdrawal Rates:

	Less than One	1 to 3 Years	4 to 8 Years	9+ Years of
Age	Year of Service	of Service	of Service	Service
	%	%	%	%
25	10.87%	8.57%	6.48%	4.37%
30	9.31%	6.79%	4.19%	2.42%
35	8.39%	5.51%	3.57%	2.51%
40	7.95%	5.17%	3.01%	2.07%
45	7.74%	4.73%	2.91%	1.87%
50	7.80%	4.45%	2.66%	1.75%
55	6.76%	3.91%	1.29%	0.44%
60	6.81%	3.92%	1.06%	0.10%
65	0.00%	0.00%	0.00%	0.00%

Retirement Rates:

Age	Non-faculty	Faculty
	%	%
55-59	0.00%	5.00%
60	35.00%	20.00%
61-64	35.00%	15.00%
65	50.00%	25.00%
66-69	50.00%	25.00%
70-74	100.00%	50.00%
75	100.00%	100.00%

- Discount rate 4.05% per annum for 2023 and 3.39% for 2022 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 costs have been calculated for a male at attained age 65 and decrease according to the Dale Yamamoto aging table.

Note 11: LEASE LIABILITIES

GASB No. 87, Leases, was adopted for periods beginning July 1, 2021. Under the guidance, nearly all contracts allowing for the Health System to use another entity's asset for a period greater than 12 months must be recorded as both a right-of-use (ROU) asset and a lease liability. The liability is measured using the present value of expected payments over the lease term, discounted for the interest rate (whether explicit or implicit). Scheduled payments thereafter are allocated between the discount amortization to interest expense and the principal payment in the reduction of the outstanding liability. Depreciation of the ROU asset flows through depreciation expense monthly using straight-line basis over the life of the lease.

The right-of-use assets and related lease liabilities largely involve the following:

- Managed Service Alliances (grouped with Equipment in tables)
 - o Imaging Alliance Partner which provides diagnostic imaging equipment, patient monitoring technology, maintenance services, and other related services.
 - Diagnostic Alliance Partner which provides diagnostic laboratory equipment, technology access management, clinical education, and other related services.
 - MSA leased assets range from 60 to 120 months.
- Building leases
 - Outpatient clinical services locations throughout Augusta and the surrounding areas.
 - o Administrative office suites located off the main hospital campus.
 - Building leases range from 12 to 180 months (for one year renewal periods).
- Equipment
 - Specialized medical and surgical equipment such as robotic surgical systems, multiple scopes, and various operating room tools.
 - Office equipment which represents copier equipment as part of a large corporate lease.
 - Equipment leases range from 24 to 72 months.
- Land
 - Property site used as the base of operations for AirCare LLC, which provides emergent air medical services.
 - Land lease is for 300 months.

With the implementation of GASB 87, the initial lease liability was recorded in the amount of \$48,707,000. As of June 30, 2023 and 2022, the balance of lease liability was \$39,714,000 and \$46,386,000, respectively. The Health System is required to make monthly principal and interest payments totaling approximately \$888,000. The leases have interest rates ranging from 0.76% to 5.8%.

Note 11: LEASE LIABILITIES (Continued)

Lease liability activity for the years ended June 30, 2023 and 2022, was as follows:

	Balance				Balance	An	nounts Due
	June 30, 2022	Additions	Reductions	Ju	ne 30, 2023	Wit	hin One Year
Buildings	\$ 30,087,786	\$ 2,819,001	\$ (5,795,997)	\$	27,110,790	\$	4,680,409
Equipment	15,120,590	1,409,415	(4,954,848)		11,575,158		4,471,856
Land	551,098	-	(8,922)		542,176		9,781
Other	626,867	-	(141,317)		485,550		145,022
Total	\$ 46,386,341	\$ 4,228,416	\$ (10,901,083)	\$	39,713,674	\$	9,307,068
	Balance				Balance	An	nounts Due
	June 30, 2021	Additions	Reductions	Ju	ne 30, 2022	Wit	hin One Year
Buildings	\$ 25,456,433	\$ 8,809,733	\$ (4,178,380)	\$	30,087,786	\$	4,479,733
Equipment	22,691,173	4,249,032	(11,819,614)		15,120,590		4,347,046
Land	559,168	-	(8,070)		551,098		8,923
Other		732,070	(105,203)		626,867		141,318
Total	\$ 48,706,774	\$ 13,790,834	\$ (16,111,268)	\$	46,386,341	\$	8,977,020

Minimum future lease payments under lease liability as of June 30, 2023 are as follows:

	Lease Obligations						
For the year ending June 30,	-	Principal	Interest			Total	
2024	\$	9,307,068	\$	1,353,343	\$	10,660,411	
2025		7,345,457		1,055,108		8,400,565	
2026		6,425,691		799,085		7,224,776	
2027		5,007,515		583,515		5,591,030	
2028		4,092,046		396,951		4,488,997	
2029-2033		7,139,531		443,955		7,583,486	
2034-2038		121,977		41,303		163,280	
2039-2043		165,308		23,978		189,286	
2044-2047	109,081			3,738		112,819	
Total Minimum Lease Payments	\$	39,713,674	\$	4,700,976	\$	44,414,650	

Note 12: SUBSCRIPTION LIABILITIES

GASB No. 96, Subscription-Based Information Technology Arrangements, was adopted for periods beginning July 1, 2022. Under this new guidance, nearly all contracts allowing for the Health System to use another entity's information technology software alone or in combination with tangible capital assets (the underlying IT assets) for a period greater than 12 months must be recorded as both a right-of-use (ROU) asset and a subscription liability. The liability is measured using the present value of expected payments over the subscription term, discounted for the interest rate (whether explicit or implicit). Scheduled payments thereafter are allocated between the discount amortization to interest expense and the principal payment in the reduction of the outstanding liability. Amortization of the ROU asset flows through amortization expense monthly using straight-line basis over the life of the subscription.

The right-of-use assets and related subscription liabilities largely involve the following:

- A licensing and remote hosting agreement with a global supplier of health information technology solutions which provides software/applications, managed/shared services, and remote hosting services. The contract spans a period of 113 months.
 - Additional agreements with the supplier including software, managed services, and remote hosting services
 - Subscriptions range from 24 months to 120 months
- Other Subscriptions
 - Online learning center for the organization
 - Physician/nurse scheduling software
 - Software that assists with medical coding
 - o Remote hosted software that optimizes revenue cycle management
 - Claims manager software to assist with coding errors and prevention of insurance denials
 - These subscriptions range from 24 months to 120 months

With the implementation of GASB 96, the initial subscription liability was recorded in the amount of \$43,949,000. As of June 30, 2023, the balance of the subscription liability was \$36,268,000. The Health System is required to make monthly principal and interest payments totaling approximately \$852,000. The subscriptions have interest rates ranging from 2.42% to 5.8%.

Subscription liability activity for the years ended June 30, 2023 and 2022, was as follows:

								Amounts
		Balance			GASB 96		Balance	ue Within
	Ju	ne 30, 2022	Additions	Reductions	Restatement	Ju	ne 30, 2023	One Year
Subscriptions	\$	34,788,154	\$ 10,930,929	\$ (9,450,376)	\$ -	\$	36,268,707	\$ 8,900,360
								Amounts
		Balance			GASB 96		Balance	ue Within
	Ju	ne 30, 2021	Additions	Reductions	Restatement	Ju	ne 30, 2022	One Year
Subscriptions	\$	-	\$ -	\$ (9,161,079)	\$ 43,949,233	\$	34,788,154	\$ 8,582,462

Note 12: SUBSCRIPTION LIABILITIES (Continued)

Minimum future subscription payments under lease liability as of June 30, 2023, are as follows:

	Lease Obligations						
For the year ending June 30,		Principal		Interest		Total	
						_	
2024	\$	8,900,360	\$	1,321,367	\$	10,221,727	
2025		7,017,589		975,235		7,992,823	
2026		6,256,632		701,051		6,957,683	
2027		6,449,062		447,866		6,896,928	
2028		6,662,946		184,938		6,847,884	
2029-2033		982,118		11,629		993,747	
Total Minimum Lease Payments	\$	36,268,707	\$	3,642,085	\$	39,910,792	

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 \$11,988,000 and \$12,008,000 of expense related to these plans during the years ended June 30, 2023 and 2022, 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 \$2,620,000 and \$1,157,000 for the years ended June 30, 2023 and 2022, respectively.

Note 14: RELATED PARTIES

Related parties for the fiscal years ended June 30, 2023 and 2022, consist of the following:

State Allocation

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

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

Master Lease Agreement

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

Service Fee

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

The 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					

There was no service fee due for fiscal years ended June 30, 2023 and 2022.

Note 14: RELATED PARTIES (Continued)

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. Total net payments by the Health System to AU for these services for the years ended June 30, 2023 and 2022 were approximately \$50,636,000 and \$46,967,000, 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, 2023 and 2022 were approximately \$19,943,000 and \$21,313,000. These expenses are reflected in purchased services on the statements of revenues, expenses, and changes in net position.

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

Operations and Services Agreement

The Research, Educational, and Professional Services Agreement (OSA) 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 OSA 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, 2023 and 2022 were approximately \$8,888,000 and \$8,883,000, 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, 2023 and 2022 were approximately \$242,000 and \$615,000, 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. Included in the amounts paid to AU for OSA is the use of nomenclature which was \$4,000,000 for both years ended June 30, 2023 and 2022. These expenses are included in purchased services on the statements of revenues, expenses, and changes in net position.

Note 14: RELATED PARTIES (Continued)

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 purchased services are approximately \$957,000 and \$1,203,000, for the years ended June 30, 2023 and 2022, respectively, for costs paid to AU for the leased employees.

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 for performance-based payments, medical administrative services, and other physician delegate services provided through the CAPSA. The total expense for these services was approximately \$136,610,000 and \$126,825,000 for the years ended June 30, 2023 and 2022, respectively, and are accounted for in purchased services.

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, 2023 and 2022, the Health System owed Regents approximately \$48,931,000 and \$53,181,000, respectively, which is recorded as due to related parties on the accompanying statements of net position. The balance at June 30, 2023 represents between two to three 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 \$4,350,000 and \$5,419,000 for June 30, 2023 and 2022, 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)

Related Party Leases

GASB No. 87, Leases, was adopted for periods beginning July 1, 2021. Under this new guidance, all contracts allowing another entity to use a Health System asset for a period greater than 12 months must be recorded as both a deferred inflow of resources and a lease receivable. The receivable is measured using the present value of expected payments over the lease term, discounted for the interest rate (whether explicit or implicit). Scheduled payments thereafter are allocated between the interest amortization to interest revenue and the principal payment in the reduction of the outstanding receivable. Lease revenue is amortized monthly using the straight-line basis, reducing the deferred inflow of resources balance as well.

The Health System implemented a materiality threshold of \$200 thousand total lease value for lease receivable adoption (\$120 thousand for RWSH). Any contract not meeting that materiality threshold or the 12-month period requirement are recognized as rental revenue. The leases not meeting the threshold are tracked and reviewed regularly to ensure the aggregate balance does not pose a material misstatement. The Health System currently has lease receivables ranging from 1 to 84 months recorded under GASB 87 guidance.

Lease Payable

The Health System has entered into lease agreements with the Board of Regents of the University System of Georgia on behalf of Augusta University for office space leased directly from the owner by Augusta University where the space is utilized by Health System employees.

As of June 30, 2023 and 2022, the components of the lease payable are as follows:

	June	Balance e 30, 2022	A	Additions	Reductions	Jun	Balance ne 30, 2023	C	Amounts Oue Within One Year
Lease payable	\$	271,842	\$	268,136	\$ (271,842)	\$	268,136	\$	268,136
	June	Balance e 30, 2021	ļ	Additions	Reductions	Jur	Balance ne 30, 2022	C	Amounts Due Within One Year
Lease payable	\$	-	\$	538,302	\$ (266,461)	\$	271,842	\$	271,842

Future minimum lease payments to be received under this lease, including renewed terms at June 30, 2023, are as follows:

		Leas	e Obligations			
For the year ending June 30,	Principal		Interest	Total		
2024	\$ 268,136	\$	7,258	\$	275,394	

Note 14: RELATED PARTIES (Continued)

Lease Receivable

The Health System has entered into lease agreements with the Board of Regents of the University System of Georgia on behalf of Augusta University for the following:

- To lease clinical space to Augusta University to support Augusta University in providing educational functions and clinical services for a specialized area of care.
- To lease office space for certain correctional healthcare employees.
- To lease office space for certain administrative personnel.

Cancer Research Center, LLC (CRC) Lease Receivable

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 has been recorded as a lease receivable 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, 2023 and 2022.

As of June 30, 2023 and 2022, the components of the lease receivable are as follows:

June 30,	2023	2022
Lease payments due	\$ 20,502,162 \$	22,368,352
Less amounts respresenting interest	(3,081,142)	(3,620,799)
Principal payments due Less current portion	17,421,020 (1,367,208)	18,747,553 (1,326,533)
Long term portion lease receivable	\$ 16,053,812 \$	17,421,020

Note 14: RELATED PARTIES (Continued)

Cancer Research Center, LLC (CRC) Lease Receivable (continued)

Future minimum rentals to be received under this lease, including renewed terms at June 30, 2023, are as follows:

For the year ending June 30,		Amount
2224	•	4 067 700
2024	\$	1,867,702
2025		1,866,466
2026		1,867,352
2027		1,865,232
2028		1,863,762
2029-2033		9,315,146
2034-2036		1,856,502
Total	\$	20,502,162

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 \$84,000 for both years 2023 and 2022.

Other Lease Receivables

AU Health System entered into a lease with AU in August of 2017 for office space for certain correctional healthcare employees. The initial lease term was for one year with annual auto renewals unless a termination request was submitted. The effective interest rate was 2.62%. The lease receivable as of June 30, 2022 was \$120,000. The lease terminated in fiscal year 2023.

AU Health System entered into a lease with AU in July 2021 for office space for certain administrative personnel. The initial lease term was for one year with annual auto renewals unless a termination request was submitted. The effective interest rate was 2.4%. The lease receivable as of June 30, 2023 and 2022 was \$3,900 and \$171,000, respectively.

As of June 30, 2023 and 2022, the components of the lease receivable are as follows:

June 30,		2023	2022
Lease nayments due	ė	3.060 ¢	172 007
Lease payments due Less amounts respresenting interest	\$	3,960 \$ (8)	173,007 (2,425)
		(-)	(=) :==)
Principal payments due		3,952	170,582
Less current portion		(3,952)	(166,630)
Long term portion lease receivable	\$	- \$	3,952

Note 14: RELATED PARTIES (Continued)

Other Lease Receivables (continued)

Future minimum rentals to be received under this lease, including renewed terms at June 30, 2023, are as follows:

For the year ending June 30,	Amount
	_
2024	\$ 3,960

Augusta University Foundation, Inc. (previously Georgia Health Sciences Foundation, Inc.)

The Boards of Trustees of the Georgia Health Sciences (GHFS) and Augusta University Foundation (AUF) agreed to merge the two foundations to support Augusta University and AU Health more effectively on July 1, 2022. GHSF remained a separate entity and all of its assets were transferred to AUF. The Foundation was established to serve the needs and interest of AU and to manage, invest and steward charitable gifts to AU. AUF is a component unit of AU and is not included in the financial statements of the Health System. AUF serves the needs of both AU and the Health System. At June 30, 2023 and 2022, AUF held net assets of approximately \$10,183,000 and \$9,257,000, respectively, which use by the Health System is limited by the intent of donors. At June 30, 2023, approximately \$2,526,000 of AUF's net assets have been restricted by donors to be maintained in perpetuity. At June 30, 2022, approximately \$1,158,000 of AUF's net assets have been restricted by donors to be maintained in perpetuity. As of June 30, 2023 and 2022, other receivables include \$638,000 and \$626,000 due from AUF, 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, 2023 and 2022, the Foundation held net assets of approximately \$3,736,000 and 3,596,000, respectively, which use by the Health System is limited by the intent of the donors. At June 30, 2023 and 2022, approximately \$1,472,000 and \$1,471,000, 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, and historically, Health System claims have never exceeded available insurance coverage; however, under the current climate in the State of Georgia, any claim where liability is found has the potential to result in a significant adverse verdict. As facts and circumstances exist today, 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, statement of revenue, expenses and changes in net position or statement of cash flows.

Note 15: COMMITMENTS AND CONTINGENCIES (Continued)

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 in excess of a self-insured program as described below. Claims settled through June 30, 2023, have not exceeded this commercial coverage in any of the five preceding years.

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, 2023 and 2022:

	Accrued	Accri	ued Workers	Employee	
	Professional	Cor	npensation	Health Care	
	Liability Costs		Claims	Claims	Total
Balance at June 30, 2021 Claims incurred and changes	\$ 26,755,590	\$	1,117,874	\$ 2,364,000	\$ 30,237,464
in estimates Claims payments	11,207,021 (8,413,853)		573,781 (517,955)	24,937,537 (24,836,537)	36,718,339 (33,768,345)
Balance at June 30, 2022	\$ 29,548,758	\$	1,173,700	\$ 2,465,000	\$ 33,187,458
Claims incurred and changes in estimates Claims payments	8,959,204 (3,187,035)		880,855 (620,992)	27,744,552 (27,127,552)	37,584,611 (30,935,579)
Balance at June 30, 2023	\$ 35,320,927	\$	1,433,563	\$ 3,082,000	\$ 39,836,490

Note 15: COMMITMENTS AND CONTINGENCIES (Continued)

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, 2023 (given no early termination), are as follows:

Fiscal year ending June 30,	Amount
2024	\$ 9,713,244
2025	9,928,884
2026	10,143,024
2027	10,362,540
2028	10,406,592
Thereafter	678,582
Total	\$ 51,232,866

Pending Litigation

On July 5, 2023, a Collective Action Complaint was filed against the Health System alleging violations of the Fair Labor Standards Act, 29 U.S.C. § 201. This case is in the beginning phase of litigation; therefore, the Health System cannot estimate the impact, if any, the case may have on the Health System's future financial results.

Note 16: SUBSEQUENT EVENTS

Effective August 29, 2023, AUHS and Wellstar Health System, Inc., a Georgia nonprofit corporation ("WHS"), consummated their affiliation (the "Transaction") pursuant to a Membership Substitution Agreement dated as of August 29, 2023. As a result of the Transaction, WHS became the sole corporate member of AUHS, AUHS changed its corporate legal name to Wellstar MCG Health, Inc. ("WMCG"), and the health system operated by AUHS became a part of the health system operated by WHS. By virtue of WHS becoming the sole corporate member of AUHS, WHS became the ultimate parent corporation of AUHS and its affiliates, AUMC, AUMA, and RWSH, which, as a result of the Transaction, changed its corporate legal name to Wellstar MCG Health Warm Springs, Inc. ("WRWSH").

Pursuant to the Second Amended and Restated Master Lease, (i) AUMC continues to lease the AUMC Main Campus from the Board of Regents, now for a term ending September 1, 2063, unless previously terminated in accordance with its terms; and (ii) to exercise the Board of Regent's option, in its sole discretion, to terminate the Second Amended and Restated Master Lease, the Board of Regents

Note 16: SUBSEQUENT EVENTS (Continued)

continues to be obligated to pay an early termination amount which equals the sum of the principal of, accrued interest, and make-whole or redemption premium, if any, on the Bonds.

With respect to the 2021A Bonds, on August 29, 2023, the put date was extended from October 15, 2023 to September 1, 2024. Additionally, the interest rate was changed effective September 1, 2023 to be equal to 79% of Daily SOFR plus a spread.

AU Health System, 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,	2023	2022	2021	2020	 2019	2018
Total OPEB liability						
Service cost	\$ 16,894	\$ 636,232	\$ 510,035	\$ 515,804	\$ 526,822	\$ 5,413,604
Interest	33,144	129,963	212,024	215,050	208,919	1,543,743
Changes of benefit terms	(4,051,193)	-	-	-	-	(44,538,003)
Differences between expected and actual experience	7,458	(350,408)	(850,239)	315,686	714,316	-
Changes of assumptions	250,736	(1,321,574)	298,455	(624,764)	(408,257)	-
Benefit payments	(193,749)	(306,851)	(490,086)	(539,070)	(448,856)	(956,216)
Net change in total OPEB liability	(3,936,710)	(1,212,638)	(319,811)	(117,294)	592,944	(38,536,872)
Total OPEB liability - beginning	5,108,880	6,321,518	6,641,329	6,758,623	6,165,679	44,702,551
Total OPEB liability - ending (a)	\$ 1,172,170	\$ 5,108,880	\$ 6,321,518	\$ 6,641,329	\$ 6,758,623	\$ 6,165,679
Plan fiduciary net position						
Contributions - employer	193,749	306,851	490,086	539,070	448,856	956,216
Benefit payments	(193,749)	(306,851)	(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)	\$ 1,172,170	\$ 5,108,880	\$ 6,321,518	\$ 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%	0.00%	0.00%
Covered-employee payroll	\$ 1,304,672	\$ 1,640,868	\$ 1,838,854	\$ 1,926,046	*	***
Net OPEB liability as a percentage of covered-employee payroll	89.84%	311.35%	343.77%	344.82%	-	-
Contributions as a percentage of covered-employee payroll	-	-	-	-	-	-

Notes to Required Supplementary Information - Schedule of Changes in Net OPEB Liability and Related Ratios

All post-retirement benefits for Faculty Participants have been eliminated with no remaining OPEB liability for this group. Any outstanding residual payments to Faculty Participants for post-retirement benefits are deemed immaterial for the purposes of this report. There have been no other 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 3.39% to 4.05% based on the S&P Municipal Bond 20-Year High Grade Rate Index as of April 1, 2023.
- 2. The trend rate was updated from the 2021 Getzen model (6.25% graded uniformly to 5.75% over 2 years and following the Getzen model thereafter) to the 2022 Getzen model (6.25% graded uniformly to 5.20% over 3 years and following the Getzen model thereafter).
- 3. For Non-Faculty Participants, assumed pre-65 medical claims per retiree/spouse were updated from \$11,097 to \$18,697 based on the most recent claims data provided. Further, an assumed pre-65 annual administrative fee of \$537 per retiree was added based on experience. Lastly, an assumed pre-65 annual stop loss premium of \$484 per retiree and \$993 per spouse was added based on experience.
- *Information is not available for years prior to 2018. This schedule is intended to show information for 10 years and additional years will be presented as it becomes available.
- **Covered-employee payroll amount does not include faculty physicians contracted from the University during the year. As these are not employees of AU Health Systems, Inc., no payroll data is available. As such, we have excluded these payroll expenses from our totals.
- ***Covered-employee payroll amount was not available for prior years due to change in payroll software.

AU Health System, Inc. (a component unit of the State of Georgia) Schedule I - Combining Statement of Net Position

	-		Obligated	Group			N	onobligated Grou	р	
As of June 30, 2023	AUMC	\$ 59,960,907 \$ 5,022,310 \$ 916,404 \$ 1,498,789 \$ - \$ 67,398,410 \$ 6,6079,803 \$ - \$ 6,079,803 6,698,447	Total AU Health System							
Assets and Deferred Outflows										
Current assets:										
Cash and cash equivalents	\$ 59,960,907	\$ 5,022,310 \$	916,404	\$ 1,498,789	\$ -	\$ 67,398,410	\$ 6,079,803	\$ -	\$ 6,079,803	\$ 73,478,213
Short-term investments	6,698,447	-	-	28,281,631	-	34,980,078	-	-	-	34,980,078
Cash equivalents internally designated for self-										
insurance liability funding Short-term investments internally designated for	-	-	-	-	-	-	10,551,862	-	10,551,862	10,551,862
self-insurance liability funding	-	-	-	-	-	-	21,189,810	-	21,189,810	21,189,810
Cash held by trustee under indenture agreement Investments held by trustee under indenture	-	-	-	-	-	-	1,608,603	-	1,608,603	1,608,603
agreement, current portion	4,394,588	297,021	-	-	_	4,691,609	908,705	-	908,705	5,600,314
Patient accounts receivable, net of allowance		•					•		•	
for doubtful accounts	107,617,752	11,642,039	2,465,350	_	(498,399)	121,226,742	4,626,933	-	4,626,933	125,853,675
Due from third-party payors	26,317,850	6,339,542	3,392	_	-	32,660,784	-	-	-	32,660,784
Other receivables	42,094,453	3,372,147	7	882,838	(392,596)	45,956,849	7,859	-	7,859	45,964,708
Inventory	24,497,632	1,177,395	130,663	-	-	25,805,690	316,189	-	316,189	26,121,879
Current portion of lease receivable	3,952	307,174	-	-	(307,174)	3,952	1,624,740	(257,532)	1,367,208	1,371,160
Other current assets	11,896,527	7,206,699	-	-	(3,909,295)	15,193,931	156,209	-	156,209	15,350,140
Total current assets	283,482,108	35,364,327	3,515,816	30,663,258	(5,107,464)	347,918,045	47,070,713	(257,532)	46,813,181	394,731,226
Noncurrent assets:										
Investments held by trustee under indenture	-	-	-	-	-	-	-	-	-	-
Capital assets, net	257,316,085	29,365,621	1,020,629	-	(294,703)	287,407,632	16,099,247	(2,714,459)	13,384,788	300,792,420
Lease receivable, less current portion	-	2,629,881	-	-	(2,629,881)	-	16,097,396	(43,584)	16,053,812	16,053,812
Notes receivable - related parties	-	84,257,381	-	-	(84,257,381)	-	-	-	-	-
Intercompany receivables (payables)	156,540,704	(149,033,534)	(20,201,685)	25,924,612	9,278,184	22,508,281	(13,728,496)	(8,779,785)	(22,508,281)	-
Other assets	790,849	228,757	-	8,138,523	(4,261,711)	4,896,418	627	-	627	4,897,045
Total noncurrent assets	414,647,638	(32,551,894)	(19,181,056)	34,063,135	(82,165,492)	314,812,331	18,468,774	(11,537,828)	6,930,946	321,743,277
Total assets	698,129,746	2,812,433	(15,665,240)	64,726,393	(87,272,956)	662,730,376	65,539,487	(11,795,360)	53,744,127	716,474,503
Deferred outflows	2,025,692	691,827	-	-	-	2,717,519		-	-	2,717,519
Total assets and deferred outflows	\$ 700,155,438	\$ 3,504,260 \$	(15,665,240)	\$ 64,726,393	\$ (87,272,956)	\$ 665,447,895	\$ 65,539,487	\$ (11,795,360)	\$ 53,744,127	\$ 719,192,022

(Continued)

AU Health System, Inc.
(a component unit of the State of Georgia)
Schedule I - Combining Statement of Net Position (Continued)

			Obligated	Group			N			
							Nonobligated			Total AU
As of June 30, 2023	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Group	Eliminations	Total	Health System
Liabilities, Deferred Inflows and Net Position										
Current liabilities:										
Accounts payable	\$ 70,122,794	\$ 16,662,960 \$	1,351,793	\$ 449,198	\$ -	\$ 88,586,745	\$ 2,596,485	\$ (392,596)	\$ 2,203,889	\$ 90,790,634
Accrued salaries and wages	9,555,210	3,210,127	298,478	-	-	13,063,815	66,545	-	66,545	13,130,360
Accrued compensated absences	17,788,385	6,372,569	602,371	914,531	-	25,677,856	203,370	-	203,370	25,881,226
Accrued expenses and other current liabilities	2,213,049	6,951,886	2,642	355,989	-	9,523,566	152,473	-	152,473	9,676,039
Due to related parties	14,334,794	8,885,995	-	27,416,734	-	50,637,523	33,095	-	33,095	50,670,618
Unearned revenue	-	-	-	-	-	-	204,005	-	204,005	204,005
Current portion of accrued professional liability costs	-	2,006,327	-	-	-	2,006,327	6,823,905	-	6,823,905	8,830,232
Short-term borrowing	2,025,692	-	-	-	-	2,025,692	-	-	-	2,025,692
Current portion of subscriptions liability	8,044,720	855,640	-	-	-	8,900,360	-	-	-	8,900,360
Current portion of lease liability	5,146,787	3,382,028	1,630	-	(257,532)	8,272,913	1,341,329	(307,174)	1,034,155	9,307,068
Current portion of long-term debt	91,175,000	-	-	-	-	91,175,000	1,115,000	-	1,115,000	92,290,000
Total current liabilities	220,406,431	48,327,532	2,256,914	29,136,452	(257,532)	299,869,797	12,536,207	(699,770)	11,836,437	311,706,234
Noncurrent liabilities:										
Long-term debt, net of current	-	82,776,479	-	-	-	82,776,479	16,847,725	-	16,847,725	99,624,204
Lease liabilities, net of current	11,268,353	17,722,140	4,075	-	(43,584)	28,950,984	4,085,503	(2,629,881)	1,455,622	30,406,606
Subscriptions liabilities, net of current	26,611,937	756,410	-	-	-	27,368,347	-	-	-	27,368,347
Long-term debt, intercompany	84,257,381	-	-	-	(84,257,381)	-	-	-	-	-
Accrued postemployment benefits	-	1,172,170	-	-	-	1,172,170	-	-	-	1,172,170
Accrued professional liability costs, net of current	-	6,018,981	-	-	-	6,018,981	20,471,714	-	20,471,714	26,490,695
Total noncurrent liabilities	122,137,671	108,446,180	4,075	-	(84,300,965)	146,286,961	41,404,942	(2,629,881)	38,775,061	185,062,022
Total liabilities	342,544,102	156,773,712	2,260,989	29,136,452	(84,558,497)	446,156,758	53,941,149	(3,329,651)	50,611,498	496,768,256
Deferred inflows	2,530,766	5,110,254	-	-	(2,714,459)	4,926,561	294,703	(294,703)	-	4,926,561
Net position:										
Net investment in capital assets	36,984,416	6,649,403	1,014,924	_	_	44,648,743	4,893,515	_	4,893,515	49,542,258
Unrestricted	318,096,154	(165,029,109)	(18,941,153)	35,589,941	-	169,715,833	6,410,120	(8,171,006)	(1,760,886)	167,954,947
Total net position	355,080,570	(158,379,706)	(17,926,229)	35,589,941	-	214,364,576	11,303,635	(8,171,006)	3,132,629	217,497,205
Total liabilities, deferred inflows and net position	\$ 700,155,438	\$ 3,504,260 \$	(15,665,240)	\$ 64,726,393	\$ (87,272,956)	\$ 665,447,895	\$ 65,539,487	\$ (11,795,360)	\$ 53,744,127	\$ 719,192,022

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

			Obligate	N						
							Nonobligated			Total AU
For the year ended June 30, 2023	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Group	Eliminations	Total	Health System
Operating revenues:										
Net patient service revenue	\$ 920,073,472	\$ 189,050,511 \$	15,140,791	\$ -	\$ (1,384,809)	\$ 1,122,879,965	\$ 19,487,750	\$ (1,257,203)	\$ 18,230,547	\$ 1,141,110,512
Revenue from contractual services	(13,895,488)	- -	1,600,000	-	-	(12,295,488)	-	-	-	(12,295,488)
Other operating revenue	173,660,552	166,600,293	15,450	121,095,269	(279,539,593)	181,831,971	10,759,474	(10,673,333)	86,141	181,918,112
Intercompany revenue (expense)	-	<u>-</u>	-	-	(2,189,180)	(2,189,180)	-	2,189,180	2,189,180	-
Total operating revenues	1,079,838,536	355,650,804	16,756,241	121,095,269	(283,113,582)	1,290,227,268	30,247,224	(9,741,356)	20,505,868	1,310,733,136
Operating expenses:										
Salaries and wages	309,737,218	82,454,675	12,982,217	9,833,006	-	415,007,116	4,737,748	-	4,737,748	419,744,864
Employee benefits and payroll taxes	34,925,084	54,240,107	1,152,290	-	722,776	91,040,257	1,273,554	(722,776)	550,778	91,591,035
Purchased services	74,203,207	182,163,547	1,548,220	106,766,344	(148,124,505)	216,556,813	1,302,706	(380,692)	922,014	217,478,827
Purchased/transferred services between intercompanies	32,356,857	(32,356,857)	-	-	-	-	-	-	-	-
Medical and surgical supplies	346,601,658	26,403,101	1,577,618	-	(1,183,170)	373,399,207	5,155,107	-	5,155,107	378,554,314
Insurance	3,645,630	11,740,291	239,638	-	-	15,625,559	7,285,059	(7,257,275)	27,784	15,653,343
Non-medical supplies and other expenses	171,151,057	38,217,689	3,794,150	3,902,217	(134,419,587)	82,645,526	7,945,879	(1,618,037)	6,327,842	88,973,368
Depreciation and amortization	45,176,172	6,436,835	83,263	-	(252,603)	51,443,667	2,069,890	(372,337)	1,697,553	53,141,220
Information technology and telecommunications	16,216,523	10,416,523	480,017	-	-	27,113,063	155,263	-	155,263	27,268,326
Repairs and maintenance	19,153,067	1,481,318	392,627	-	-	21,027,012	804,430	-	804,430	21,831,442
Restructuring expense	-	8,514,969	-	-	-	8,514,969	-	-	-	8,514,969
Total operating expenses	1,053,166,473	389,712,198	22,250,040	120,501,567	(283,257,089)	1,302,373,189	30,729,636	(10,351,117)	20,378,519	1,322,751,708

(Continued)

AU Health System, Inc.

(a component unit of the State of Georgia)

Schedule II - Combining Statement of Revenues, Expenses and Changes in Net Position (Continued)

	Obligated Group						Nonobligated Group			
							Nonobligated			Total AU
For the year ended June 30, 2023	AUMC	AUHS	RWSH	AUMA	Eliminations	Total	Group	Eliminations	Total	Health System
Operating Loss	26,672,063	(34,061,394)	(5,493,799)	593,702	143,507	(12,145,921)	(482,412)	609,761	127,349	(12,018,572)
Nonoperating revenue:										
Interest expense	(9,500,326)	(946,491)	(246)	-	10,947	(10,436,116)	(860,587)	154,454	(706,133)	(11,142,249)
Investment income, net	861,137	337,671	31,867	874,618	(154,454)	1,950,839	1,262,108	(684,151)	577,957	2,528,796
Loss on asset impairment	(5,265,533)	-	-	-	-	(5,265,533)	-		-	(5,265,533)
Unrealized (loss) gain on interest rate swap	3,290,669	-	-	-	-	3,290,669	-	-	-	3,290,669
Net gain (loss) on disposition of capital assets	(61,362)	16	-	-	-	(61,346)	-	-	-	(61,346)
Supplemental contribution to the Augusta University Earl	У									
Retirement Program	(3,582,740)	(767,154)	-	-	-	(4,349,894)	-	-	-	(4,349,894)
Increase (decrease) in net position before restricted										
contributions and restricted investment income	12,413,908	(35,437,352)	(5,462,178)	1,468,320	-	(27,017,302)	(80,891)	80,064	(827)	(27,018,129)
Change in restricted contributions	4,069,152	8,558	-	-	-	4,077,710	2,045,214	(2,045,214)	-	4,077,710
Increase (decrease) in net position	16,483,060	(35,428,794)	(5,462,178)	1,468,320	-	(22,939,592)	1,964,323	(1,965,150)	(827)	(22,940,419)
Net position, beginning of year	339,851,472	(122,853,740)	(12,464,051)	34,121,621	-	238,655,302	9,339,312	(6,205,856)	3,133,456	241,788,758
Net impact of GASB Statement No. 96 Implementation	(1,253,962)	(97,172)	-	-	-	(1,351,134)		-	-	(1,351,134)
Net position, as restated beginning of year	338,597,510	(122,950,912)	(12,464,051)	34,121,621	-	237,304,168	9,339,312	(6,205,856)	3,133,456	240,437,624
Net position, end of year	\$ 355,080,570	\$ (158,379,706) \$	(17,926,229)	\$ 35,589,941	\$ - \$	214,364,576	\$ 11,303,635	\$ (8,171,006) \$	3,132,629	\$ 217,497,205



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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 System, 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 System, Inc. (a component unit of the State of Georgia) (the "Health System"), as of and for the year ended June 30, 2023, 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 September 6, 2023.

Report on 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 or significant deficiencies may exist that were not identified.

Report on 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

arr, Riggs & Ungram, L.L.C.

Enterprise, Alabama September 6, 2023