GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Financial Statements and Consolidating Schedules

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

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Independent Auditors' Report

To the Board of Directors
Grady Memorial Hospital Corporation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Grady Memorial Hospital Corporation and affiliates (the System), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grady Memorial Hospital Corporation and affiliates as of December 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 1(t) to the consolidated financial statements, the System adopted new accounting guidance in connection with its implementation of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 April 29, 2019 on our consideration of the 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 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 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 System's internal control over financial reporting and compliance.

KPMG LLP

Atlanta, Georgia
April 29, 2019

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Balance Sheets

December 31, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	181,150	220,964
Patient accounts receivable, net of allowance for uncollectible accounts of $71,281 and $63,165 at December 31, 2018 and 2017, respectively		155,081	113,431
Grants receivable		18,983	13,527
Current portion of pledges receivable		19,239	11,114
Other current assets		57,114	52,616
Total current assets		431,567	411,652
Assets limited as to use		60,189	55,338
Property and equipment, net		413,900	394,500
Notes receivable, new market tax credit		37,024	37,024
Beneficial interest in net assets held by others		21,809	20,361
Pledges receivable, net, excluding current portion		12,537	6,451
Other assets		2,111	2,013
Total assets	$	979,137	927,339
Liabilities and Net Assets			
Current liabilities:			
Current portion of capital lease obligations	$	924	864
Accounts payable		41,335	53,339
Current portion of self-insurance reserves		13,008	10,918
Due to third-party payors, net		14,914	14,098
Due to Medical Schools		19,680	34,478
Other accrued expenses		79,745	61,491
Total current liabilities		169,606	175,188
Capital lease obligations, excluding current portion		33,434	34,359
Notes payable, net, new market tax credit		51,494	51,326
Self-insurance reserves, excluding current portion		41,219	36,117
Accrued postretirement benefit cost		2,203	3,215
Other long-term liabilities		7,243	10,497
Total liabilities		305,199	310,702
Net assets:			
Without donor restrictions		578,089	544,872
With donor restrictions		95,849	71,765
Total net assets		673,938	616,637
Commitments and contingencies			
Total liabilities and net assets	$	979,137	927,339

See accompanying notes to consolidated financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Statements of Operations

Years ended December 31, 2018 and 2017

(In thousands)

	2018	2017
Revenue, gains, and other support:		
Net patient service revenue (net of provision for uncollectible accounts of $367,721 in 2018 and $363,624 in 2017)	$ 1,074,782	956,314
Contributions from Fulton and DeKalb Counties	55,435	55,435
Other revenue	130,755	117,948
Total revenue, gains, and other support	1,260,972	1,129,697
Operating expenses:		
Salaries and benefits	543,464	475,975
Supplies and other expenses	631,899	564,931
Net periodic postretirement benefit credit	(2,363)	(5,954)
Interest	4,076	3,753
Depreciation and amortization	56,954	51,208
Total operating expenses	1,234,030	1,089,913
Operating income	26,942	39,784
Nonoperating gains (losses), net:		
Investment income, net	2,795	1,391
New market tax credit, net	(283)	(326)
Other	205	417
Total nonoperating gains, net	2,717	1,482
Revenue, gains, and other support in excess of expenses and losses	29,659	41,266
Accrued postretirement benefit cost adjustments	(1,414)	(5,494)
Net assets released from restriction used for the purchase of property and equipment	4,966	21,370
Contributions and other	6	2,489
Change in net assets without donor restrictions	$ 33,217	59,631

See accompanying notes to consolidated financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2018 and 2017

(In thousands)

		Without Donor Restrictions	With Donor Restrictions	Total
Net assets, December 31, 2016	$	485,241	64,888	550,129
Revenue, gains, and other support in excess of expenses and losses		41,266	—	41,266
Accrued postretirement benefit cost adjustments		(5,494)	—	(5,494)
Net assets released from restriction used for purchase of property and equipment		21,370	(21,370)	—
Net change in beneficial interest in net assets held by others		—	2,973	2,973
Contributions and other		2,489	25,274	27,763
Change in net assets		59,631	6,877	66,508
Net assets, December 31, 2017		544,872	71,765	616,637
Revenue, gains, and other support in excess of expenses and losses		29,659	—	29,659
Accrued postretirement benefit cost adjustments		(1,414)	—	(1,414)
Net assets released from restriction used for purchase of property and equipment		4,966	(4,966)	—
Net assets released from restriction used for operations		—	(4,534)	(4,534)
Net change in beneficial interest in net assets held by others		—	1,448	1,448
Contributions and other		6	32,136	32,142
Change in net assets		33,217	24,084	57,301
Net assets, December 31, 2018	$	578,089	95,849	673,938

See accompanying notes to consolidated financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	57,301	66,508
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		56,954	51,208
Loss (gain) on asset disposal		(81)	(417)
Amortization of debt issuance costs		168	128
Accrued postretirement benefit cost adjustments		1,414	5,494
Net change in beneficial interest in net assets held by others		(1,448)	(2,973)
Provision for uncollectible accounts		367,721	363,624
Contributions used for the purchase of property and equipment		(25,261)	(21,370)
Changes in operating assets and liabilities:			
Patient accounts receivable		(409,371)	(369,766)
Grants and pledges receivable		(19,668)	(4,651)
Other current assets		(4,497)	(3,060)
Other assets		(449)	(1,397)
Accounts payable, due to Medical Schools, and other accrued expenses and liabilities		(10,455)	4,408
Due to third-party payors, net		816	(2,168)
Accrued postretirement benefit cost		(2,473)	(6,236)
Self-insurance reserves		7,192	(2,479)
Net cash provided by operating activities		17,863	76,853
Cash flows from investing activities:			
Purchase of property and equipment		(77,222)	(71,434)
Issuance of notes receivable		—	(15,711)
Change in assets limited as to use		(4,851)	(3,261)
Net cash used in investing activities		(82,073)	(90,406)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		—	35,060
Principal repayments under capital lease obligations		(865)	(866)
Repayment of One-Day Loan (note 6)		—	(13,220)
Debt issuance costs paid		—	(467)
Contributions used for the purchase of property and equipment		25,261	21,370
Net cash provided by financing activities		24,396	41,877
Net change in cash and cash equivalents		(39,814)	28,324
Cash and cash equivalents, beginning of year		220,964	192,640
Cash and cash equivalents, end of year	$	181,150	220,964
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	4,287	3,967
Supplemental disclosures of noncash investing activities:			
Capital lease obligations for additions to property and equipment	$	—	2,670
Accrued expenses for additions to property and equipment		8,705	10,005

See accompanying notes to consolidated financial statements.

(1) Organization, Business, and Summary of Significant Accounting Policies

Grady Memorial Hospital Corporation (the System) is a 501(c)(3) not-for-profit health system formed on March 17, 2008, which subsequently entered into a Lease and Transfer Agreement (the Agreement) effective June 1, 2008 with The Fulton-DeKalb Hospital Authority (the Authority). The System, located in Atlanta, Georgia, comprises Grady Memorial Hospital (the largest teaching hospital in the state), Hughes Spalding Children's Hospital (Hughes Spalding), five free-standing primary care clinics, and other significant healthcare facilities and services consistent with an integrated healthcare delivery and medical education system serving a major metropolitan area. The System has 953 licensed beds and is the principal safety-net healthcare provider for the Atlanta metropolitan area. In addition, the System maintains the primary Level I trauma center for the region.

The key terms and conditions associated with the Agreement are as follows:

- The System makes monthly lease payments to the Authority, totaling $2.5 million in the initial year of the Agreement, and increasing each year by an amount generally measured by inflation in the published Consumer Price Index (CPI), not to exceed 3%, for an initial term of 40 years.
- The System assumed the liabilities of the Authority related to its previous operation of the former Grady Memorial Hospital and related facilities.
- In exchange for the lease payments and assumption of liabilities, the Authority transferred to the System all of the Authority's right, title, and interest in the operating assets of Grady Memorial Hospital and provided to the System the right to use its related facilities.
- The System is the agent for the Authority with respect to pre-existing Operating Agreements among the Authority, Fulton County, and DeKalb County. The Operating Agreements define the obligations of the Authority with respect to (principally) the provision of indigent care to the citizens of Fulton and DeKalb Counties (the Counties), in exchange for related ongoing funding that the Counties provide. The Authority is obligated to remit directly to the System all such funds the Authority receives from the Counties.

Certain assets and obligations of the Authority were excluded from the Agreement. In particular, the Authority retained certain assets and obligations related to (a) its sponsorship of The Fulton-DeKalb Hospital Authority Employee Pension Plan (the Plan – a frozen plan effective May 19, 2008) and (b) pre-existing Authority hospital revenue bond issues.

The Authority has defined obligations within the Agreement related to how it will apply the lease payments to its own obligations. A portion of the lease payments is to be applied to the Authority's ongoing funding of the Plan, and the Agreement requires that the System fund any shortfall between required Plan funding and available funds from the lease payments. Should there be an excess of lease payments over the Authority's bona fide operating costs and pension obligations, such excess must be returned to the System. The Authority may not carry over excess funds from year to year. No such funds were received by the System for the years ended December 31, 2018 and 2017.

The System's acquisition of assets and assumption of liabilities under the Agreement was accounted for as a purchase. The System has recognized a capital lease obligation for the lease payments (excluding any future CPI adjustments), which were discounted at 7.24%, representing management's best estimate of a fair value rate that might be available to the System on an unenhanced credit basis. Other acquired assets and assumed liabilities were recognized at their respective estimated fair values.

Because any future funding obligations of the System for the Plan are currently indeterminable, those payments (if any) are accounted for on a "pay-as-you-go" basis and recognized currently in expense as invoiced from the Authority. During the years ended December 31, 2018 and 2017, the System recognized approximately $3.8 million and $4.1 million, respectively, in expense associated with its pension-funding obligation as described herein. At December 31, 2018 and 2017, all such pension-funding amounts were fully settled.

The Agreement subjects the System to a number of commercially typical covenants, principally related to continuance of its mission as a safety-net hospital system, maintenance of facilities, and financial and other reporting, including the System's obligation to deliver audited financial statements within 120 days of year-end.

The significant accounting policies used by the System in preparing and presenting its consolidated financial statements are as follows:

(a) Principles of Consolidation

The accompanying consolidated financial statements of the System include the accounts of Grady Memorial Hospital, Hughes Spalding, the Henry W. Grady Memorial Foundation, Inc. (the Foundation), Grady Health Resources, Inc. (GHRI), Grady WIC, Inc. (GWIC), and Reliant Emergency Specialties, Inc. (Reliant). All significant intercompany accounts and transactions are eliminated in consolidation.

(b) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of contractual allowances, allowances for uncollectible patient accounts and pledges, reserves for general and professional liability claims, third-party payor settlements, and the actuarially determined benefit liability related to the System's postretirement benefit plan.

In addition, 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.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks, and investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use. The System maintains its cash and cash equivalents in domestic bank deposit accounts. The System invests its cash and cash equivalents with high-credit quality federally insured institutions. Cash and cash equivalent balances with any one institution may be in excess of federally insured

(Continued)

limits. The System has not realized any losses in such accounts and believes it is not exposed to any significant credit risk.

(d) Assets Limited as to Use and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Investment income items (including interest and dividends) are included in revenue, gains, and other support in excess of expenses and losses unless the investment income has donor restrictions.

Assets limited as to use include assets internally designated for capital acquisition and other uses, assets held by trustee under escrow agreements, an insurance guaranty trust fund, and funds limited by donors for specific purposes.

(e) Inventories

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or net realizable value.

(f) Property and Equipment, Net

Property and equipment transferred to the System under the terms of the Agreement are stated at fair value at the date of transfer. Property and equipment acquired subsequently are stated at cost, with the exception of donated items, which are stated at fair value at the date of donation. Equipment held under capital lease obligations is initially recorded at the lower of estimated fair value or the present value of minimum lease payments. Provisions for depreciation are computed using the straight-line method based on the estimated useful lives of the assets. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the estimated useful life or the lease term, and such amortization is included in depreciation and amortization in the accompanying consolidated statements of operations.

A summary of asset classes and related ranges of estimated depreciable lives is as follows:

Land improvements	3–8 years
Buildings and improvements	5–40 years
Machinery, equipment, and vehicles	3–20 years
Computer hardware and software	3–10 years

(g) Notes Receivable, New Market Tax Credit

Notes receivable, new market tax credit relates to two New Market Tax Credit (NMTC) Program financing arrangements established during 2015 and 2017 (as described in note 6) that exceed one year and bear interest at a market rate based on the borrowers' credit quality and are recorded at face value. Interest is recognized over the life of the notes. The System does not require collateral for the notes and does not intend to sell these receivables.

An allowance for credit losses is determined on an individual note basis if it is probable that the System will not collect all principal and interest contractually due. The System considers the borrowers' historical payment patterns, credit ratings as published by credit rating agencies, and general and industry-specific economic factors in determining probability of default. Impairment is measured based on the present value of expected future cash flows discounted at the notes' effective interest rates. The System does not accrue interest when a note is considered impaired. When ultimate collectability of the principal balance of an impaired note is in doubt, all related cash receipts are applied to reduce the principal amount of such notes until the principal has been recovered and are recognized as interest income thereafter. Impairment losses are charged against the allowance and increases in the allowance are charged to bad debt expense. Notes are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote. The System resumes accrual of interest when it is probable that the System will collect the remaining principal and interest of an impaired note. The notes receivable have no allowance for doubtful accounts as of December 31, 2018 and 2017, which is the System's best estimate of the amount of credit losses.

(h) Donor Restricted Net Assets

Donor restricted net assets are those whose use by the System is restricted by the donor to a specific time period or purpose. When a donor restriction expires, these net assets are reclassified to net assets without donor restrictions and are reported in the consolidated statement of operations as net assets released from restrictions. Donor restricted net assets can also be restricted by donors to be maintained in perpetuity. These net assets consist primarily of the System's beneficial interest in indigent care and nursing scholarship funds held by the Authority. All of the earnings of the trust are donor-restricted for the System's use in providing indigent and charity care.

(i) Net Patient Service Revenue

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

(j) Charity Care

The System provides care to patients who meet certain criteria under its financial assistance policies at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(k) Revenue, Gains, and Other Support in Excess of Expenses and Losses

The accompanying consolidated statements of operations include revenue, gains, and other support in excess of expenses and losses. Changes in net assets without donor restrictions, which are excluded from revenue, gains, and other support in excess of expenses and losses (to the extent applicable in any particular year), include certain postretirement benefit plan accounting adjustments, donor-restricted contributions, and net assets released from restrictions used for purchase of property and equipment.

For purposes of presentation, transactions deemed by management to be ongoing, significant, or central to the provision of healthcare services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

(l) Promises to Give and Donor Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the underlying condition is satisfied by the System or the date the donor's intention to give becomes a promise to give. Gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, these net assets are reclassified as net assets without donor restrictions and are reported in the consolidated statements of operations as net assets released from restrictions.

Gifts of long-lived assets such as property and equipment are excluded from revenue, gains, and other support in excess of expenses and losses and are reported without restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The System applies Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205-45, *Reporting of Endowment Funds* (ASC 958-205-45). ASC 958-205-45 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006, and serves to improve disclosures about an organization's endowment funds (both donor restricted and board designated).

The System has recorded a beneficial interest in donor-restricted endowment funds (note 16(b)) held by the Authority and does not maintain any board-designated or other endowments. Net changes in the estimated fair value of beneficial interest in net assets held by the Authority are reflected as increases or decreases to net assets with donor restrictions in the accompanying consolidated statements of changes in net assets. The System's Board has interpreted Georgia's State Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of an original donor-restricted endowment gift as of the gift date, absent explicit donor stipulations to the contrary. To the extent that income from any donor-restricted endowment fund is itself restricted to specific donor-directed purposes, such income is accounted for within donor restricted net assets until expended in accordance with the donor's wishes. Should additional donor-restricted endowments be received, the System would oversee individual donor-restricted endowments to ensure that the fair value of the original gift is preserved.

(m) Asset Retirement Obligations

The System recognizes a liability for legal obligations associated with asset retirements in the period incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the System capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability (a component of long-term liabilities in the accompanying consolidated balance sheets) is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the recorded liability is recognized as a gain or loss in the consolidated statements of operations.

(n) Long-lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group to be tested for possible impairment, the System first compares undiscounted future cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. Assets to be disposed of are separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the appropriate asset-and-liability sections of the consolidated balance sheet. In the period in which the disposal group is sold or classified as held-for-sale, the results of its operations are classified as discontinued operations in the consolidated statement of operations.

(o) Income Taxes

The System has been recognized by the Internal Revenue Service 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 generally not subject to federal or state income taxes. The Foundation has been similarly recognized. GHRI and GWIC are exempt from federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(2). Reliant is a taxable for-profit entity and is subject to federal and state income taxes; however, the tax accounts for this entity are nominal in fiscal years 2018 and 2017.

The System applies FASB ASC 740, *Income Taxes* (ASC 740), which addresses the accounting for uncertain income tax positions. ASC 740 provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There is no impact on the System's consolidated financial statements as a result of applying ASC 740.

(p) Postretirement Benefit Plan

The System applies the recognition and disclosure provisions of FASB ASC Topic 715, *Compensation – Retirement Benefits* (ASC 715). ASC 715 requires that the System recognize the unfunded status of its postretirement benefit plan in its consolidated balance sheet. ASC 715 also requires measurement of plan assets and benefit obligations as of the System's fiscal year-end.

The System records annual amounts relating to its postretirement benefit plan based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, turnover rates, and healthcare cost trend rates. The System reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded as a change in net assets without donor restrictions and are amortized to net periodic cost (credit) over future periods using the corridor method. The System believes that the assumptions utilized in recording its obligations under its postretirement benefit plan are reasonable based on its experience and market conditions.

Net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

(q) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

(r) Subsequent Events

The System has evaluated subsequent events through April 29, 2019, the date the consolidated financial statements were available to be issued, and determined that there are no additional items to disclose.

(s) Current Operating Environment

Management of the System continually monitors current economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact the System in a number of ways, including (but not limited to) uncertainties associated with U.S. healthcare reform.

(t) Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU No. 2015-04, *Deferral of the Effective Date (Topic 606 or ASU 2015-04)*. ASU 2015-04 defers the effective date of ASU 2014-09. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. The System will implement the provisions of ASU 2014-09 during fiscal year 2019. The System has not yet determined the impact of the new standard on its current policies for revenue recognition.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements which have not yet been issued or made available for issuance. The System early adopted this provision of ASU 2016-01 as of December 31, 2015. The System will adopt the other provisions of ASU 2016-01 during fiscal year 2019.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for all business entities for fiscal years beginning after December 15, 2019. The System will implement the provisions of ASU 2016-02 during fiscal year 2020. The System has not yet determined the impact of the new standard on its current policies for lessee accounting.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Non-for-Profit Entities (ASU 2016-14)*. ASU 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The System implemented the provisions of ASU 2016-14 during fiscal year 2018 on a retrospective basis. As a result, 2017 net assets classified as temporarily and permanently restricted net assets prior to the adoption of ASU 2016-14 totaling $53.3 million and $18.5 million, respectively, have been reclassified as net assets with donor restrictions in the accompanying 2017 consolidated financial statements. In addition, 2017 changes therein have been reclassified as changes in net assets with donor restrictions.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments – a consensus of the FASB Emerging Issues Task Force*. ASU 2016-15 amends ASC 230, *Statement of Cash Flows*, to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows with the intent of reducing diversity in practice with respect to eight types of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted and entities must apply the guidance retrospectively to all periods presented. The System has not determined the impact of ASU 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to present amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents on the statement of cash flows. ASU 2016-18 is effective for annual periods in fiscal years beginning after December 15, 2017 and requires retrospective application. The System implemented ASU 2016-18 for its fiscal year beginning January 1, 2018. The System's adoption of ASU 2016-18 did not have a material effect on the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires entities to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. ASU 2017-07 is effective in annual periods in fiscal years beginning after December 15, 2018. The standard requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. The System plans to implement ASU 2017-07 for its fiscal year beginning January 1, 2019. The System does not expect ASU 2017-07 to have a material effect on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958-605) Clarifying the Accounting Guidance for Contributions Received and Contributions Made* to further improve the scope and the accounting guidance for revenue recognition, to assist entities distinguishing between contributions (non-reciprocal) and exchange transactions (reciprocal) and to determine whether a contribution is conditional. The effective date of the amendment is the System's fiscal year ending December 31, 2019. The System does not expect the adoption of ASU 2018-08 to have a material effect on the consolidated financial statements.

(2) Principal Safety Net Healthcare Provider – Implications for the System

The System's formation was driven by the strategic vision of local business and community leaders who recognized the overriding importance of Grady Memorial Hospital in providing appropriately accessible healthcare for the indigent and other potentially under-served populations in the region. In short, the vision is founded on a deep desire to ensure that the System can both survive and thrive in an increasingly competitive and challenging healthcare industry environment. The System's ability to continue its mission on a long-term sustainable basis is a critical benefit to the citizens of both metropolitan Atlanta and the state of Georgia.

As indicated in note 1, the System is the principal safety-net healthcare provider for the Atlanta metropolitan area. Additionally, because the System is the primary Level I trauma center for the region (and for other reasons unique to the System), it also has some patient volumes from outside of the metropolitan area. The System's payor mix is heavily influenced by care to the uninsured and underinsured. The financing of the System's care for this critical population is provided through two key sources:

Funding from the Counties, as described in note 1, which totaled approximately $55.4 million for both the 2018 and 2017 fiscal years, included in contributions from Fulton and DeKalb Counties in the accompanying consolidated statements of operations.

Funding from the combined state/federal Medicaid disproportionate share program (referred to in Georgia as the Indigent Care Trust Fund, or ICTF), which totaled approximately $83.7 million and $89.3 million for the 2018 and 2017 fiscal years, respectively, included in net patient service revenue in the accompanying consolidated statements of operations.

The System is largely dependent on the two financing sources described above to provide net cash from operations at levels sufficient to fund the System's operating activities in a manner consistent with its mission. Any material reduction in funds from these two financing sources would have a materially adverse impact on the System's financial results. Management recognizes the risks inherent in the System's dependence on these financing sources.

As previously noted, the System is the legal agent for the Authority's obligations to the Counties regarding the provision of indigent care to the Counties' citizens, under the terms of continuing Operating Agreements that obligate the Counties to fund the cost of that care according to certain defined criteria. To further clarify Fulton County's obligations (which have historically represented the significant majority of related funding), the Authority and Fulton County entered into a Memorandum of Understanding (the MOU), which effectively further memorializes the financial obligation of Fulton County under the Operating Agreements. System management views the MOU as an important additional level of confirmation ensuring that funding it receives from the Counties will continue at levels reasonably consistent with the services the System provides to the Counties' citizens. Nevertheless, funding under the Operating Agreements (as supplemented by the MOU) is necessarily subject to political and related implications arising from the Counties' budgeting and related processes, and therefore, there are no guarantees regarding future funding amounts beyond the commitments evidenced in the Operating Agreements.

Under the provisions of the ICTF program, the System contributes funds to be used by the state in the Medicaid program that are then supplemented by federal funds, the aggregate of which are often referred to as consolidation dollars. The consolidation dollars are returned to the System as additional Medicaid inpatient reimbursement. The state Medicaid program is funded on a state fiscal year basis (the state maintains a June 30 fiscal year-end). As of December 31, 2018, the System has been approved to participate in the state fiscal 2019 ICTF program. In February 2019, the state fiscal 2019 ICTF program plan terms were finalized. Nevertheless, there can be no assurance that the specific funding levels associated with the System's future participation in this program will be maintained at or near historical levels, or that the program will not ultimately be discontinued or materially modified. Distributions of the annual ICTF funding are generally disbursed in semiannual lump sums, the timing of which varies from year to year. Estimated amounts outstanding under the ICTF program totaled $11.4 million and $12.0 million at December 31, 2018 and 2017, respectively, and are included in other current assets in the accompanying consolidated balance sheets.

Significant operational improvements have been achieved since the formation of the System and management remains focused on continuing to improve operational efficiencies and growing revenue.

An important goal in the creation of the System was the solicitation of contributions from community donors who had previously not significantly supported Grady Memorial Hospital. To that end, the System has received multiple commitments since its 2008 formation through December 31, 2018 for contributions and conditional grants to support the System's significant need to improve its capital asset base. These funds have been, and will be, directed to a number of important capital asset needs, including major clinical equipment upgrades, new information technology systems, and a new Center for Ambulatory Surgery Services (CASS). These capital asset additions support the System's important strategic goals of improving clinical quality, attracting commercial and other insured patients, providing physicians and other clinicians clinical equipment that is consistent with current standards of care, and creating support systems that optimize effectiveness and efficiency in both clinical and nonclinical information reporting.

The System's ability to continue to pursue its safety net mission in a manner consistent with otherwise-comparable institutions serving major metropolitan areas is dependent on a number of factors, the most important of which have been described above. A reasonably assured funds flow from the Counties, continued participation in the ICTF program at legacy levels (assuming no Medicaid expansion), achievement of continued operational improvement strategies, and enhanced community fund-raising support are all vital to the System's mission. Management believes that the System is well-positioned against the critical dependencies previously described, but also notes that any material variance from the System's expectations in any of these areas would have an associated material adverse effect on its financial condition and its results of operations.

(3) Other Current Assets

The composition of other current assets is as follows:

		December 31	
		2018	**2017**
		(In thousands)	
Prepaid expenses	$	11,303	9,776
Inventories		16,478	15,603
Due from state reimbursement programs		23,390	19,115
Other current assets		5,943	8,122
	$	57,114	52,616

(4) Assets Limited as to Use and Investment Income

The composition of assets limited as to use is as follows:

	Fair value hierarchy level (note 16)	December 31 2018	December 31 2017
		(In thousands)	
Internally designated for capital acquisition and other uses:			
Cash and cash equivalents	Level 1	$ —	1,447
Mutual funds	Level 1	4,203	4,061
		4,203	5,508
Held by trustee under escrow agreements:			
Cash and cash equivalents	Level 1	4,961	6,622
Insurance guaranty trust fund:			
Cash and cash equivalents	Level 1	8,274	8,276
Limited by donors for specific purposes:			
Cash and cash equivalents	Level 1	39,772	32,085
High yield mutual funds	Level 1	1,227	1,095
Common collective trust funds	Level 1	1,752	1,752
		42,751	34,932
		$ 60,189	55,338

Investment income, net (of investment fees) represents interest and dividends and totaled approximately $2.8 million and $1.4 million for the years ended December 31, 2018 and 2017, respectively.

(5) Property and Equipment, Net

A summary of property and equipment, net is as follows:

		December 31	
		2018	2017
		(In thousands)	
Land and land improvements	$	3,062	2,900
Buildings and leasehold improvements		405,330	368,789
Furniture, fixtures and equipment		293,527	257,884
Computer hardware and software		115,723	110,558
		817,642	740,131
Less accumulated depreciation and amortization		(444,120)	(387,593)
		373,522	352,538
Construction in progress		40,378	41,962
	$	413,900	394,500

Depreciation expense for the years ended December 31, 2018 and 2017 totaled approximately $56.6 million and $50.7 million, respectively. Construction in progress at December 31, 2018 and 2017 principally consists of expenditures related to new construction and renovation of existing facilities. Current projects in process at December 31, 2018 are planned for completion at various dates through fiscal year 2022 at an estimated total remaining cost to complete of approximately $254.8 million.

Equipment under capital lease obligations at December 31, 2018 and 2017, exclusive of amounts held under the Agreement and gross of accumulated amortization, is approximately $8.2 million at both December 31, 2018 and 2017. Related accumulated amortization at December 31, 2018 and 2017 is approximately $5.1 million and $4.4 million, respectively.

(6) New Market Tax Credit (NMTC) Program

The System entered into certain transactions (the Transactions) with a bank (the Investor Member) and certain lenders on August 16, 2017 and April 17, 2015 to obtain financing through the NMTC Program sponsored by the U.S. Department of Treasury. The NMTC Program permits certain corporate taxpayers to receive a credit against federal income taxes for making Qualified Equity Investments (QEIs) in Community Development Entities (CDEs). The credit provided to the investor totals 39% of the initial value of the QEI and is claimed over a seven-year credit allowance period. Through the Transactions, GWIC and GHRI, both wholly owned subsidiaries of the System, were formed for the purpose of effecting the System's participation in the NMTC Program. In addition, Grady Atlanta Investment Fund, LLC (the Investment

Fund), a wholly owned subsidiary of the Investor Member, was formed as part of the 2015 Transaction for the purpose of investing in the related and subsequent CDEs.

2017 NMTC Transaction

As part of the 2017 Transaction, the System contributed $15.7 million as a loan to the Investment Fund, and the Investor Member contributed $7.4 million as an equity interest in the Investment Fund. The Investment Fund then made QEIs totaling $22.0 million in exchange for an equity interest in three supporting CDEs. These CDEs then loaned $21.8 million, which represents the funding received by the CDEs less certain suballocation reporting fees and other transaction expenses, to GWIC as qualified low-income community investment loans (2017 QLICI Notes), which are included in notes payable, net, new market tax credit (note 9) in the accompanying consolidated balance sheets. The 2017 QLICI Notes do not require annual principal repayments, are secured by all of the assets of GWIC, and have a legal maturity date of August 16, 2047 and an anticipated repayment date of August 16, 2024 upon the exercise of the put option by the Investor Member. In connection with the 2017 Transaction, the System entered into a put/call agreement with the Investor Member. Under the terms of the put/call agreement, the System has the right to purchase the Investor Member's interest in the 2017 QLICI Notes at a nominal put price of $1,000 on August 16, 2024. If the put option is not exercised by the Investor Member on August 16, 2024, the System may exercise its right under the call provision to purchase the Investor Member's interest in the 2017 QLICI Notes at a nominal price of $1,000 during the earlier of six months following August 16, 2024 or six months following receipt of a Non-Put Election Notice (as defined) provided the System is compliant with certain other requirements stipulated in the put/call agreement.

The System has control over the operations of GWIC, and therefore, the accounts of this entity are included in the accompanying consolidated financial statements. The System provided funding to the Investment Fund and received and recorded a note receivable as part of the NMTC Program. A summary of note receivable, new market tax credit associated with the 2017 Transaction is as follows:

		December 31	
		2018	2017
		(In thousands)	
Note receivable with interest paid annually at a rate of 1.08% to be fully settled on August 16, 2024	$	15,711	15,711

2015 NMTC Transaction

As part of the 2015 Transaction, the System contributed $21.3 million as a loan to the Investment Fund, and the Investor Member contributed $13.5 million as an equity interest in the Investment Fund. The Investment Fund then made QEIs totaling $31.0 million in exchange for an equity interest in three supporting CDEs. These CDEs then loaned $30.4 million, which represents the funding received by the CDEs less certain suballocation reporting fees and other transaction expenses, to GHRI as qualified low-income community investment loans (2015 QLICI Notes), which are included in notes payable, net, new market tax credit (note 9) in the accompanying consolidated balance sheets. The 2015 QLICI Notes do not require annual principal repayments, are secured by all of the assets of GHRI, and have a legal maturity date of April 7, 2035 and an anticipated repayment date of April 6, 2022 upon the exercise of the put option by the Investor Member. In connection with the 2015 Transaction, the System entered into a put/call agreement with the Investor Member. Under the terms of the put/call agreement, the System has the right to purchase the Investor Member's interest in the 2015 QLICI Notes at a nominal put price of $1,000 on April 6, 2022. If the put option is not exercised by the Investor Member on April 6, 2022, the System may exercise its right under the call provision to purchase the Investor Member's interest in the 2015 QLICI Notes at a nominal price of $1,000 during the earlier of six months following April 6, 2022 or six months following receipt of a Non-Put Election Notice (as defined) provided the System is compliant with certain other requirements stipulated in the put/call agreement.

The System has control over the operations of GHRI, and therefore, the accounts of this entity are included in the accompanying consolidated financial statements. The System provided funding to the Investment Fund and received and recorded a note receivable as part of the NMTC Program. A summary of note receivable, new market tax credit associated with the 2015 Transaction is as follows:

	December 31	
	2018	2017
	(In thousands)	
Note receivable with interest paid annually at a rate of 1.0% to be fully settled on April 6, 2022	$ 21,313	21,313

(7) Pledges Receivable, Net

A summary of pledges receivable, net is as follows:

	December 31	
	2018	2017
	(In thousands)	
Less than one year	$ 19,239	11,114
One to five years	14,029	7,078
	33,268	18,192
Less:		
Unamortized discounts using a discount rate of 3.3% at both December 31, 2018 and 2017	(1,178)	(398)
Allowance for doubtful pledges	(314)	(229)
	$ 31,776	17,565

(8) Other Accrued Expenses

The composition of other accrued expenses is as follows:

		December 31	
		2018	2017
		(In thousands)	
Accrued salaries and benefits	$	43,253	37,718
Current portion of accrued postretirement benefit cost		965	1,012
Due (from) to related party (note 18(a))		(2,611)	710
Other accrued expenses		38,138	22,051
	$	79,745	61,491

(9) Notes Payable

A summary of notes payable, net, new market tax credit is as follows:

		December 31	
		2018	2017
		(In thousands)	
Notes payable associated with the 2017 NMTC Transaction (note 6), interest paid annually at an interest rate of 1.0%, anticipated to be fully settled on August 16, 2024	$	21,840	21,840
Less:			
Unamortized debt issuance costs		(373)	(440)
		21,467	21,400
Notes payable associated with the 2015 NMTC Transaction (note 6), interest paid annually at an interest rate of 0.7%, anticipated to be fully settled on April 6, 2022		30,355	30,355
Less:			
Unamortized debt issuance costs		(328)	(429)
		30,027	29,926
Notes payable, net, new market tax credit	$	51,494	51,326

(10) Insurance Programs

The System is self-insured for its general and professional liability insurance coverage. The System's self-insured retention is $5 million per claim. Commercial insurance has been obtained to provide for coverage in excess of the System's self-insured retention limits on a claims-made basis.

The general and professional self-insurance reserves included in the accompanying consolidated balance sheets, totaling $52.4 million and $45.2 million at December 31, 2018 and 2017, respectively, include estimates of the ultimate costs for both reported claims and claims incurred but not reported. The System has retained independent actuaries to estimate the ultimate costs of the settlement of such claims. Accrued general and professional liability costs have been undiscounted at December 31, 2018 and discounted at 1.0% at December 31, 2017.

The System is self-insured for its workers' compensation liability exposures up to limits of $350,000 per claim. Commercial insurance has been obtained to provide for excess workers' compensation liability coverage. The related amounts recorded by the System in the accompanying consolidated balance sheets totaled $1.9 million and $1.8 million at December 31, 2018 and 2017, respectively (undiscounted at December 31, 2018 and discounted at 1.0% at December 31, 2017).

The System sponsors a self-insured program for its employee health benefits up to limits of $285,000 per claim for fiscal years 2018 and 2017. The System recognized related reserves of approximately $3.3 million and $3.2 million in accrued medical benefits (included in other accrued expenses in the accompanying consolidated balance sheets) at December 31, 2018 and 2017, respectively. The reserves include estimates of the ultimate cost for claims incurred but not reported.

In the opinion of management, adequate provision has been made for losses that may occur from the asserted and unasserted claims for each of these self-insurance programs.

(11) Net Patient Service Revenue

The System has agreements with governmental and other third-party payors that provide for reimbursement to Grady Memorial Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of payment arrangements with major third-party payors is as follows:

Medicare – Substantially all acute care services rendered to Medicare 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. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based upon cost reimbursement or other retroactive-determination methodologies. Payments for cost reimbursable items are made at tentative rates, with final settlement determined after submission of annual cost reports by Grady Memorial Hospital and audits by the Medicare administrative contractors. Grady Memorial Hospital's cost reports have been audited and settled for all fiscal years through 2011. Revenue from the Medicare program accounted for approximately 34% and 32% of the System's net patient service revenue for the years ended December 31, 2018 and 2017, respectively.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the state of Georgia. Certain types of exempt services and outpatient services related to Medicaid beneficiaries are paid based upon cost reimbursement or other retroactive-determination methodologies. Payments for cost reimbursable items are made at tentative rates, with final settlement determined after submission of annual cost reports by the System and audits by the Medicaid fiscal intermediary. Grady Memorial Hospital's cost reports have been audited and settled for all fiscal years through 2015. The 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. Revenue from the Medicaid program (excluding ICTF revenue) accounted for approximately 31% of the System's net patient service revenue for both of the fiscal years ended December 31, 2018 and 2017.

As described in note 2, the System participates in the state ICTF program and an ancillary program referred to as the Upper Payment Limit (UPL) program. Net amounts received from the ICTF and UPL programs are recognized as additional Medicaid inpatient reimbursement and, therefore, are reflected in net patient service revenue. The related net reimbursement benefit recognized by the System for the years ended December 31, 2018 and 2017 was approximately $112.8 million and $110.3 million, respectively. The fact that the System's fiscal year-end differs from the state fiscal year results in certain timing differences in terms of ICTF and UPL funds received and to be received. The System's ICTF and UPL revenue is subject to retrospective adjustment in future periods based upon audits as required by the Centers for Medicare & Medicaid Services (CMS). Estimated amounts outstanding under the ICTF and UPL programs for fiscal years 2018 and 2017 totaled $23.4 million and $19.1 million, respectively, and are included in other current assets in the accompanying consolidated balance sheets.

The System has also entered into other reimbursement arrangements providing for payment methodologies, which include prospectively determined rates per discharge, prospectively determined per diem amounts, and discounts from established charges.

With respect to reserves for third-party payor cost report audits and anticipated settlements, the System routinely provides such reserves through initial audit and final settlement of the related cost reports. The System has historically provided such reserves in recognition of the complexity of relevant reimbursement regulations and the volatility of related settlement processes. The System's estimates in this area will differ from actual experience, and those differences may be material.

Net patient service revenue decreased by approximately $0.7 million and $2.1 million in 2018 and 2017, respectively due to the adjustment of previously estimated third-party payor reserves that are no longer necessary as a result of final settlements, years that are no longer subject to audits, reviews, and investigations, and new reserves established in accordance with the System's policy.

The composition of net patient service revenue (excluding charity care) is as follows:

		Year ended December 31	
		2018	**2017**
		(In thousands)	
Gross patient service revenue	$	4,498,647	3,910,644
Less:			
Provisions for contractual and other adjustments		(3,056,144)	(2,590,706)
Provision for uncollectible accounts		(367,721)	(363,624)
Net patient service revenue	$	1,074,782	956,314

As further described in both notes 1 and 2, the System is the principal safety net healthcare provider for the Atlanta metropolitan area. As a result, the System provides significant amounts of healthcare services to a large number of uninsured citizens in the region, the majority of whom do not have the means to pay for the cost of services provided. Consistent with the System's mission, all patients are served without regard to ability to pay. Charity care is offered to residents of Fulton and DeKalb Counties in accordance with the System's financial assistance policies. While a significant number of uninsured patients apply and qualify for financial assistance, a large population of uninsured patients that are served by the System (especially those provided emergency care) are not eligible for financial assistance, and therefore, the System also incurs significant amounts of bad debt expense related to the charges for services provided.

The System recognizes patient service revenue associated with services provided to patients with third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for community financial aid, the System recognizes revenue on the basis of its discounted rates for services provided. On the basis of historical experience, a significant portion of the System's uninsured patients are unable or unwilling to pay for the services provided. Thus, the System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended December 31, 2018 and 2017 from these major payor sources, is as follows:

		2018		
		Third-party payors	Self-pay	Total
			(In thousands)	
Patient service revenue, net of contractual adjustments and discounts	$	1,050,168	392,335	1,442,503

		2017		
		Third-party payors	Self-pay	Total
			(In thousands)	
Patient service revenue, net of contractual adjustments and discounts	$	922,810	397,128	1,319,938

The System provides services to patients who do not have the ability to pay and who qualify for charity care services pursuant to established policies of the System. Charity care services are defined as those for which patients have the obligation and willingness to pay but do not have the financial wherewithal to do so. The System does not include charity care in net patient service revenue. The cost of charity care provided totaled approximately $245.2 million and $209.0 million for the years ended December 31, 2018 and 2017, respectively. The cost of uncompensated care, which is defined by the System as services related to patients who do not have the ability to pay including charity care, bad debt, and uninsured discounts, totaled approximately $337.8 million and $304.4 million for the years ended December 31, 2018

(Continued)

and 2017, respectively. The System estimated these costs by applying a ratio of cost to gross charges to the related gross uncompensated charges.

The System incurred bad debt expense, valued at established charges, of $367.7 million and $363.6 million for the years ended December 31, 2018 and 2017, respectively. In addition to charity care and bad debt write-offs, the System provided discounts to the uninsured of $43.6 million and $49.2 million (recorded as discounts in net patient service revenue) for the years ended December 31, 2018 and 2017, respectively, in an effort to improve amounts collected from uninsured patients that do not apply and/or qualify for charity assistance. The System's allowance for uncollectible accounts for self-pay patients decreased from 99% to 97% of self-pay accounts receivable at December 31, 2018. The System's total allowance for uncollectible accounts increased from $63.2 million at December 31, 2017 to $71.3 million at December 31, 2018. The increases in bad debt expense and total allowance for uncollectible accounts are due primarily to increases in uninsured volumes during 2018.

(12) Employee Benefits Plans

(a) Postretirement Medical Plan

The System provides retiree medical benefits covering all employees of the System who previously retired at age 55 or older with at least 10 years of service. In fiscal year 2008, the System amended this plan to limit availability of retiree medical benefits to current employees aged 50 or older on September 4, 2008 and who retire at age 62 or older with at least 10 years of service. The cost of providing most of these benefits is shared with the retirees. The plan is unfunded, and therefore, the System's participation is on a "pay-as-you-go" basis.

The plan was amended effective May 1, 2013, the terms of which generally provide that Medicare-eligible employees are no longer eligible for retiree medical benefits under the postretirement benefit plan. Consequently, during 2014 the System began providing a retiree Health Reimbursement Account (HRA) for each Medicare-eligible individual in the plan. The plan discontinued its HRA contributions starting in 2015. The financial impact of the 2013 plan amendments on the System's consolidated financial statements has resulted in a $2.4 million and a $6.3 million increase in operating income for the years ended December 31, 2018 and 2017 respectively, through a reduction in net periodic benefit cost. A discount rate of 3.35% was used to remeasure obligations at the amendment date.

The changes in the accumulated postretirement benefit obligation (APBO) during the years ended December 31, 2018 and 2017 are as follows:

		December 31	
		2018	**2017**
		(In thousands)	
APBO, beginning of year:	$	4,227	4,970
Service cost		56	81
Interest cost		90	97
Plan participant contributions		45	67
Benefits paid		(19)	(218)
Actuarial gain		(1,231)	(770)
APBO, end of year	$	3,168	4,227

The APBO amounts recognized in the accompanying consolidated balance sheets are as follows:

		December 31	
		2018	**2017**
		(In thousands)	
Current liabilities	$	965	1,012
Long-term liabilities		2,203	3,215
Amount recognized	$	3,168	4,227

The amounts accumulated in net assets without donor restrictions are as follows:

		December 31	
		2018	**2017**
		(In thousands)	
Prior service credit	$	—	1,746
Net gain		2,425	1,957
	$	2,425	3,703

The total amount of actuarial net gain expected to be amortized into net periodic postretirement benefit cost in 2019 is a net credit of $0.9 million.

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated balance sheets are as follows:

	December 31	
	2018	**2017**
Discount rate	3.37%	2.49%
Rate of compensation increases	N/A	N/A

The components of net periodic postretirement benefit cost (credit) are as follows:

		December 31	
		2018	**2017**
		(In thousands)	
Service cost	$	56	81
Interest cost		90	97
Amortization of prior service credit		(1,746)	(5,359)
Amortization of net gain		(763)	(773)
Net periodic postretirement benefit credit	$	(2,363)	(5,954)

Weighted average assumptions used to determine net periodic postretirement benefit credit are as follows:

	December 31	
	2018	**2017**
Discount rate	2.49%	2.45%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increases	N/A	N/A

Assumed healthcare cost trend rates of employer claim payments, which are based on a national 2018 survey of U.S. employer-sponsored health plans, are as follows:

2019	5.70%
2020	5.50
2021	5.30
2022-2023	5.20
2024–2025	5.10
2026–2028	5.00
2029–2030	4.90
2031–2032	4.80
2033–2036	Reduce by 0.1% every two years
2037 and thereafter	4.50

Changes in assumed healthcare cost trend rates may impact the amounts reported for postretirement healthcare benefits. A 1% increase in the healthcare cost trend rate would increase the APBO by approximately $69,000 and increase interest and service cost by approximately $3,000. A 1% decrease in the healthcare cost trend rate would decrease the APBO by approximately $68,000 and reduce interest and service cost by approximately $3,000.

Future benefit payments (in thousands) are expected to be paid as follows:

Payable in fiscal year:		
2019	$	966
2020		1,060
2021		750
2022		528
2023		94
2024–2028		4

(b) Defined Contribution Savings Plan

The System sponsors a defined-contribution savings plan, which covers substantially all of its employees. Total matching contributions made and accrued under the savings plan totaled approximately $9.8 million and $8.4 million for the years ended December 31, 2018 and 2017, respectively.

Beginning January 1, 2009, the deferred retirement savings program changed from the previous 403(b) plan sponsored by the Authority to a 401(k) Plan sponsored by the System. The System matches employee contributions dollar for dollar up to 4% of eligible employees' base compensation after completion of one year of eligible service. Employees are immediately fully vested in matching contributions.

(13) Leases

As previously described in note 1, the Agreement was determined to be a capital lease obligation under relevant accounting literature. Additionally, the System has also entered into certain other noncancelable medical equipment leases, determined to be capital lease obligations under relevant accounting literature, which expire at various dates through 2024.

Future minimum payments under these capital lease obligations at December 31, 2018 are as follows (in thousands):

	The Agreement	Other
Payable in fiscal year:		
2019	$ 2,500	780
2020	2,500	742
2021	2,500	735
2022	2,500	661
2023	2,500	524
Thereafter	61,042	195
	73,542	3,637
Less:		
Interest cost	(42,287)	(534)
Current portion	(331)	(593)
	$ 30,924	2,510

The System has also entered into certain noncancelable leases for office space, determined to be operating leases under relevant accounting literature, which expire at various dates through 2033. Total rent expense recognized for the years ended December 31, 2018 and 2017 was approximately $11.4 million and $9.7 million, respectively, principally for building and equipment rentals, and is included in supplies and other expenses in the accompanying consolidated statements of operations.

Future minimum payments due under noncancelable operating leases as of December 31, 2018 are as follows (in thousands):

Payable in fiscal year:		
2019	$	5,707
2020		5,569
2021		5,645
2022		5,753
2023		5,306
Thereafter		24,320
	$	52,300

(14) Donor Restricted Net Assets

Donor restricted net assets as of December 31, 2018 and 2017 are restricted for the following purposes:

		December 31	
		2018	2017
		(In thousands)	
Subject to expenditures for specific purposes			
Capital improvements	$	62,141	41,860
Fund-raising and other programs		13,808	11,452
		75,949	53,312
Subject to restriction in perpetuity		19,900	18,453
Total	$	95,849	71,765

(15) Business and Credit Concentrations

The System grants credit to patients, substantially all of whom reside in the System’s service area. The System 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, preferred provider arrangements, and commercial insurance policies).

The composition of patient accounts receivable, net by payor type is as follows:

	December 31	
	2018	2017
Medicare	23%	19%
Medicaid	30	30
Commercial and other third-party payors	44	50
Patients	3	1
	100%	100%

(16) Fair Value of Financial Instruments

The System's estimates of fair value for financial assets and liabilities are based on the framework established in ASC 820, *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This framework is based on the inputs used in valuation and gives the highest priority to quoted prices in active markets and requires observable inputs to be used in the valuations when available. The disclosure of fair value estimates in the ASC 820 hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the System's significant market assumptions. The three levels of hierarchy are as follows:

Level 1 – Valuations based on unadjusted quoted market prices for identical assets or liabilities in active markets

Level 2 – Valuations based on pricing inputs that are other than quoted prices in active markets, which are either directly or indirectly observable. Examples include quoted prices in active markets for underlying assets, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in an inactive market, or valuations based on models where significant inputs are observable or can be corroborated by observable market data

Level 3 – Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models, and similar techniques. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The hierarchy requires the use of observable market data when available. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair value hierarchy of the System's assets limited as to use is disclosed at note 4. Fair value disclosures under ASC 820 of the System's remaining financial instruments are as follows:

(a) Cash and Cash Equivalents

Cash and cash equivalents include short-term financial instruments whose carrying values approximate fair value, classified as Level 1 within the fair value hierarchy, given short-term maturity of these instruments.

(b) Beneficial Interest in Net Assets Held by Others

The carrying value of the System's beneficial interest in funds held by the Authority is adjusted annually for changes in fair value. The fair value of these funds is included in beneficial interest in net assets held by others in the accompanying consolidated balance sheets as of December 31, 2018 and 2017 at $19.9 million and $18.5 million, respectively. The remaining balance of $1.9 million at both December 31, 2018, and 2017, included in beneficial interest in net assets held by others represents investments held by HSOC, Inc. (note 18(a)), which are also adjusted annually for changes in fair value. The majority of the related assets are investments in listed fixed income and equity securities, which are classified as Level 1 within the fair value hierarchy.

(c) Pledges Receivable, Net

Pledges receivable for current year gifts are initially measured at fair value in the year the receivable is recorded based on the present value of future cash flows discounted at a rate commensurate with the risks involved, which is an application of the income approach and are classified as Level 3 within the fair value hierarchy. Current year gifts included in pledges receivable reflected at fair value at December 31, 2018 and 2017 totaled approximately $18.3 million and $8.8 million, respectively.

(d) Patient Accounts and Grants Receivable, Accounts Payable, Due to Medical Schools, and Other Accrued Expenses

The carrying amounts of patient accounts and grants receivable, accounts payable, due to medical schools and other accrued expenses approximate fair value and are classified as Level 1 within the fair value hierarchy, because of the short-term maturity of these instruments.

(17) Affiliation with Medical Schools

Grady Memorial Hospital serves as the largest teaching hospital in the state of Georgia. In that respect, the System has contracts with Emory University School of Medicine (Emory) and Morehouse School of Medicine (Morehouse) (collectively, the Medical Schools), wherein practicing interns and residents of Emory and Morehouse receive clinical training at Grady Memorial Hospital. The teaching services provided to the interns and residents are provided primarily by faculty members of the Medical Schools in addition to other clinical and administrative services, which they provide to Grady Memorial Hospital. The Medical Schools are compensated for the costs of interns and residents effectively at cost. The Medical Schools are compensated for the faculty teaching, administrative, and clinical services based on certain formulas that consider the number of interns and residents instructed, time spent performing administrative services and otherwise unreimbursed clinical services, and consider fair market value of compensation rates by specialty and ranking. Additionally, the System has agreed to fund other costs specifically associated with the ongoing provision of physician services by the Medical Schools, including the cost of professional liability exposures and the funding of intergovernmental transfers to enable the receipt of related Medicaid program supplemental payments for physician services billed by the Medical Schools. The System's contracts with the Medical Schools expire on June 30, 2019. Net expenses for direct physician services under these contracts totaled approximately $176.5 million and $157.6 million for the years ended December 31, 2018 and 2017, respectively, and are included in supplies and other expenses in the accompanying consolidated statements of operations. Total amounts payable for direct physician services under these contracts totaled approximately $19.7 million and $34.5 million as of December 31, 2018 and 2017, respectively, and are included in due to Medical Schools in the accompanying consolidated balance sheets.

(18) Related-Party Transactions

(a) HSOC, Inc.

With the execution of the Agreement (note 1), HSOC, Inc. (HSOC) committed to a total of $15 million of donated capital for capital improvements to Hughes Spalding. The System has a contract with HSOC, a nonprofit affiliate of Children's Healthcare of Atlanta (CHOA), whereby HSOC provides certain management, administrative, and related services to Hughes Spalding for an initial term of 15 years beginning in February 2006. The contract requires that Hughes Spalding operate under the name "Children's Healthcare of Atlanta at Hughes Spalding." HSOC is responsible for the costs of operating Hughes Spalding. Up until December 31, 2016, the System had a commitment of $2 million of specific annual support for the operation of Hughes Spalding and CHOA had a matching support commitment of $2 million annually. Additionally, the System was responsible for 50% of the Hughes Spalding "Excess/Deficit" (as defined) up to a total of $2 million annually, not to exceed $4 million in any successive rolling three-year period.

The System entered into an amendment to the contract with HSOC effective January 1, 2017, which modifies certain terms and conditions included in the original contract. Under the terms of the amended contract, HSOC is responsible for all operating cash losses of Hughes Spalding (excluding depreciation and the operating impact of in-kind clinical services provided by the System), as well as the funding of all capital investments during the term of the contract. As a result, the System is no longer responsible for any annual operating support payments nor the funding of any Hughes Spalding "Excess/Deficit" (as defined). The amended contract also requires the System to maintain certain professional services relationships with the Medical Schools.

The System maintains ownership of Hughes Spalding, including ownership of Hughes Spalding's certificate of need, licensure, and provider agreements. The System had amounts due from HSOC totaling approximately $0.7 million and $1.4 million as of December 31, 2018 and 2017, respectively. Amounts due from HSOC are included in other current assets in the accompanying consolidated balance sheets.

The contract also gives CHOA the right to acquire Hughes Spalding, subject to a lease/purchase negotiation with the System and other terms and conditions. Any such option, if elected, contemplates a reversionary interest on the part of the System and other System involvement in HSOC's potential ownership of Hughes Spalding, which would be subject to additional negotiation as well. The contract also contemplates that, given the $15 million in original donations by HSOC and other ongoing consideration under the agreement as described above, there would be no further economic consideration required in the exercise of the HSOC option. Given the significant uncertainties associated with the potential future exercise of the HSOC option, there is no current recognition of the option in the System's consolidated financial statements.

(b) Fulton-DeKalb Hospital Authority

During both the years ended December 31, 2018 and 2017, $2.5 million of lease payments were provided to the Authority in accordance with the Agreement (note 1). On August 17, 2012, the System and the Authority entered into an agreement whereby the Authority will fund a minimum of $0.7 million annually towards its pension obligation, as defined in the agreement. At the conclusion of the “lease years” ended May 31, 2018 and 2017, no excess funds were applied toward the Authority’s pension obligation. As of December 31, 2018 and 2017, no amounts were due to the Authority under the System’s annual funding obligation.

(19) Liquidity and Funds Available

The following table reflects the System’s financial assets as of December 31, 2018, reduced by amounts not available for expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, perpetual endowments and accumulated earnings net of appropriations not available for spending within one year, or because the governing board has set aside the funds for specific contingency reserves and projects, or a long-term investment as Board designated endowments.

	2018 (in thousands)
Cash and cash equivalents	$ 181,150
Net patient accounts receivable	155,081
Grants receivable	18,983
Pledges receivable	31,776
Other receivables	29,333
Assets limited as to use	60,189
Beneficial interest in assets held by others	21,809
Financial assets, at year end	498,321
Less: Assets unavailable for general expenditures within one year due to:	
Contractual or donor-imposed restrictions:	
Pledges receivable	31,776
Assets limited as to use	60,189
Beneficial interest in assets held by others	21,809
Financial assets available to meet cash needs for general expenditures within one year	$ 384,547

The Foundation is substantially supported by contributions. As a result of its current capital campaign, the majority of its contributions are restricted. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to donors. Therefore, certain financial assets may not be available for general expenditures within one year.

As part of the System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The System invests cash in excess of daily requirements in money market funds, fixed income securities, and mutual funds.

(20) Lines of Credit

During February 2016, the System negotiated a new line-of-credit facility for $30 million as a general revolving working capital facility. Since its initial expiration in February 2017, the System has renewed and maintained this line-of-credit at the same terms on an annual basis, with the current expiration date of April 2019. Amounts outstanding under this facility currently accrue interest at one-month LIBOR plus 100 basis points. This facility carries a 10-basis point commitment fee on the unused line. No amounts were due under these lines of credit at both December 31, 2018 and 2017. Subsequent to December 31, 2018, the line of credit was renewed at substantially the same terms, expiring in March 2020.

(21) Functional Expenses

The System provides healthcare services to residents within its geographic location. Expenses related to providing these services on a functional basis were as follows for the year ended December 31, 2018:

		2018			
		Program Services	Management and General	Fundraising	Total
			(In thousands)		
Salaries and benefits	$	405,820	137,583	61	543,464
Supplies and other expenses		548,943	81,921	1,035	631,899
Interest		2,424	1,652	—	4,076
Depreciation and amortization		38,910	18,044	—	56,954
	$	996,097	239,200	1,096	1,236,393

Certain costs have been allocated among the functional categories benefitted. Expenses related to executive salaries and benefits have been allocated based on an estimate of time and effort. Expenses associated with occupying and maintaining system facilities have been allocated based on a study of usage. Other allocated expenses are based on an overhead analysis consistent with the system's cost reporting methodology. For the year ended December 31, 2017, program services, management and general, and fundraising expenses totaled $841.9 million, $252.5 million, and $1.6 million, respectively.

Schedule 1

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidating Schedule – Balance Sheet Information

December 31, 2018

(In thousands)

Assets		GMHC	Foundation	GHRI	GWIC	Reliant	Eliminations	Consolidated
Current assets:								
Cash and cash equivalents	$	177,683	3,253	—	91	123	—	181,150
Patient accounts receivable, net of allowance for uncollectible accounts of $71,281		155,081	—	—	—	—	—	155,081
Grants receivable		18,983	—	—	—	—	—	18,983
Current portion of pledges receivable		6,244	12,995	—	—	—	—	19,239
Other current assets		59,811	203	3,723	835	93	(7,551)	57,114
Total current assets		417,802	16,451	3,723	926	216	(7,551)	431,567
Assets limited as to use		14,154	41,918	698	3,419	—	—	60,189
Property and equipment, net		311,032	28	80,845	21,933	62	—	413,900
Notes receivable, new market tax credit		37,024	—	—	—	—	—	37,024
Beneficial interest in net assets held by others		21,809	—	—	—	—	—	21,809
Pledges receivable, net, excluding current portion		—	12,537	—	—	—	—	12,537
Investments in affiliates		125,876	—	—	—	—	(125,876)	—
Other assets		2,111	—	—	—	—	—	2,111
Total assets	$	929,808	70,934	85,266	26,278	278	(133,427)	979,137
Liabilities and Net Assets								
Current liabilities:								
Current portion of capital lease obligations	$	924	—	—	—	—	—	924
Accounts payable		43,668	434	2,716	1,081	883	(7,447)	41,335
Current portion of self-insurance reserves		13,008	—	—	—	—	—	13,008
Due to third-party payors, net		14,914	—	—	—	—	—	14,914
Due to Medical Schools		19,680	—	—	—	—	—	19,680
Other accrued expenses		79,827	—	—	21	—	(103)	79,745
Total current liabilities		172,021	434	2,716	1,102	883	(7,550)	169,606
Capital lease obligations, excluding current portion		33,434	—	—	—	—	—	33,434
Notes payable, net, new market tax credit			—	30,027	21,467	—	—	51,494
Self-insurance reserves, excluding current portion		41,219	—	—	—	—	—	41,219
Accrued postretirement benefit cost		2,203	—	—	—	—	—	2,203
Other long-term liabilities		6,991	252	—	—	—	—	7,243
Total liabilities		255,868	686	32,743	22,569	883	(7,550)	305,199
Net assets (deficit):								
Without donor restrictions		578,091	2,010	52,523	3,709	(605)	(57,639)	578,089
With donor restrictions		95,849	68,238	—	—	—	(68,238)	95,849
Total net assets (deficit)		673,940	70,248	52,523	3,709	(605)	(125,877)	673,938
Commitments and contingencies								
Total liabilities and net assets (deficit)	$	929,808	70,934	85,266	26,278	278	(133,427)	979,137

See accompanying independent auditors' report.

Schedule 2

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidating Schedule – Statement of Operations Information

Year ended December 31, 2018

(In thousands)

	GMHC	Foundation	GHRI	GWIC	Reliant	Eliminations	Consolidated
Revenue, gains, and other support:							
Net patient service revenue (net of provision for uncollectible accounts of $367,721)	$ 1,074,782	—	—	—	—	—	1,074,782
Contributions from Fulton and DeKalb Counties	55,435	—	—	—	—	—	55,435
Other revenue	128,950	5,148	—	—	257	(3,600)	130,755
Total revenue, gains, and other support	1,259,167	5,148	—	—	257	(3,600)	1,260,972
Operating expenses:							
Salaries and benefits	543,465	1,561	—	—	47	(1,609)	543,464
Supplies and other expenses	629,420	4,223	—	—	247	(1,991)	631,899
Net periodic postretirement benefit credit	(2,363)	—	—	—	—	—	(2,363)
Interest	4,073	—	—	—	3	—	4,076
Depreciation and amortization	56,916	1	—	—	37	—	56,954
Total operating expenses	1,231,511	5,785	—	—	334	(3,600)	1,234,030
Operating income (loss)	27,656	(637)	—	—	(77)	—	26,942
Nonoperating gains (losses), net:							
Investment income, net	2,795	—	—	—	—	—	2,795
New market tax credit, net	(517)	—	252	(18)	—	—	(283)
Equity in gains (losses) of affiliates	(480)	—	—	—	—	480	—
Other	205	—	—	—	—	—	205
Total nonoperating gains (losses), net	2,003	—	252	(18)	—	480	2,717
Revenue, gains, and other support in excess of (less than) expenses and losses	29,659	(637)	252	(18)	(77)	480	29,659
Accrued postretirement benefit cost adjustments	(1,414)	—	—	—	—	—	(1,414)
Net assets released from restriction used for the purchase of property and equipment	4,966	—	—	—	—	—	4,966
Contributions and other	6	—	—	—	—	—	6
Change in net assets without donor restrictions	$ 33,217	(637)	252	(18)	(77)	480	33,217

See accompanying independent auditors' report.