KPMG

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Financial Statements and Consolidating Schedules

December 31, 2020 and 2019

(With Independent Auditors’ Report Thereon)

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Table of Contents

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Independent Auditors' Report

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, 2020 and 2019, 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. The financial statements of Henry W. Grady Health System Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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, 2020 and 2019, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2020 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. The accompanying supplementary financial responsibility information in schedule 3 as of and for the year ended December 31, 2020 is presented for purposes of additional analysis, as required by the U.S. Department of Education, 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, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

Atlanta, Georgia
April 29, 2021

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Balance Sheets

December 31, 2020 and 2019

(In thousands)

Assets		2020	2019
Current assets:			
Cash and cash equivalents	$	246,757	222,378
Patient accounts receivable, net		168,302	163,840
Grants receivable, net		17,949	15,133
Insurance proceeds receivable		—	10,021
Current portion of pledges receivable		9,088	16,493
Other current assets		91,551	79,818
Total current assets		533,647	507,683
Assets limited as to use		94,283	49,304
Property and equipment, net		590,476	419,124
Notes receivable, new market tax credit		54,940	37,024
Beneficial interest in net assets held by others		26,759	24,751
Pledges receivable, net, excluding current portion		1,792	10,399
Other assets		3,023	1,872
Total assets	$	1,304,920	1,050,157
Liabilities and Net Assets			
Current liabilities:			
Current portion of capital lease obligations	$	1,010	950
Accounts payable		60,242	45,602
Line of credit		30,000	—
Current portion of self-insurance reserves		14,300	12,462
Due to third-party payors, net		8,431	25,491
Due to Medical Schools		20,714	26,313
Other accrued expenses		148,425	92,719
Total current liabilities		283,122	203,537
Capital lease obligations, excluding current portion		31,474	32,484
Notes payable, net, new market tax credit		74,907	51,662
Self-insurance reserves, excluding current portion		40,901	39,897
Accrued postretirement benefit cost		430	1,358
Other long-term liabilities		8,877	7,336
Total liabilities		439,711	336,274
Net assets:			
Without donor restrictions		802,188	629,055
With donor restrictions		63,021	84,828
Total net assets		865,209	713,883
Commitments and contingencies			
Total liabilities and net assets	$	1,304,920	1,050,157

See accompanying notes to consolidated financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Statements of Operations

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Revenue, gains, and other support:			
Net patient service revenue	$	1,094,990	1,156,566
Contributions from Fulton and DeKalb Counties		55,435	55,435
Grant revenue		69,143	64,170
Other revenue		203,632	74,257
Total revenue, gains, and other support		1,423,200	1,350,428
Operating expenses:			
Salaries and benefits		612,280	583,724
Supplies and other expenses		688,782	679,202
Insurance proceeds from flood losses		(8,584)	(3,244)
Interest		4,432	4,130
Depreciation and amortization		66,563	61,496
Total operating expenses		1,363,473	1,325,308
Operating income		59,727	25,120
Nonoperating gains (losses), net:			
Investment income, net		1,177	3,873
Net periodic postretirement benefit credit		1,757	1,144
New market tax credit, net		(555)	(445)
Gain from insurance proceeds		73,587	—
Other		145	84
Total nonoperating gains, net		76,111	4,656
Revenue, gains, and other support in excess of expenses and losses		135,838	29,776
Accrued postretirement benefit cost adjustments		(246)	(535)
Net assets released from restriction used for the purchase of property and equipment		21,646	18,975
Contributions and other		15,895	2,750
Change in net assets without donor restrictions	$	173,133	50,966

See accompanying notes to consolidated financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2020 and 2019

(In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, December 31, 2018	$ 578,089	95,849	673,938
Revenue, gains, and other support in excess of expenses and losses	29,776	—	29,776
Accrued postretirement benefit cost adjustments	(535)	—	(535)
Net assets released from restriction used for purchase of property and equipment	18,975	(18,975)	—
Net assets released from restriction used for operations	—	(7,987)	(7,987)
Net change in beneficial interest in net assets held by others	—	2,942	2,942
Contributions and other	2,750	12,999	15,749
Change in net assets	50,966	(11,021)	39,945
Net assets, December 31, 2019	629,055	84,828	713,883
Revenue, gains, and other support in excess of expenses and losses	135,838	—	135,838
Accrued postretirement benefit cost adjustments	(246)	—	(246)
Net assets released from restriction used			—
for purchase of property and equipment	21,646	(21,646)	—
Net assets released from restriction used for operations	—	(12,067)	(12,067)
Net change in beneficial interest in net assets held by others	—	2,008	2,008
Contributions and other	15,895	9,898	25,793
Change in net assets	173,133	(21,807)	151,326
Net assets, December 31, 2020	$ 802,188	63,021	865,209

See accompanying notes to consolidated financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Cash flows from operating activities:			
Change in net assets	$	151,326	39,945
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		66,563	61,496
Gain on asset disposal		(145)	(83)
Gain from insurance proceeds for property and equipment		(73,587)	—
Amortization of debt issuance costs		183	168
Accrued postretirement benefit cost adjustments		246	535
Net change in beneficial interest in net assets held by others		(2,008)	(2,942)
Investment income, net		(1,177)	(1,029)
Contributions used for the purchase of property and equipment		(15,900)	(4,192)
Changes in operating assets and liabilities:			
Patient accounts receivable, net		(4,462)	(8,759)
Grants and pledges receivable		13,196	8,734
Insurance proceeds receivable		10,021	(10,021)
Other current assets		(11,733)	(20,093)
Other assets		(1,151)	232
Accounts payable, due to Medical Schools, other accrued expenses and other long-term liabilities		59,581	18,419
Due to third-party payors, net		(17,060)	10,577
Accrued postretirement benefit cost		(1,771)	(1,385)
Self-insurance reserves		2,842	(1,868)
Net cash provided by operating activities		174,964	89,734
Cash flows from investing activities:			
Purchase of property and equipment		(230,466)	(63,688)
Proceeds from insurance for property and equipment		73,587	—
Issuance of notes receivable		(17,916)	—
Purchase of assets limited as to use		(1,038)	(1,074)
Proceeds from sale of assets limited as to use		917	997
Net cash used in investing activities		(174,916)	(63,765)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		24,335	—
Proceeds from line of credit		30,000	—
Principal repayments under capital lease obligations		(950)	(924)
Debt issuance costs paid		(1,273)	—
Contributions used for the purchase of property and equipment		15,900	4,192
Net cash provided by financing activities		68,012	3,268
Net change in cash and cash equivalents		68,060	29,237
Cash and cash equivalents, beginning of year		263,394	234,157
Cash and cash equivalents, end of year	$	331,454	263,394
Reconciliation of cash and cash equivalents:			
Cash and cash equivalents	$	246,757	222,378
Cash funds in assets limited as to use		84,697	41,016
Total cash and cash equivalents	$	331,454	263,394
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	4,787	4,344
Supplemental disclosures of noncash investing activities:			
Accrued expenses for additions to property and equipment	$	18,951	11,647

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, 2020 and 2019.

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 each of the years ended December 31, 2020 and 2019, the System recognized approximately $4.1 million and $3.8 million, respectively, in expense associated with its pension-funding obligation as described herein. At December 31, 2020 and 2019, 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), Grady CASS, Inc. (GRCAS), 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 explicit and implicit price concessions, allowances for uncollectible pledges, fair value of investments and assets limited as to use, 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.

(Continued)

(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 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. Expenditures for renewals and improvements are charged to the property accounts. For properties sold or retired, the cost and related accumulated depreciation are removed from the property accounts. Any resulting gains or losses are included in the accompanying consolidated statements of operations. Replacements, maintenance, and repairs that do not improve or extend the life of respective assets are charged to operations. 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 expense 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 three New Market Tax Credit (NMTC) Program financing arrangements established during 2015, 2017, and 2020 (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, 2020 and 2019, which is the System's best estimate of the amount of credit losses.

(h) Net Assets with Donor Restrictions

Net assets with donor restriction 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.

(Continued)

(i) Patient Care Service Revenue

The System follows Accounting Standards Update 2014-09: *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09) which requires revenue to be recognized when promised goods and services are transferred to customers in amounts that reflect the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are reported at estimated net realizable value due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of 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 net assets with donor restrictions 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 as net assets without donor restrictions 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 net assets with donor restrictions. 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. The System believes that the long-lived assets in the accompanying consolidated balance sheets are appropriately valued at December 31, 2020 and 2019 and no related impairment losses were recognized during the years then ended, other than those related to the flood (Note 1(r)).

(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, GWIC, and GRCAS 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 2020 and 2019.

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.

(Continued)

(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) Flood Event

On December 7, 2019, a twenty-four inch water pipe burst between Grady Memorial Hospital's sixth and seventh floors. The resulting water flow was contained without any harm to patients but not before substantial water and structural damage occurred. This flood event damaged six nursing units on three floors and affected many other floors below as well. Consequently, the Hospital lost the use of 220 patient beds and had to move patients to other facilities for their care. From December 2019 through October 2020, many service area volumes at the Hospital were reduced. As of October 2020, the damaged areas have been repaired and renovated.

As of December 31, 2019, the System has recorded incurred losses of $3.2 million and a loss on impaired assets of $9.3 million related to the flood event. The incurred losses are included in operating expenses in the accompanying 2019 consolidated statement of operations, and the loss on impaired assets is included in nonoperating gains (losses) in the accompanying 2019 consolidated statement of operations. As of December 31, 2019, the System concluded that insurance recoveries for the full amount of incurred losses and loss on impaired assets were probable and reasonably estimated. The System received $2.5 million in proceeds from insurance recoveries in December 2019 and recorded a receivable for insurance recoveries totaling $10.0 million as of December 31, 2019. Of the amounts received and receivable, $3.2 million is presented as an offset to 2019 operating expenses and $9.3 million is presented as an offset to the loss on impaired assets in other nonoperating gains (losses).

In addition to actual losses incurred, the amount of business interruption loss incurred for the year ended December 31, 2019 was estimated to be approximately $17.5 million. Insurance recoveries related to business interruption loss will be recognized when all the contingencies related to this event have been resolved.

The System received $91.8 million in proceeds from insurance recoveries in 2020. Of the amounts received and receivable, $8.6 million is presented as an offset to 2020 operating expenses and $73.6 million is presented as gain from insurance for property and equipment in non-operating revenue gains (losses).

In addition to actual losses incurred, the amount of business interruption loss received and recognized as other revenue during the year ended December 31, 2020 was $64.1 million. Insurance recoveries related to business interruption loss are recognized when all the contingencies related to this event have been resolved.

(s) COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus (COVID-19) a pandemic. The spread of COVID-19 around the world and in the U.S. has caused significant volatility in the global financial markets, including those in the U.S. On March 27, 2020, H.R. 748, the Coronavirus Aid, Relief, and Economic Security Act, "the CARES Act", was signed into legislation. Funding opportunities for healthcare providers under the CARES Act included the Public Health and Social Services Emergency Fund ("the Relief Fund") which was distributed to eligible healthcare providers, Centers for Medicare and Medicaid Services Medicare Accelerated/Advanced Payment funding to accelerate three to six months of Medicare payments to eligible healthcare providers, and the Commercial Insurance/FEMA Public Assistance Program: Emergency Protective Measures for reimbursement for eligible emergency costs incurred. In addition to these provisions, the CARES Act also included various other cash flow enhancement measures such as payroll tax deferrals and employee retention credits, among others.

The Health System's response to COVID-19 included immediate actions to maintain continuity of essential operations, while also taking steps to support the health and safety of patients, employees, and the communities that the Health System serves. To ensure continued adequate safety measures throughout the pandemic, adhere to social distancing recommendations, and to meet patient and community needs, the Health System:

- Implemented the use of telehealth appointments and medical visits via video and phone.
- Temporarily closed or minimized clinic services and medical visits at the Hospital to limit exposure to COVID-19 for both patients and employees.
- Limited or postponed certain non-emergent elective procedures.
- Encouraged the use of the Health System mail-order pharmacy service to help patients avoid unnecessary outings.
- Invested in additional equipment and supplies, expanded testing resources and created the necessary capacity to care for COVID-19 patients.
- Reconfigured medical facilities to permit social distancing and deployed other new COVID-19 specific safety measures such as contactless services and mask requirements to keep patients and employees safe.
- Provided COVID-19 vaccines to employees, employee family members and to patients that met the State requirements.
- Avoided any furlough of employees to provide stability to them and the communities that the Health System serves.
- Offered various forms of assistance to employees.
- Transitioned many non-clinical office-based staff to a temporary remote work environment.

In April 2020, the Health System drew down the full $30.0 million of its credit facility to enhance flexibility in support of the initial response to COVID-19 and plans to repay the balance in May 2021.

(Continued)

Management believes it continues to have sufficient liquid resources available to meet its operational requirements.

During the year ended December 31, 2020, the System received approximately $127.7 million in stimulus payments through the Relief Fund for both general and targeted distributions. Approximately $97.5 million of the Relief Fund payments qualified as reimbursement for lost revenues and incremental expenses and was recognized as other revenue in the accompanying consolidated statement of operations for the year ended December 31, 2020. The recognition of amounts received is conditioned upon the provision of care for individuals with possible or actual cases of COVID-19 after January 31, 2020, and certification that the payment will be used to prevent, prepare for and respond to coronavirus. Amounts are recognized as other revenue only to the extent that the underlying conditions are substantially met. The approximately $30.2 million that has not been recognized as other revenue is reflected within deferred revenue included in other accrued expenses in the accompanying consolidated balance sheets as of December 31, 2020. Such unrecognized amounts may be recognized as other revenue in future periods if the underlying conditions for recognition are met.

(t) Subsequent Events

The System has evaluated subsequent events through April 29, 2021, the date the consolidated financial statements were available to be issued, and determined that there are no additional that required disclosure other than the line of credit extension noted in Note 20 and the following:

On January 5, 2021, the System funded the second part of the 2020 NMTC Transaction (Note 6), and the Investor Member contributed $3.0 million as an equity interest in the Investment Fund. The Investment Fund then made QEIs totaling $10.0 million in exchange for an equity interest in two additional supporting CDEs. These CDEs then loaned $9.9 million, which represents the funding received by the CDEs less certain suballocation reporting fees and other transaction expenses, to GRCAS as qualified low-income community investment loans (QLICI Notes). These QLICI Notes do not require annual principal repayments, are secured by all of the assets of GRCAS, and have a legal maturity date of January 5, 2048 and an anticipated repayment date of January 5, 2028 upon the exercise of the put option by the Investor Member. In connection with this 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 QLICI Notes at a nominal put price of $1,000 on January 5, 2028. If the put option is not exercised by the Investor Member on January 5, 2028, the System may exercise its right under the call provision to purchase the Investor Member’s interest in the QLICI Notes at a nominal price of $1,000 during the earlier of six months following January 5, 2028 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.

Subsequent to December 31, 2020, the System received $11.7 million of insurance reimbursements. Additionally, in April 2021, the System received final settlement from the insurance provider related to the 2019 Flood Event (Note 1(r)) in the amount of $76.0 million related to restoration and business interruption claims. These amounts will be recognized in 2021.

(Continued)

(u) Recently Issued Accounting Standards

In February 2016, July 2018, November 2019 and June 2020 the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02), ASU 2018-11, *Leases (Topic 842): Target Improvements* (ASU 2018-11), ASU 2019-10, *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates* (ASU 2019-10), and ASU 2020-05 *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities* (ASU 2020-05). 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 with a term greater than twelve months. 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 guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing and uncertainty of cash flows arising from leases. The standard requires the use of a modified retrospective transition approach, which includes a number of optional practical expedients that entities may elect to apply. ASU 2018-11 provides entities with an additional (and optional) transition method to adopt the new leases standard by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP in Topic 840, *Leases*. ASU 2019-10 deferred the effective date for private companies for all non-public business entities for fiscal years beginning after December 15, 2019. ASU 2020-05 further amended the effective date to periods beginning in the first quarter of fiscal 2022. Early adoption is permitted. The System will implement the provisions of ASU 2016-02 during fiscal year 2022. The System has not yet determined the impact of the new standard on its current policies for lessee accounting. The System currently expects ASU 2016-02 to add a right-of-use asset and a related lease liability to the consolidated balance sheet beginning in fiscal year 2022 in line with the overall lease commitments disclosed in note 13 based on the System's evaluation of the standard to-date. Management continues to evaluate the effects the standard will have on the consolidated financial statements and management's current estimate could materially change at time of adoption.

In March 2020, the FASB issued ASU No. 2020-03, *Codification Improvements to Financial Instruments* which clarifies guidance by providing enhanced wording to the following subtopics: fair value option disclosures, fair value measurement, investments-debt and equity securities, debt modifications and extinguishments, credit losses, and sales of financial assets. The subtopic amendments have different effective dates. Certain provisions were effective for the System in 2020 and were adopted as of January 1, 2020. The provision of No. ASU 2020-03 adopted in 2020 did not have a material effect on the System's consolidated financial statements.

In May 2019, the FASB issued ASU No. 2019-06, *Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958) Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities (ASU 2019-06)*, which provides not-for-profit entities an open-ended effective date and unconditional one-time election to adopt the private company alternatives from Topic 350 and

Topic 805. Topic 350 provides that an entity should amortize goodwill on a straight-line basis over 10 years, or less, if applicable. Accounting policy election is required to test goodwill for impairment at the entity or reporting unit level and requires testing for impairment when a triggering event occurs. Topic 805 requires customer related intangible assets that are not capable of being sold or licensed independently from the other assets of a business and all noncompetition agreements be amortized consistent with the period of goodwill amortization. The ASU requires election of Topic 350 if Topic 805 is elected. Topic 350 may be adopted without adoption of Topic 805. The System has not elected to apply the provisions of the ASU at this time.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,* which modifies the disclosure requirements on fair value measurements in Topic 820. The ASU removes the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, including the policy for timing of transfers between levels; the description of valuation processes for Level 3 fair value measurements; and, for nonpublic entities, the changes in unrealized gains and losses from remeasurement for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. However, in lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. ASU 2018-13 is effective for the System for annual periods ended on or after December 15, 2019. The adoption of ASU No. 2018-13 did not have a material effect on the System’s 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 2020 and 2019 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 $80.3 million and $83.8 million for the 2020 and 2019 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, 2020, the System has been approved to participate in the state fiscal 2021 ICTF program. In February 2021, the state fiscal 2021 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 $10.0 million and $12.7 million at December 31, 2020 and 2019, 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, 2020 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	
		2020	**2019**
		(In thousands)	
Prepaid expenses	$	18,682	12,984
Inventories		29,067	20,009
Due from state reimbursement programs		33,809	23,686
Due from HSOC, Inc. (note 18(a))		6,548	17,665
Other current assets		3,445	5,474
	$	91,551	79,818

(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 2020	December 31 2019
		(In thousands)	
Internally designated for capital acquisition and other uses:			
Cash and cash equivalents	Level 1	$ 25,000	—
Mutual funds	Level 1	6,393	5,234
Held by trustee under escrow agreements:			
Cash and cash equivalents	Level 1	24,773	2,332
Insurance guaranty trust fund:			
Cash and cash equivalents	Level 1	8,419	8,325
Limited by donors for specific purposes:			
Cash and cash equivalents	Level 1	26,505	30,359
High yield mutual funds	Level 1	1,303	1,302
Common collective trust funds	Level 1	1,890	1,752
		29,698	33,413
		$ 94,283	49,304

Investment income, net (of investment fees) represents interest and dividends and totaled approximately $1.2 million and $3.9 million for the years ended December 31, 2020 and 2019, respectively.

(5) Property and Equipment, Net

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

		December 31	
		2020	2019
		(In thousands)	
Land and land improvements	$	3,383	3,062
Buildings and leasehold improvements		553,919	417,542
Furniture, fixtures and equipment		349,567	321,180
Computer hardware and software		141,853	126,503
		1,048,722	868,287
Less accumulated depreciation and amortization		(566,575)	(500,231)
		482,147	368,056
Construction in progress		108,329	51,068
	$	590,476	419,124

Depreciation expense for the years ended December 31, 2020 and 2019 totaled approximately $66.6 million and $61.5 million, respectively. Construction in progress at December 31, 2020 and 2019 principally consists of expenditures related to new construction and renovation of existing facilities. Current projects in process at December 31, 2020 are planned for completion at various dates through fiscal year 2022 at an estimated total remaining cost to complete of approximately $248.2 million.

Equipment under capital lease obligations at December 31, 2020 and 2019, exclusive of amounts held under the Agreement and gross of accumulated amortization, is approximately $8.2 million at both December 31, 2020 and 2019. Related accumulated amortization at December 31, 2020 and 2019 is approximately $6.3 million and $5.7 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 December 3, 2020, 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, GRCAS, GWIC and GHRI, all 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.

2020 NMTC Transaction

As part of the 2020 Transaction, the System contributed $17.9 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 $25.0 million in exchange for an equity interest in four supporting CDEs. These CDEs then loaned $24.3 million, which represents the funding received by the CDEs less certain suballocation reporting fees and other transaction expenses, to GRCAS as qualified low-income community investment loans (2020 QLICI Notes), which are included in notes payable, net, new market tax credit (note 9) in the accompanying consolidated balance sheets. The 2020 QLICI Notes do not require annual principal repayments, are secured by all of the assets of GRCAS, and have a legal maturity date of December 3, 2047 and an anticipated repayment date of December 3, 2027 upon the exercise of the put option by the Investor Member. In connection with the 2020 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 2020 QLICI Notes at a nominal put price of $1,000 on December 3, 2027. If the put option is not exercised by the Investor Member on December 3, 2027, the System may exercise its right under the call provision to purchase the Investor Member's interest in the 2020 QLICI Notes at a nominal price of $1,000 during the earlier of six months following December 3, 2027 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 GRCAS, 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 2020 Transaction is as follows:

	December 31	
	2020	2019
	(In thousands)	
Note receivable with interest paid annually at a rate of 1.12% to be fully settled on December 3, 2027	$ 17,916	—

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	
		2020	2019
		(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 2020	December 31 2019
		(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 2020	December 31 2019
		(In thousands)	
Less than one year	$	9,088	16,493
One to five years		2,055	11,572
		11,143	28,065
Less:			
Unamortized discounts using a discount rate of 3.3% at both December 31, 2020 and 2019		(45)	(737)
Allowance for doubtful pledges		(218)	(436)
	$	10,880	26,892

(8) Other Accrued Expenses

The composition of other accrued expenses is as follows:

		December 31 2020	December 31 2019
		(In thousands)	
Accrued salaries and benefits	$	61,396	47,950
Current portion of accrued postretirement benefit cost		364	961
Deferred revenue – provider relief funds (note 1(s))		30,187	—
Other accrued expenses		56,478	43,808
	$	148,425	92,719

(9) Notes Payable

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

	December 31	
	2020	2019
	(In thousands)	
Notes payable associated with the 2020 NMTC Transaction (note 6), interest paid annually at an interest rate of 1.0%, anticipated to be fully settled on December 3, 2027	$ 24,335	—
Less:		
Unamortized debt issuance costs	(1,258)	—
	23,077	—
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	(239)	(306)
	21,601	21,534
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	(126)	(227)
	30,229	30,128
Notes payable, net, new market tax credit	$ 74,907	51,662

(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 and $25 million in the aggregate. Commercial insurance has been obtained through various carriers to provide for excess and umbrella coverage of $95 million 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 $50.1 million at December 31, 2020 and 2019, 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, 2020 and 2019.

The System is self-insured for its workers' compensation liability exposures up to limits of $500,000 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 $2.8 million and $2.3 million at December 31, 2020 and 2019, respectively (undiscounted at December 31, 2020 and 2019).

The System sponsors a self-insured program for its employee health benefits up to limits of $285,000 per claim for fiscal years 2020 and 2019. The System recognized related reserves of approximately $6.3 million and $3.6 million in accrued medical benefits (included in other accrued expenses in the accompanying consolidated balance sheets) at December 31, 2020 and 2019, 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

Net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government payors), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. The System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care, long-term care services, EMS, and patients receiving services in outpatient centers. The System measures the performance obligation from admission into the hospital/nursing facility, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the patients and customers in a retail setting (for example, pharmaceuticals), and the System does not believe it is required to provide additional goods or services related to that sale.

The System's performance obligations relate to contracts with a duration of less than one year; therefore, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient care services being rendered at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

(Continued)

The System is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The System accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The System determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions provided to third party payors, discounts provided to uninsured patients in accordance with the System's policy, or implicit price concessions provided to uninsured patients. The System determines its estimates of explicit price concessions based on contractual agreements, discount policies, and historical experience. The System determines its estimate of implicit price concessions based on historical collection experience with certain classes of patients.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

For patients who meet the System's criteria for charity care, services are provided free or at a discounted amount. These patients are not billed for their healthcare services. These amounts are recorded as charity care services and are not reported as revenue.

Patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or by law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Method of reimbursement (fee for service or agreed-upon rates with payors)
- The System's line of business that provided the service (for example, inpatient, outpatient, nursing home, etc.)

The System has agreements with governmental and other third-party payors that provide for reimbursement to the System 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 2012 and 2015. Revenue from the Medicare program accounted for approximately 37% and 35% of the System's net patient service revenue (excluding ICTF revenue) for the years ended December 31, 2020 and 2019, 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 2017. 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 25% and 28% of the System's net patient service revenue for the years ended December 31, 2020 and 2019, respectively.

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.

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, 2020 and 2019 was approximately $114.7 million and $103.6 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 2020 and 2019 as of December 31, 2020 and 2019 totaled $33.8 million and

$23.7 million, respectively, and are included in other current assets in the accompanying consolidated balance sheets.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Net patient service revenue increased by approximately $2.3 million and decreased by $1.1 million in 2020 and 2019, 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 based on the System's major financial classes and lines of business for the years ended December 31, 2020 and 2019 are as follows:

		2020	2019
		(In thousands)	
Medicare	$	365,205	475,588
Medicaid		360,163	296,636
Other third-party payors		335,868	342,940
Uninsured – Self Pay		33,754	41,402
	$	1,094,990	1,156,566

		2020	2019
		(In thousands)	
Business lines:			
Grady Hospital – inpatient	$	680,798	714,066
Grady Hospital – outpatient		199,302	223,071
Hughes Spalding Children's Hospital – inpatient		3,643	4,806
Hughes Spalding Children's Hospital – outpatient		28,199	44,229
Grady EMS Services		51,130	55,260
Crestview Nursing Facility		26,598	15,912
Pharmacy Outpatient Sales – Point of Sale Services		105,320	99,222
	$	1,094,990	1,156,566

For the years ended December 31, 2020 and 2019, the System recognized revenue of $875.0 million and $953.8 million respectively, from goods and services that transfer to the customer over time and $105.3 million and $99.2 million, respectively, from goods and services that transfer to the customer at a point in time. Also, for the years ended December 31, 2020 and 2019 approximately $114.7 million and $103.6 million respectively from the ICTF and UPL programs; these revenues are recognized as additional Medicaid reimbursement.

Uncompensated Care

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 implicit price concessions 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 its Financial Assistance Program, the System recognizes revenue on the basis of its discounted rates for services provided. Based on historical experience, a significant portion of the System's uninsured patients are unable or unwilling to pay for the services provided.

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 $185.0 million and $212.9 million for the years ended December 31, 2020 and 2019, respectively. The cost of uncompensated care, which is defined by the System as services

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related to patients who do not have the ability to pay including charity care, uninsured discounts, and implicit price concessions totaled approximately $373.3 million and $370.4 million for the years ended December 31, 2020 and 2019, respectively. The System estimated these costs by applying a ratio of cost to gross charges to the related gross uncompensated charges.

(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 $1.8 million and a $1.1 million increase in operating income for the years ended December 31, 2020 and 2019 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, 2020 and 2019 are as follows:

	December 31	
	2020	2019
	(In thousands)	
APBO, beginning of year:	$ 2,319	3,168
Service cost	5	32
Interest cost	22	85
Plan participant contributions	28	32
Benefits paid	(15)	(236)
Actuarial gain	(1,565)	(762)
APBO, end of year	$ 794	2,319

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

		December 31	
		2020	2019
		(In thousands)	
Current liabilities	$	364	961
Long-term liabilities		430	1,358
Amount recognized	$	794	2,319

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

		December 31	
		2020	2019
		(In thousands)	
Net gain	$	1,707	1,926
	$	1,707	1,926

The total amount of actuarial net loss expected to be amortized into net periodic postretirement benefit cost in 2021 is a net debit of $1.0 million.

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

	December 31	
	2020	2019
Discount rate	0.54 %	2.03 %
Rate of compensation increases	N/A	N/A

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

		December 31	
		2020	2019
		(In thousands)	
Service cost	$	5	32
Interest cost		22	85
Amortization of net gain		(1,784)	(1,261)
Net periodic postretirement benefit credit	$	(1,757)	(1,144)

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

	December 31	
	2020	2019
Discount rate	2.03 %	3.37 %
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 2020 survey of U.S. employer-sponsored health plans, are as follows:

2021	5.30 %
2022-2023	5.20
2024–2025	5.10
2026–2028	5.00
2029–2030	4.90
2031–2032	4.80
2033–2037	Reduce by 0.1 % every two years
2038 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 $13,300 and increase interest and service cost by approximately $400. A 1% decrease in the healthcare cost trend rate would decrease the APBO by approximately $13,100 and reduce interest and service cost by approximately $400.

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

Payable in fiscal year:		
2021	$	364
2022		338
2023		60
2024		11
2025		13
2026–2030		13

(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 $12.5 million and $11.5 million for the years ended December 31, 2020 and 2019, 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, 2020 are as follows (in thousands):

	The Agreement	Other
Payable in fiscal year:		
2021	$ 2,500	735
2022	2,500	661
2023	2,500	524
2024	2,500	195
2025	2,500	—
Thereafter	56,042	—
	68,542	2,115
Less:		
Interest cost	(37,973)	(200)
Current portion	(381)	(629)
	$ 30,188	1,286

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, 2020 and 2019 was approximately $18.1 million and $13.4 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, 2020 are as follows (in thousands):

Payable in fiscal year:	
2021	$ 6,077
2022	6,137
2023	5,511
2024	4,606
2025	3,639
Thereafter	16,713
	$ 42,683

(Continued)

(14) Donor Restricted Net Assets

Donor restricted net assets as of December 31, 2020 and 2019 are restricted for the following purposes:

	December 31	
	2020	2019
	(In thousands)	
Subject to expenditures for specific purposes		
Capital improvements	$ 28,639	52,282
Fund-raising and other programs	9,533	9,704
	38,172	61,986
Subject to restriction in perpetuity	24,849	22,842
Total	$ 63,021	84,828

(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, and commercial insurance policies).

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

	December 31	
	2020	2019
Medicare	24 %	19 %
Medicaid	18	28
Commercial and other third-party payors	51	49
Patients	7	4
	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, 2020 and 2019 at $24.8 million and $22.8 million, respectively. The remaining balance of $1.9 million at both December 31, 2020, and 2019, 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.

(Continued)

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. The following is a summary of the fair value hierarchy for deposits and investments of the System's beneficial interest in funds held by the Authority and HSOC, Inc. as of December 31, 2020 and 2019, respectively (in thousands):

	2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,726	—	—	1,726
U.S. money market funds	397	—	—	397
U.S. equity securities	1,803	—	—	1,803
U.S. mutual funds	14,893	—	—	14,893
Real estate exchange traded funds	171	—	—	171
International private equity funds	—	—	7,769	7,769
	$ 18,990	—	7,769	26,759

	2019			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,540	—	—	1,540
U.S. money market funds	37	—	—	37
U.S. equity securities	1,642	—	—	1,642
U.S. mutual funds	15,425	—	—	15,425
Real estate exchange traded funds	187	—	—	187
International private equity funds	—	—	5,920	5,920
	$ 18,831	—	5,920	24,751

(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, 2020 and 2019 totaled approximately $0.6 million and $4.9 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, 2024. Net expenses for direct physician services under these contracts totaled approximately $210.8 million and $194.3 million for the years ended December 31, 2020 and 2019, 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 $20.7 million and $26.3 million as of December 31, 2020 and 2019, 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. This agreement was renewed for an additional 10 years at the election of HSOC until December 31, 2030. 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 $1.7 million and $0.6 million as of December 31, 2020 and 2019, respectively. Amounts due from HSOC are included in other current assets in the accompanying consolidated balance sheets. The System also had amounts due from HSOC totaling approximately $6.5 million and $17.7 million as of December 31, 2020 and 2019, 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, 2020 and 2019, $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, 2020 and 2019, no excess funds were applied toward the Authority's pension obligation. As of December 31, 2020 and 2019, 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, 2020, reduced by amounts not available for expenditure within one year. Financial assets considered unavailable include financial assets that are illiquid or not convertible to cash within one year, financial assets that are donor-restricted, and financial assets that the governing board has set aside for specific contingency reserves and projects, or for long-term investment as Board designated endowments.

		2020	2019
		(In thousands)	
Cash and cash equivalents	$	246,757	222,378
Net patient accounts receivable		168,302	163,840
Grants receivable		17,949	15,133
Insurance proceeds receivable		—	10,021
Other receivables		43,801	42,894
Financial assets available to meet cash needs for general expenditures within one year	$	476,809	454,266

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. 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. On April 6, 2020, $30 million was borrowed against the line to provide additional cash flow available to the System due to COVID-19 uncertainties and remained outstanding as of December 31, 2020. No amounts were outstanding under these lines of credit at December 31, 2019. Subsequent to December 31, 2020, the line of credit was due to be renewed in March 2021 but was extended to May 7, 2021.

(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 years ended December 31, 2020 and 2019:

		2020			
		Program Services	Management and General	Fundraising	Total
			(In thousands)		
Salaries and benefits	$	455,627	156,565	88	612,280
Supplies and other expenses		595,446	84,336	416	680,198
Interest		2,496	1,936	—	4,432
Depreciation and amortization		45,460	21,103	—	66,563
	$	1,099,029	263,940	504	1,363,473

		2019			
		Program Services	Management and General	Fundraising	Total
			(In thousands)		
Salaries and benefits	$	438,696	144,961	67	583,724
Supplies and other expenses		585,241	90,252	465	675,958
Interest		2,403	1,727	—	4,130
Depreciation and amortization		42,002	19,494	—	61,496
	$	1,068,342	256,434	532	1,325,308

(Continued)

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.

(22) U.S. Department of Education Financial Responsibility Standards Information

The System participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of the System, which are not otherwise presented in the consolidated financial statements or other notes to the consolidated financial statements, as of and for the years ended December 31, 2020 and 2019:

Goodwill totaling $0.147 million is included in other assets in the accompanying 2020 and 2019 consolidated balance sheets.

Notes payable, net, new market tax credit totaling $23.1 million, $21.6 million and $30.2 million at December 31, 2020 were issued on December 3, 2020, August 16, 2017 and April 17, 2015, respectively. The proceeds from the notes payable were used to fund capital assets in the accompanying 2020 consolidated balance sheet totaling $53.0 million, $21.9 million and $80.8 million, respectively. The funded capital assets consist principally of capital projects associated with Emergency Department renovation and expansion, renovation of the Women's and Infant's Center, and construction of the Center for Advanced Surgical Services.

Schedule 1

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidating Schedule – Balance Sheet Information

December 31, 2020

(In thousands)

Assets	GMHC	Foundation	GHRI	GWIC	GCAS	Reliant	Eliminations	Consolidated
Current assets:								
Cash and cash equivalents	$ 238,934	7,276	1	283	—	263	—	246,757
Patient accounts receivable, net	168,302	—	—	—	—	—	—	168,302
Grants receivable, net	18,499	—	—	—	—	—	(550)	17,949
Current portion of pledges receivable	—	9,088	—	—	—	—	—	9,088
Other current assets	96,737	168	6,454	2,279	—	226	(14,313)	91,551
Total current assets	522,472	16,532	6,455	2,562	—	489	(14,863)	533,647
Assets limited as to use	41,631	28,842	341	510	22,959	—	—	94,283
Property and equipment, net	432,389	207	80,984	23,826	53,023	47	—	590,476
Notes receivable, new market tax credit	54,940	—	—	—	—	—	—	54,940
Beneficial interest in net assets held by others	26,759	—	—	—	—	—	—	26,759
Pledges receivable, net, excluding current portion	—	1,792	—	—	—	—	—	1,792
Investments in affiliates	156,715	—	—	—	—	—	(156,715)	—
Other assets	3,023	—	—	—	—	—	—	3,023
Total assets	$ 1,237,929	47,373	87,780	26,898	75,982	536	(171,578)	1,304,920
Liabilities and Net Assets								
Current liabilities:								
Current portion of capital lease obligations	$ 1,010	—	—	—	—	—	—	1,010
Accounts payable	68,667	784	4,385	(222)	391	1,099	(14,862)	60,242
Line of credit	30,000	—	—	—	—	—	—	30,000
Current portion of self-insurance reserves	14,300	—	—	—	—	—	—	14,300
Due to third-party payors, net	8,431	—	—	—	—	—	—	8,431
Due to Medical Schools	20,714	—	—	—	—	—	—	20,714
Other accrued expenses	148,405	—	—	21	—	—	(1)	148,425
Total current liabilities	291,527	784	4,385	(201)	391	1,099	(14,863)	283,122
Capital lease obligations, excluding current portion	31,474	—	—	—	—	—	—	31,474
Notes payable, net, new market tax credit	—	—	30,229	21,601	23,077	—	—	74,907
Self-insurance reserves, excluding current portion	40,901	—	—	—	—	—	—	40,901
Accrued postretirement benefit cost	430	—	—	—	—	—	—	430
Other long-term liabilities	8,387	451	—	—	—	39	—	8,877
Total liabilities	372,719	1,235	34,614	21,400	23,468	1,138	(14,863)	439,711
Net assets (deficit):								
Without donor restrictions	802,189	8,121	53,166	5,498	52,514	(602)	(118,698)	802,188
With donor restrictions	63,021	38,017	—	—	—	—	(38,017)	63,021
Total net assets (deficit)	865,210	46,138	53,166	5,498	52,514	(602)	(156,715)	865,209
Commitments and contingencies								
Total liabilities and net assets (deficit)	$ 1,237,929	47,373	87,780	26,898	75,982	536	(171,578)	1,304,920

See accompanying independent auditors' report.

Schedule 2

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Consolidating Schedule – Statement of Operations Information

Year ended December 31, 2020

(In thousands)

	GMHC	Foundation	GHRI	GWIC	GCAS	Reliant	Eliminations	Consolidated
Revenue, gains, and other support:								
Net patient service revenue	$ 1,094,990	—	—	—	—	—	—	1,094,990
Contributions from Fulton and DeKalb Counties	55,435	—	—	—	—	—	—	55,435
Grant revenue	69,143	—	—	—	—	—	—	69,143
Other revenue	205,409	7,435	—	—	—	565	(9,777)	203,632
Total revenue, gains, and other support	1,424,977	7,435	—	—	—	565	(9,777)	1,423,200
Operating expenses:								
Salaries and benefits	612,209	1,442	—	—	—	71	(1,442)	612,280
Supplies and other expenses	695,027	1,697	—	—	—	393	(8,335)	688,782
Insurance proceeds from flood losses	(8,584)	—	—	—	—	—	—	(8,584)
Interest	4,431	—	—	—	—	1	—	4,432
Depreciation and amortization	66,501	37	—	—	—	25	—	66,563
Total operating expenses	1,369,584	3,176	—	—	—	490	(9,777)	1,363,473
Operating income (loss)	55,393	4,259	—	—	—	75	—	59,727
Nonoperating gains (losses), net:								
Investment income, net	1,177	—	—	—	—	—	—	1,177
Net periodic postretirement benefit credit	1,757	—	—	—	—	—	—	1,757
New market tax credit, net	(257)	—	252	(41)	(509)	—	—	(555)
Equity in gains (losses) of affiliates	4,036	—	—	—	—	—	(4,036)	—
Gain from insurance proceeds received on impaired assets	73,587	—	—	—	—	—	—	73,587
Other	145	—	—	—	—	—	—	145
Total nonoperating gains (losses), net	80,445	—	252	(41)	(509)	—	(4,036)	76,111
Revenue, gains, and other support in excess of (less than) expenses and losses	135,838	4,259	252	(41)	(509)	75	(4,036)	135,838
Accrued postretirement benefit cost adjustments	(246)	—	—	—	—	—	—	(246)
Net assets released from restriction used for the purchase of property and equipment	21,646	—	—	—	—	—	—	21,646
Contributions and other	15,895	—	—	—	—	—	—	15,895
Change in net assets without donor restrictions	$ 173,133	4,259	252	(41)	(509)	75	(4,036)	173,133

See accompanying independent auditors' report.

Schedule 3

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATES

Financial Responsibility Supplemental Schedule

December 31, 2020

(In thousands)

Primary reserve ratio:			
Expendable net assets:			
Consolidated balance sheet	Net assets without donor restrictions	$	802,188
Consolidated balance sheet	Net assets with donor restrictions		63,021
Notes to consolidated financial statements – Note (14) – Donor restricted net assets subject to restriction in perpetuity	Net assets with donor restrictions – restricted in perpetuity		24,849
Notes to consolidated financial statements – Note (22) – Goodwill	Goodwill		147
Consolidated balance sheet	Property and equipment, net		590,476
Consolidated balance sheet	Notes payable		74,907
Notes to consolidated financial statements – Note (8) – Current portion of accrued postretirement benefit costs	Post-employment liabilities		364
Consolidated balance sheet – Accrued postretirement benefit costs	Post-employment liabilities		430
Total expenses:			
Consolidated statement of operations – Operating expenses	Total expenses without donor restrictions		1,363,473
Equity ratio:			
Modified net assets:			
Consolidated balance sheet	Net assets without donor restrictions	$	802,188
Consolidated balance sheet	Net assets with donor restrictions		63,021
Notes to consolidated financial statements – Note (22) – Goodwill	Goodwill		147
Modified assets:			
Consolidated balance sheet	Total assets		1,304,920
Notes to consolidated financial statements – Note (22) – Goodwill	Goodwill		147
Net income ratio:			
Change in net assets without donor restrictions:			
Consolidated statement of operations	Change in net assets without donor restrictions	$	173,133
Total revenue without donor restrictions and gains without donor restrictions:			
Consolidated statement of operations	Total revenue, gains and other support		1,423,200
Consolidated statement of operations	Investment income, net		1,177
Consolidated statement of operations	Net periodic postretirement benefit credit		1,757
Notes to consolidated financial statements – Note (12(a)) – Service cost	Service cost component included in net periodic postretirement benefit credit		5
Consolidated statement of changes in net assets	Net assets released from restriction used for the purchase of property and equipment		21,646
Consolidated statement of changes in net assets	Contributions and other		15,895

See accompanying independent auditors' report.