Evaluation of Going Concern
December 31, 2020

Accounting Guidance

ASC 205-40-50-5 states:

When evaluating an entity's ability to meet its obligations, management shall consider quantitative and qualitative information about the following conditions and events, among other relevant conditions and events known and reasonably knowable at the date that the financial statements are issued:

a. The entity's current financial condition, including its liquidity sources at the date that the financial statements are issued (for example, available liquid funds and available access to credit)
b. The entity's conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in the entity's financial statements)
c. The funds necessary to maintain the entity's operations considering its current financial condition, obligations, and other expected cash flows within one year after the date that the financial statements are issued.
d. The other conditions and events, when considered in conjunction with (a), (b), and (c) above, which may adversely affect the entity's ability to meet its obligations within one year after the date that the financial statements are issued.

Discussion

a. Grady's Current Financial condition has been favorable for the last five years with results for income from operations of:

- 2016 –$ 44,321,000
- 2017 – $41,266,000
- 2018 – $29,659,000
- 2019 – $29,776,000
- 2020 – $135,838,000

b. Liquidity – Unrestricted Cash was $247M as of 12/31/20 compared to $222M as of 12/31/19. Days Cash on Hand for the last five years have been:

- 2016 – 76
- 2017 – 80
- 2018 – 56
- 2019 – 64
- 2020 – 69

a. Available access to credit:

- As discussed in the notes to the 2020 Audited Financial Statement, Grady has had an unused line of credit of $30M with a bank for emergencies, and did not draw against it for the last 7 years. On April 6, 2020, Grady did borrow $30 million against the line in order to provide additional cash flow to the System due to COVID-19 uncertainties, which are described in item d. below.
- Grady also has approx. $2.3M payable in Capital Equipment Leases as of the end of 2020 and $2.9M as of the end of 2019.
- Lastly, Grady has participated in three New Market Tax Credit Transactions and was able to add debt on its books of approx. $75M from 2015-2020.

b. Conditional and unconditional obligations due within 1-year known and unknown:

- Grady's obligations over the next year are to pay approx. $2.5M to the FDHA annually for the next 28 years related to the FDHA lease and transfer agreement that was put in place 13 years ago.
- There is an obligation of payment on our capital leases of approx. $735K in 2021, and our operating lease contracts equate to payment of approx. $6.1M in 2021.
- One of our largest expenses other than payroll is to the Emory and Morehouse Schools of Medicine for professional fees, which in 2020 equated to approx. $211M.
- When looking at our current ratio it has decreased to 1.88 in 2020 compared to 2.49 in 2019.

c. Funds necessary to maintain operations in current condition:

- Grady ended the CY 2020 above budget and with an operating margin of 4.2%. Grady experienced a major flood in December 2019 and the ongoing COVID-19 pandemic beginning in March 2020, both of which are discussed in more detail in item d. below.
- The Congress extended the moratorium on the 2% Medicare sequester until December 2021.
- Additionally, Grady is currently pursuing several key initiatives over the next 5 years, such as:
  - Ongoing improvements with Care Logistics to improve patient experience and boost efficiency by lowering length-of-stay;
  - Care Coordination savings and revenue maximization;
  - Continuing efforts related to quality enhancement and variation reduction;
  - Completion of the Center for Ambulatory Surgery Services (CASS) project, scheduled for 2022.
  - Completion of the Infectious Disease Center on Ponce (IDP), scheduled for 2023.

  The results of these initiatives are expected to assist us in meeting our long-term margin goals.

d. Funds necessary to maintain operations in other conditions and events:

- 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 non-operating 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 non-operating revenue 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.

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 $87.7 million related to restoration and business interruption claims which will be recognized in 2021.

- Coronavirus (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 via video and phone.
  - Temporarily closed or minimized clinic services 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. 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, 3030. Such unrecognized amounts may be recognized as other revenue in future periods if the underlying conditions for recognition are met.

Overall Conclusion

Based upon our consideration of the qualitative and quantitative information including, but not limited to factors described in ASC 205-40-50 and ASC 205-40-55, we believe that Grady has the ability to meet its obligations for the next year and will continue as a going concern at least for that time period.