Evaluation of Going Concern
December 31, 2022

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:

- 2018 – $29,659,000
- 2019 – $29,776,000
- 2020 – $135,838,000
- 2021 – $120,984,000
- 2022 - $14,660,000

b. Liquidity – Unrestricted Cash was $213M as of 12/31/22 compared to $214M as of 12/31/21. Days Cash on Hand for the last five years have been:

- 2018 – 56
- 2019 – 64
- 2020 – 69
- 2021 – 56
- 2022 - 49

a. Available access to credit:

- In June 2021, Grady negotiated a new line-of-credit facility for $60 million as a general revolving credit facility with an initial expiration date of June 2022. This was then renewed as of October 2022 with the current expiration date of July 2023. No amounts were outstanding under these lines of credit as of December 31, 2022.
- Grady also has approx. $1.5M payable in Capital Equipment Leases as of the end of 2022 and $1.7M as of the end of 2021.
- Lastly, Grady has participated in four New Market Tax Credit (NMTC) Transactions as of 12/31/2022. Grady was able to add debt on its books of approx. $125M from 2015-2022.

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 26 years related to the FDHA lease and transfer agreement that was put in place 15 years ago.
- There is an obligation of payment on our capital leases of approx. $1.3M in 2023, and our operating lease contracts equate to payment of approx. $5.3M in 2023.
- One of our largest expenses other than payroll is to the Emory and Morehouse Schools of Medicine for professional fees, which in 2022 equated to approx. $198M.
- When looking at our current ratio it has increased to 2.15 in 2022 compared to 2.04 in 2021.

c. Funds necessary to maintain operations in current condition:

- Grady ended the CY 2022 and with an operating margin of 0.33%.
- The Congress extended the moratorium on the 2% Medicare sequester until March 2022. Beginning on April 1, 2022 through June 30, 2022 there was a 1% Medicare sequester and beginning July 1, 2022, the 2% Medicare sequester was reinstated.
- Additionally, Grady is currently pursuing several key initiatives over the next 5 years, such as:
  - Continuing improvements needed in lowering our length-of-stay, which is at all-time high. We are now working with a company called Guidehouse who will assist us with this process beginning in 2023;
  - Care Coordination savings and revenue maximization;
  - Continuing efforts related to quality enhancement and variation reduction;
  - Continuing to pursue additional COVID funding from sources such as FEMA and state and local agencies;
  - Completion of the Infectious Disease Center on Ponce (IDP), scheduled for May 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:

- Secured $130M in OPB Hospital Improvement ARPA commitment from the State of Georgia, primarily related to the closure of Atlanta Medical Center. With this funding, Grady will be increasing our bed capacity by nearly 200 beds in formerly decommissioned units to ease the burden of increased admissions.
- Secured additional $8M in funding from DeKalb County due to increased labor costs beginning with the COVID-19 pandemic and continuing into 2023.
- Securing funds from the State of Georgia's Advancing Innovation to Deliver Equity program (GA-AIDE) to increase our net revenue.

Q1 2023 Financial Results

January – March financials reflect a gain of approximately $5M compared to the budget of $4.7M and a prior year loss of approximately $23M. We continue to experience high labor costs and are working to contain this.

April 2023 onwards, we expect the following:

- We expect an additional $10-$12M in FEMA funding to be received in 2023;
- We received the $8M in funding from DeKalb County mentioned above to help with labor costs;
- We have asked our units to staff to volumes and pay particular attention to minimizing our costs where possible;
- We have asked the departments at Grady to slow down projects and other costs that can be delayed or eliminated where possible;
- We will continue to give annual raises and not have any RIFs at this point;
- We will continue to talk with the counties to see if they can help us further and pay a greater share of the unfunded cost for their residents.

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.