



GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)



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Independent Auditors' Report

The Board of Directors
Grady Memorial Hospital Corporation:

We have audited the accompanying combined balance sheets of Grady Memorial Hospital Corporation and affiliate (the System) as of December 31, 2010 and 2009, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these combined 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Grady Memorial Hospital Corporation and affiliate as of December 31, 2010 and 2009, and the results of their operations, changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

~~In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2011 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2010 audit.~~

KPMG LLP

April 29, 2011

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Balance Sheets

December 31, 2010 and 2009

(In thousands)

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 29,939	15,798
Patient accounts receivable, less allowance for uncollectible accounts of \$147,225 and \$59,978 at December 31, 2010 and 2009, respectively	73,554	57,565
Grants receivable	18,579	17,191
Current portion of pledges receivable	68,326	82,063
Other current assets	69,734	55,181
Total current assets	260,132	227,798
Assets limited as to use	42,016	37,268
Property and equipment, net	320,258	280,073
Beneficial interest in net assets held by others	14,589	18,610
Pledges receivable, excluding current portion	74,026	87,127
Other assets	6,642	4,953
Total assets	\$ 717,663	655,829
Liabilities and Net Assets		
Current liabilities:		
Current portion of capital lease obligations	\$ 2,951	3,505
Current portion of notes payable	3,075	2,887
Line of credit	30,000	10,053
Accounts payable	29,446	25,397
Current portion of self-insurance reserves	12,995	8,297
Due to third-party payors	22,522	17,756
Due to Medical Schools	8,265	15,172
Other accrued expenses	69,094	70,061
Total current liabilities	178,348	153,128
Capital lease obligations, excluding current portion	34,730	37,680
Notes payable, excluding current portion	18,644	21,718
Self-insurance reserves, excluding current portion	41,217	35,179
Accrued postretirement benefit cost	46,216	41,111
Other long-term liabilities	26,827	13,293
Total liabilities	345,982	302,109
Net assets:		
Unrestricted	185,599	138,143
Temporarily restricted	172,610	203,693
Permanently restricted	13,472	11,884
Total net assets	371,681	353,720
Commitments and contingencies		
Total liabilities and net assets	\$ 717,663	655,829

See accompanying notes to combined financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Statements of Operations

Years ended December 31, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Revenue, gains, and other support:		
Net patient service revenue	\$ 703,758	571,461
Contributions from Fulton and DeKalb Counties	70,593	75,654
Other revenue	94,408	120,069
Total revenue, gains, and other support	<u>868,759</u>	<u>767,184</u>
Expenses:		
Salaries and benefits	301,324	297,414
Supplies and other expenses	326,775	315,335
Interest	5,835	3,659
Depreciation and amortization	34,874	25,225
Provision for uncollectible accounts	201,201	91,215
Total expenses	<u>870,009</u>	<u>732,848</u>
Operating income (loss)	<u>(1,250)</u>	<u>34,336</u>
Nonoperating gains (losses):		
Investment income, net	342	1,209
Forgiveness of debt payable	—	3,415
Other	700	(1,581)
Total nonoperating gains, net	<u>1,042</u>	<u>3,043</u>
Revenue, gains, and other support in excess of (less than) expenses and losses	(208)	37,379
Accrued postretirement benefit cost adjustments	(4,606)	(493)
Net assets released from restriction used for the purchase of property and equipment	52,270	74,107
Increase in unrestricted net assets	<u>\$ 47,456</u>	<u>110,993</u>

See accompanying notes to combined financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Statements of Changes in Net Assets

Years ended December 31, 2010 and 2009

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, December 31, 2008	\$ 27,150	221,175	13,950	262,275
Revenue, gains, and other support in excess of expenses and losses	37,379	—	—	37,379
Accrued postretirement benefit cost adjustments	(493)	—	—	(493)
Contributions	—	65,762	—	65,762
Net assets released from restriction used for the purchase of property and equipment	74,107	(74,107)	—	—
Net assets released from restriction used for operations	—	(9,137)	—	(9,137)
Net change in beneficial interest in net assets held by others	—	—	(2,066)	(2,066)
Change in net assets	<u>110,993</u>	<u>(17,482)</u>	<u>(2,066)</u>	<u>91,445</u>
Net assets, December 31, 2009	138,143	203,693	11,884	353,720
Revenue, gains, and other support less than expenses and losses	(208)	—	—	(208)
Accrued postretirement benefit cost adjustments	(4,606)	—	—	(4,606)
Contributions	—	38,279	—	38,279
Net assets released from restriction used for the purchase of property and equipment	52,270	(52,270)	—	—
Net assets released from restriction used for operations	—	(17,092)	—	(17,092)
Net change in beneficial interest in net assets held by others	—	—	1,588	1,588
Change in net assets	<u>47,456</u>	<u>(31,083)</u>	<u>1,588</u>	<u>17,961</u>
Net assets, December 31, 2010	\$ <u>185,599</u>	<u>172,610</u>	<u>13,472</u>	<u>371,681</u>

See accompanying notes to combined financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 17,961	91,445
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	34,874	25,225
Loss on disposal of property and equipment	—	2,574
Accrued postretirement benefit cost adjustments	4,606	493
Net unrealized losses (gains) on investments	(357)	2,175
Provision for uncollectible accounts	201,201	91,215
Contributions used for the purchase of capital and equipment	(52,270)	(74,107)
Changes in operating assets and liabilities:		
Patient accounts receivable	(217,190)	(73,817)
Grants and pledges receivable	25,450	8,297
Other current assets	(13,791)	(35,084)
Other assets	(1,689)	(385)
Accounts payable and other accrued expenses	9,709	(11,674)
Due to third-party payors, net	4,766	(15,111)
Accrued postretirement benefit cost	500	406
Self-insurance reserves	10,736	4,251
Net cash provided by operating activities	<u>24,506</u>	<u>15,903</u>
Cash flows from investing activities:		
Purchase of property and equipment, net	(75,059)	(92,971)
Net change in assets limited as to use	(6,019)	(8,509)
Distribution of beneficial interest in net assets held by others	4,887	20,589
Net cash used in investing activities	<u>(76,191)</u>	<u>(80,891)</u>
Cash flows from financing activities:		
Principal repayments under capital lease obligations	(3,505)	(3,374)
Principal repayments under notes payable	(2,886)	
Net change in line of credit	19,947	10,053
Contributions used for the purchase of capital and equipment	52,270	74,107
Net cash provided by financing activities	<u>65,826</u>	<u>80,786</u>
Net change in cash and cash equivalents	14,141	15,798
Cash and cash equivalents, beginning of period	<u>15,798</u>	—
Cash and cash equivalents, end of period	\$ <u><u>29,939</u></u>	<u><u>15,798</u></u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,020	3,562

See accompanying notes to combined financial statements.