

**GRADY MEMORIAL HOSPITAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period Ended Second Quarter of 2011**

The following pages contain information related to the Grady Memorial Hospital Corporation's (GMHC) actual operating and financial performance for the period ended Second Quarter of 2011 along with a comparison to budget and prior year results (excluding Hughes Spalding Children's Healthcare operations).

STATISTICAL HIGHLIGHTS

- Second Quarter adult discharges are 7.1% under budget and 0.8% under prior year.
- Second Quarter Average Length of Stay (ALOS) of 5.85 is 3.9% higher than budget and 2.0% higher than prior year. For the quarter, the Case Mix Index (CMI) is 0.7% under budget and is 0.9% over prior year largely driven by service mix.
- Second Quarter surgeries are over budget by 31.4% and up 62 cases from prior year. Growth is being seen in Neurology, Burn and Orthopedics.
- Second Quarter Emergency Room (ER) visits are 6.3% above budget and 15.1% above prior year.
- Second Quarter Neighborhood Clinic (NHC) visits are under budget by 11.0% and below prior year by 3.2%. Adaptation to Epic and physician vacancies have contributed to the negative volume variances.
- Second Quarter hospital-based clinic visits are under budget by 0.5% and below prior year by 3.7%. The primary care center is now live on Epic with related negative volume variances as they are still climbing a learning curve.

FINANCIAL HIGHLIGHTS

Revenues:

Net patient revenue for second quarter is 3.9% lower than budget and 1.0% less than prior year. Net patient revenue for the quarter is less than budget primarily as a result of lower than anticipated volumes. The negative volume impact was partially offset by receipt of supplemental UPL funds.

- For the second quarter, ICTF revenue is 13.9% less than budget and 29.0% less than prior year. The State Fiscal Year (SFY) 2011 ICTF final allocation was significantly less than budgeted and prior year amounts. The negative impact of the funding reduction has been partially mitigated with increased supplemental UPL funds.

**GRADY MEMORIAL HOSPITAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period Ended Second Quarter of 2011**

- Grant revenue is over budget for the second quarter due to a delay by the State in implementing changes to the ADAP (grant for AIDS drugs) program. The program changes involve moving from a drug reimbursement model to a donated drug program with more distribution channels. The changes impact grant revenues, other revenues (donated drugs) and drug expenses, but should have little, if any, bottom line impact. Grant revenue is less than prior year in the quarter because of the program changes.
- Other income is over budget and prior year for the quarter primarily due to the aforementioned changes to the ADAP program which result in increased revenue recorded for donated drugs. Other income also includes a contribution of \$850,000 in the quarter received from the Henry W. Grady Foundation raised in partnership with Delta.

Expenses:

- Total expenses for the second quarter are 1.2% over budget and 0.7% more than prior year.
- Second quarter salaries are 1.4% under budget and 0.7% less than prior year driven by reduced overtime. Second quarter paid FTE's are 1.5% higher than budget and 1.0% over prior year primarily driven by increases in FTE's for the Neuroscience program and to support EPIC.
- Employee benefits are 20.9% below budget for the quarter and 10.7% below prior year based upon a reversal in the quarter of the discretionary 401(k) contribution being accrued in 2011 as well as lower health plan and workers compensation costs.
- Drug expenses are 3.8% over budget in the quarter and 21.9% lower than prior year driven by the timing of changes in distribution channels for AIDS drugs associated with the ADAP program.
- Supply costs are 12.4% over budget for the quarter and 14.9% over prior year driven by increased surgical cases and growth of the neuroscience program.
- Purchased Services for the quarter are 6.5% over budget and 13.1% over prior year primarily due to consulting support for Epic and network services.
- Repairs and maintenance for the quarter is 57.5% over budget and 24.1% over prior year driven by higher facilities related spending.
- Other expenses are under budget for the quarter by 7.4% based upon reduced advertising expense and office supply costs. Other expenses are over prior year by 11.8% due to the new Georgia State provider fee which

**GRADY MEMORIAL HOSPITAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period Ended Second Quarter of 2011**

began on July 1, 2010 and offset by reductions in equipment rental costs, office supplies and maintenance materials.

- Depreciation is \$1.6 million more than budget in the quarter based upon depreciation for actual assets in service to date. Compared to prior year, depreciation is \$2.7 million higher driven by 2010 capital expenditures.
- The professional liability reserve on a year-to-date basis is on budget and less than prior year based upon actuarial estimates.
- Interest expense is greater than budget and prior year due to utilization of the line of credit.

Cash Collection Trends:

The rolling twelve-month ratio of actual cash collected to net patient service revenue is 96.3%. Overall cash collections year-to-date for 2011 are 5.2% under last year's collections for the same period impacted by the Epic implementation, volume reduction, service mix and issues with payment of Medicaid high-dollar claims.

Fulton and DeKalb County Contributions:

Second quarter county contributions of \$16.2 million are 13.5% lower than budgeted and 7.9% lower than prior year due to the reduced funding levels approved by Fulton and DeKalb Counties for 2011.

Non-Operating Income:

Non-operating income for second quarter is \$0.4 million higher than budget and \$0.5 million higher than prior year due to prior year cost report settlements.

BALANCE SHEET HIGHLIGHTS

(Includes HSCH):

Assets of the Corporation decreased to \$616 million as of June 30, 2011, down \$58 million (9%) from \$673.8 million as of December 31, 2010 primarily as a result of the following:

- ICTF receivables decreased \$31.7 million driven by timing of the receipt of ICTF payments.

**GRADY MEMORIAL HOSPITAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Period Ended Second Quarter of 2011**

- Receivables due from the counties decreased \$8.3 million due to receipt of the 9.9 million withheld by Fulton in 2010, offset by a receivable of 1.7 million related to amounts withheld in 2011.
- Grant receivables decreased \$5 million relative to changes in the ADAP program.
- Net capital assets (offset by depreciation) decreased \$11.7 million due to accumulated depreciation costs for existing assets outpacing new capital acquisitions.

Liabilities decreased to \$311.3 million as of June 30, 2011; down 11% from \$351.5.2 million as of December 31, 2010, driven by:

- \$30 million decrease in the LOC due to pay down in April 2011
- \$8.2 million decrease in Accounts payable due to focus on improved timeliness of payments.

CASH FLOW STATEMENT:

The month of June ended with \$ 31.7 million in cash, impacted largely by the receipt of a full year's ICTF funding in the months of January and April.

Cash flow from Counties increased based upon receipt of 2010 funding from Fulton in 2011 offset by decreased 2011 funding levels from both Counties and a withhold of \$1.7 million in 2011 funding from Fulton County.

The Corporation invested \$7.7 million into capital during the second quarter of 2011. This was made possible by very generous contributions from certain private foundations and community members.

GRADY MEMORIAL HOSPITAL CORPORATION

STATEMENT OF OPERATIONS - CONSOLIDATED W/O HSOC

FOR THE QUARTER ENDING: JUNE 30, 2011 (in thousands)

	QUARTER ACTUAL	QUARTER BUDGET	BUDGET VARIANCE	% CHANGE	2010 ACTUAL	PRIOR YR VARIANCE	% CHANGE
REVENUE:							
Net Patient Service Revenue	100,187	104,250	(4,063)	-3.9%	101,210	(1,023)	-1.0%
Indigent Care Trust Fund Revenue	17,646	20,500	(2,854)	-13.9%	24,866	(7,220)	-29.0%
Grant Revenue	11,851	10,561	1,290	12.2%	20,319	(8,468)	-41.7%
Other Income	7,016	5,761	1,255	21.8%	2,318	4,697	202.6%
Total Revenue	136,700	141,072	(4,372)	-3.1%	148,713	(12,013)	-8.1%
EXPENSES							
Salaries and Wages	59,869	60,726	857	1.4%	60,285	415	0.7%
Employee Benefits	10,052	12,707	2,656	20.9%	11,259	1,208	10.7%
Contract Labor	506	599	93	15.6%	775	270	34.8%
Prof Fees-Medical Schools	19,659	19,925	266	1.3%	19,136	(523)	-2.7%
Drugs	15,017	14,471	(547)	-3.8%	19,222	4,205	21.9%
Supplies	12,456	11,084	(1,373)	-12.4%	10,843	(1,614)	-14.9%
Purchased Service	14,571	13,677	(894)	-6.5%	12,884	(1,688)	-13.1%
Repairs and Maintenance	5,243	3,329	(1,914)	-57.5%	4,224	(1,019)	-24.1%
Utilities	1,877	2,080	203	9.8%	2,127	250	11.7%
Other Direct Expense	6,349	6,856	507	7.4%	5,677	(672)	-11.8%
Depreciation and Amortization	10,582	9,000	(1,582)	-17.6%	7,837	(2,744)	-35.0%
General and Professional Liability Risks	3,076	3,125	49	1.6%	4,081	1,005	24.6%
Interest Expense	894	630	(263)	-41.8%	632	(262)	-41.4%
Total Expenses	160,152	158,210	(1,942)	-1.2%	158,983	(1,169)	-0.7%
Contractual Payments to HSOC	(552)	(500)	(52)	-10.5%	(1,076)	524	48.7%
Contractual Payments to FDHA	(625)	(625)	0	0.0%	(625)	-	0.0%
MARGIN BEFORE COUNTY SUPPORT	(24,630)	(18,263)	(6,367)	-34.9%	(11,971)	(12,658)	-105.7%
COUNTY CONTRIBUTIONS	16,214	18,750	(2,536)	-13.5%	17,612	(1,398)	-7.9%
OPERATING MARGIN	(8,416)	487	(8,903)	-1827.2%	5,640	(14,056)	-249.2%
NON-OPERATING INCOME	695	253	442	174.6%	151	544	360.3%
EXCESS / SHORTFALL	(7,721)	740	(8,461)	-1143.0%	5,791	(13,512)	-233.3%

GRADY MEMORIAL HOSPITAL CORPORATION
 STATEMENT OF OPERATIONS - CONSOLIDATED W/O HSOC
 FOR THE YTD PERIOD ENDED: JUNE 30, 2011 (in thousands)

	2011 ACTUAL	2011 BUDGET	BUDGET VARIANCE	% CHANGE	2010 ACTUAL	PRIOR YR VARIANCE	% CHANGE
REVENUE:							
Net Patient Service Revenue	198,095	205,338	(7,243)	-3.5%	198,059	36	0.0%
Indigent Care Trust Fund Revenue	33,936	41,000	(7,064)	-17.2%	42,480	(8,544)	-20.1%
Grant Revenue	25,653	21,123	4,530	21.4%	37,248	(11,595)	-31.1%
Other Income	10,128	11,521	(1,394)	-12.1%	6,161	3,967	64.4%
TOTAL OPERATING REVENUE	267,811	278,982	(11,171)	-4.0%	283,948	(16,137)	-5.7%
EXPENSES:							
Salaries and Wages	121,101	120,773	(328)	-0.3%	116,752	(4,349)	-3.7%
Employee Benefits	22,922	25,368	2,447	9.6%	24,723	1,801	7.3%
Contract Labor	1,370	1,191	(179)	-15.0%	1,418	48	3.4%
Professional Fees-Medical Schools	40,294	39,850	(444)	-1.1%	38,844	(1,450)	-3.7%
Drugs	27,964	28,160	196	0.7%	37,768	9,803	26.0%
Supplies	22,988	21,829	(1,158)	-5.3%	22,097	(890)	-4.0%
Purchased Service	28,073	27,354	(720)	-2.6%	25,284	(2,789)	-11.0%
Repairs and Maintenance	8,118	6,658	(1,460)	-21.9%	7,904	(214)	-2.7%
Utilities	3,952	4,161	209	5.0%	3,923	(29)	-0.7%
Other Direct Expense	12,474	13,694	1,220	8.9%	11,271	(1,203)	-10.7%
Depreciation and Amortization	20,470	18,000	(2,470)	-13.7%	15,629	(4,840)	-31.0%
General and Professional Liability Risks	6,211	6,250	39	0.6%	6,141	(70)	-1.1%
Interest Expense	1,463	1,261	(202)	-16.0%	1,254	(209)	-16.6%
TOTAL EXPENSES	317,400	314,549	(2,851)	-0.9%	313,008	(4,392)	-1.4%
CONTRACTUAL PAYMENTS							
Contractual Payments to HSOC	(1,267)	(1,000)	(267)	-26.7%	(1,576)	309	19.6%
Contractual Payments to FDHA	(1,250)	(1,250)	0	0.0%	(1,250)	-	0.0%
MARGIN BEFORE COUNTY SUPPORT	(52,106)	(37,817)	(14,289)	-37.8%	(31,886)	(20,220)	-63.4%
COUNTY CONTRIBUTIONS	32,339	37,500	(5,161)	-13.8%	35,262	(2,923)	-8.3%
OPERATING MARGIN	(19,767)	(317)	(19,450)	-6130.1%	3,375	(23,142)	-685.6%
NON-OPERATING GAIN/LOSS	789	506	283	55.9%	399	390	97.9%
EXCESS / SHORTFALL	(18,978)	189	(19,167)	-10156.4%	3,774	(22,752)	-602.9%

GRADY MEMORIAL HOSPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS - UNRESTRICTED AND RESTRICTED FUNDS June 30, 2011

(in thousands)

ASSETS	6/30/2011	12/31/2010	Change
<i>Current Assets</i>			
Cash and cash equivalents	\$ 31,664	\$ 28,390	\$ 3,274
Assets whose use is limited	18,003	19,458	(1,455)
Receivables for patient services	76,010	73,554	2,456
Due from DMA - ICTF	5,881	37,566	(31,685)
Due from Counties	1,647	9,944	(8,297)
Inventories	9,775	9,175	600
Prepaid expenses and other assets	(493)	5,724	(6,217)
Current portion of pledges receivable	59,271	59,271	-
Grant receivables	13,537	18,579	(5,042)
Total Current Assets	<u>215,294</u>	<u>261,662</u>	<u>(46,368)</u>
<i>Noncurrent Cash & Investments</i>			
Internally designated for capital acquisitions	2,446	2,446	(0)
Internally designated for general and professional liability risks	928	928	-
Held under escrow agreements	-	-	-
Insurance guaranty trust fund	7,839	7,855	(16)
Beneficial interest in net assets held by others	14,589	14,589	-
Total Noncurrent Cash & Investments	<u>25,802</u>	<u>25,818</u>	<u>(16)</u>
<i>Capital Assets</i>			
Depreciable capital assets, at cost, net of accumulated depreciation of \$98,446 in 2011 and \$80,836 in 2010	308,311	320,036	(11,725)
<i>Other Assets</i>			
Microsoft prepaid enterprise agreement	564	246	318
EPIC Maintenance Contract/Other	6,266	6,483	-
Pledge receivable, excluding current portion	59,107	59,107	-
Investments - UHC/Deposits	428	428	-
Total Other Assets	<u>66,365</u>	<u>66,264</u>	<u>101</u>
Total Assets	<u>\$ 615,772</u>	<u>\$ 673,779</u>	<u>\$ (58,007)</u>

GRADY MEMORIAL HOSPITAL CORPORATION

CONSOLIDATED BALANCE SHEETS - UNRESTRICTED AND RESTRICTED FUNDS

June 30, 2011

(in thousands)

LIABILITIES AND NET ASSETS	6/30/2011	12/31/2010	Change
<i>Current Liabilities:</i>			
Current maturities of long-term debt	\$ 5,094	\$ 4,899	\$ 195
Line of Credit	-	30,000	(30,000)
Accounts payable	44,575	52,817	(8,242)
Notes payable	3,075	3,075	-
Accrued expenses	59,040	59,917	(877)
Accrued pension/post retirement benefit expense	8,625	6,560	2,065
Estimated third-party payor settlements	24,759	22,522	2,237
Deferred revenue - county contributions	-	-	-
Other current liabilities	12,995	12,995	-
Total Current Liabilities	<u>158,163</u>	<u>192,784</u>	<u>(34,622)</u>
<i>Noncurrent Liabilities:</i>			
Reserve for workman's comp liability risks	4,545	4,233	312
Reserve for general and professional liability risks	35,951	36,984	(1,033)
Accrued post retirement benefit long-term	46,547	46,216	331
Long-term debt, net current maturities	33,282	34,730	(1,448)
Long-term notes payable, net of discount	17,762	18,044	(882)
Other Long-term liabilities	15,008	17,952	(2,944)
Total Noncurrent Liabilities	<u>153,095</u>	<u>158,758</u>	<u>(5,663)</u>
Total Liabilities	<u>311,258</u>	<u>351,542</u>	<u>(40,284)</u>
<i>Net Assets (Deficit):</i>			
Unrestricted	165,997	183,705	(17,708)
Temporarily restricted	125,062	125,076	(14)
Permanently restricted	13,455	13,455	(0)
Total Net Assets	<u>304,514</u>	<u>322,237</u>	<u>(17,723)</u>
Total Liabilities and Net Assets	<u>\$ 615,772</u>	<u>\$ 673,779</u>	<u>\$ (58,007)</u>

GRADY HEALTH SYSTEM
 STATISTICAL WORKLOAD ANALYSIS
 For Quarter Ending June 30, 2011

Actual 2011	2nd Quarter - 2011			Year-to-Date - 2011			Prior Yr Actual 2010	Prior Yr Variance	%				
	Budget 2011	Budget Variance	%	Actual 2011	Budget 2011	Budget Variance							
Discharges:													
6,588	7,092	(504)	-7.1%	6,639	(51)	-0.8%	13,356	14,037	(681)	-4.9%	13,321	35	0.3%
635	596	40	6.7%	553	83	15.0%	1,479	1,179	300	25.4%	1,146	333	29.1%
7,224	7,688	(464)	-6.0%	7,192	32	0.4%	14,835	15,217	(382)	-2.5%	14,467	368	2.5%
Observation Patients													
506	194	312	160.7%	204	302	148.0%	782	384	398	103.5%	387	395	102.1%
Patient Days:													
38,543	39,933	(1,390)	-3.5%	38,062	481	1.3%	79,904	79,038	866	1.1%	78,877	1,027	1.3%
1,110	1,150	(40)	-3.5%	1,089	21	1.9%	2,582	2,277	305	13.4%	2,237	345	15.4%
39,653	41,083	(1,430)	-3.5%	39,151	502	1.3%	82,486	81,314	1,172	1.4%	81,114	1,372	1.7%
Average Daily Census:													
423.5	438.8	(15.3)	-3.5%	418.3	5	1.3%	441.5	436.7	4.8	1.1%	435.8	6	1.3%
12.2	12.8	(0.4)	-3.5%	12.0	0	1.9%	14.3	12.6	1.7	13.7%	12.4	2	15.7%
435.7	451.5	(15.7)	-3.5%	430.2	6	1.3%	455.8	449.3	6.5	1.5%	448.1	8	1.7%
Average Length of Stay:													
5.85	5.63	(0.22)	-3.9%	5.73	(0.12)	-2.0%	5.98	5.63	(0.35)	-6.2%	5.92	(0.06)	-1.0%
1.75	1.93	0.19	9.6%	1.97	0.22	11.4%	1.75	1.93	0.19	9.6%	1.95	0.21	10.6%
Deliveries/Live Births													
665	685	(20)	-2.9%	658	7	1.1%	1,494	1,356	138	10.2%	1,337	157	11.7%
Cresview Resident Days													
22,092	22,784	(692)	-3.0%	22,687	(95)	-2.6%	44,811	45,009	(198)	-0.4%	45,396	(585)	-1.3%
Ambulance Trips													
25,011	23,514	1,497	6.4%	24,482	529	2.2%	48,546	45,872	2,674	5.8%	47,165	1,381	2.9%
Surgical Cases:													
1,712	1,145	567	49.5%	1,741	-29	-1.7%	3,283	3,415	(132)	-3.9%	3,408	-125	-3.7%
754	732	22	3.0%	663	91	13.7%	1,484	1,402	82	5.8%	1,330	154	11.6%
2,466	1,877	589	31.4%	2,404	62	2.6%	4,767	4,817	(50)	-1.0%	4,738	29	0.6%
Outpatient Visits:													
26,342	24,770	1,572	6.3%	22,887	3,455	15.1%	52,837	48,768	4,069	8.3%	46,461	6,376	13.7%
77,422	77,785	(363)	-0.5%	80,437	(3,015)	-3.7%	151,876	150,140	1,736	1.2%	162,476	(10,600)	-6.5%
33,753	37,908	(4,155)	-11.0%	34,872	(1,119)	-3.2%	68,073	75,795	(7,722)	-10.2%	71,269	(3,196)	-4.5%
137,517	140,463	(2,946)	-2.1%	138,196	(679)	-0.5%	272,786	274,703	(1,917)	-0.7%	280,206	(7,420)	-2.6%
CMI													
1.43	1.44	(0.01)	-0.7%	1.42	0.01	0.9%	1.42	1.44	(0.02)	-1.4%	1.40	0.02	1.3%
Admissions:													
756	702	54.0	7.7%	785	(29.0)	-3.7%	1,887	1,404	(483)	-25.6%	1,413	(474)	-33.5%
121	111	10.0	9.0%	99	22.0	22.2%	248	222	26.0	11.7%	209	39.0	18.7%
Paid FTE's													
4,619	4,551	68	1.5%	4,575	44	1.0%	4,634	4,575	58	1.3%	4,543	91	2.0%
FTE's Per Adj. Occ. Bed													
6.94	6.01	0.93	15.5%	6.84	0.10	1.5%	6.74	6.07	0.67	11.0%	6.59	0.15	2.3%

Quarterly Supplemental Information Requested by FDHA
2nd Quarter 2011

	2010Q2	2011Q2	Variance
<u>Number of beds set up and staffed:</u>			
Hospital	691	659	(32)
Crestview	249	243	(6)
Average length of stay	5.73	5.85	0.12
<u>ADC by payor - Hospital:</u>			
Medicare	68.6	82	13.4
Medicaid, Medicaid Managed, Medicaid Pend	151.3	142.8	(8.5)
Commercial	71.2	40.5	(30.7)
Uninsured	127.1	158.2	31.1
Total	418.2	423.5	5.3
<u>ADC by payor - Crestview:</u>			
Medicaid	192	171	(21)
Medicare	3	5	2
Insurance	8	7	(1)
Indigent	37	53	16
Hospice	8	8	0
Total	248	244	(4)
<u>ER visits by County:</u>			
Fulton	14,722	16,564	1,842
Dekalb	5,195	5,866	671
Other	2,970	3,912	942
Total	22,887	26,342	3,455
<u>Clinic Visits by County:</u>			
<u>Neighborhood Clinics:</u>			
Fulton	18,400	18,626	226
Dekalb	13,321	12,156	(1,165)
Other	3,151	2,971	(180)
Total NHC	34,872	33,753	(1,119)
<u>Other Hospital Clinics:</u>			
Fulton	51,480	44,548	(6,932)
Dekalb	21,879	24,991	3,112
Other	7,078	7,883	805
Total Hospital Clinics	80,437	77,422	(3,015)