

Evaluation of Going Concern  
December 31, 2023

**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:

- 2019 – \$29,776,000
- 2020 – \$135,838,000
- 2021 – \$120,984,000
- 2022 – \$9,302,000
- 2023 – \$176,786,000

b. Liquidity – Unrestricted Cash was \$368M as of 12/31/23 compared to \$213M as of 12/31/22. Days Cash on Hand for the last five years have been:

- 2019 – 64
- 2020 – 69
- 2021 – 56
- 2022 – 49
- 2023 – 75

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 and then again in July 2023 with the current expiration date of July 2024. No amounts were outstanding under these lines of credit as of December 31, 2023.
- Grady also has approx. \$1.7M payable in Capital Equipment Leases as of the end of 2023 and \$1.5M as of the end of 2022.
- Lastly, Grady has participated in four New Market Tax Credit (NMTC) Transactions as of 12/31/2023. Grady was able to carry debt on its books of approx. \$125M from 2015-2023.

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 25 years related to the FDHA lease and transfer agreement that was put in place 16 years ago.
- There is an obligation of payment on our capital leases of approx. \$1.2M in 2024, and our operating lease contracts equate to payment of approx. \$6.2M in 2024.
- One of our largest expenses other than payroll is to the Emory and Morehouse Schools of Medicine for professional fees, which in 2023 equated to approx. \$227M.
- When looking at our current ratio it has slightly decreased to 2.12 in 2023 compared to 2.15 in 2022.

c. Funds necessary to maintain operations in current condition:

- Grady ended the CY 2023 and with an operating margin of 7.0%.
- 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 continues to be high. We are working with a company called Guidehouse who began to assist us with this process in late 2022;
  - Care Coordination savings and revenue maximization;
  - Continuing efforts related to quality enhancement and variation reduction;
  - Continued efforts to maintain qualification for the State of Georgia's Advancing Innovation to Deliver Equity program (GA-AIDE) funds; and
  - In 2023, Grady identified four new locations for primary, specialty, and imaging care through Fulton and DeKalb counties. Phase I of the Cascade clinic opened in July of 2023 and the Phase II expansion will open in the summer of 2024. Cascade services will include primary care, specialty care, and rehab services. Lee & White clinic will provide primary care, specialty care, and access to mammography and will open in late summer 2024. The Candler Road clinic will provide primary care and is targeted to open in late 2024. The Flat Shoals clinic is being built from the ground up and will house primary care, mammography, CT, and ultrasound. The Flat Shoals location is scheduled to open in 2025.

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. The beds began to open in late 2023 and all beds will be fully up and running in 2024.
- Secured additional \$8M in funding from DeKalb County and additional \$12M in funding from Fulton County due to increased labor costs beginning with the COVID-19 pandemic and continuing into 2022. These funds were received in Q1 of 2023.
- Received approx. \$224M in 2023 from the State of Georgia's Advancing Innovation to Deliver Equity program (GA-AIDE) to increase our net revenue.
- Requested funding from FEMA and were successfully obligated approx. \$6M in 2023. We received the funds in Q1 of 2024 and we expect an additional approx. \$9M in FEMA funding to be received in 2024.

Q1 2024 Financial Results

January – March financials reflect a gain of approx. \$29M compared to the budget of \$17M and a prior year gain of approx. \$7M.

April 2024 onwards, we expect the following:

- We will continue to monitor our overall costs;
- We expect the clinics to open as scheduled and help us continue expanding access to healthcare;
- We also expect the additional beds to open and ease the burden of increased admissions;
- We will continue to focus our attention to help those patients in the areas that were discontinued by the closure of Atlanta Medical Center, primarily south of I-20;
- We will continue to give annual raises; and
- We will continue our collaboration with Fulton and DeKalb counties to secure appropriate funding.

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.