Grady

Memo to: Joy White, Chief Administrative Officer, FDHA
Zachary Williams, County Manager, Fulton County

From: Sue J. McCarthy, CFO

Re: Grady Memorial Hospital Corporation's 2009 Audited Financial Statements

Date: April 30, 2010

Attached is a copy of Grady's Audit Report for 2009. As you will note, Grady's financial position continues to improve although we still have very significant financial challenges ahead. I wanted to specifically point out that there were several significant nonrecurring positive items impacting Grady's operating margin in the audit report that were classified as non-operating in interim statements in an effort to better present an apples-to-apples comparison to prior year of true operating performance.

Specifically, one-time, non-cash gains reclassified in the audit as other (operating) revenue, include:

- a $15.9 million non-cash gain associated with Emory's resident FICA settlement for prior years which was retained by Emory to repay the delinquent debt
- a $5.9 million non-cash gain related to recording imputed interest on the notes payable with the medical schools

We greatly appreciate the continued support of the FDHA and Fulton County as we continue to strengthen the services and financial position of Grady so that we may continue to fulfill our mission. Please feel free to let me know if you have any questions regarding the audited financial statements.

04-30-10 11:20 RCV

KPMG

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2000
303 Peachtree Street, NE
Atlanta, GA 30308

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, 2009 and 2008, and the related combined statements of operations, changes in net assets, and cash flows for the year ended December 31, 2009 and seven months ended December 31, 2008. 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, 2009 and 2008, and the results of their operations, changes in their net assets, and their cash flows for the year ended December 31, 2009 and seven months ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2010 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 2009 audit.

KPMG LLP

April 29, 2010

RCVD

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Balance Sheets

December 31, 2009 and 2008

(In thousands)

Assets		2009	2008
Current assets:			
Cash and cash equivalents	$	15,798	—
Patient accounts receivable, less allowance for uncollectible accounts of $59,978 and $15,967 at December 31, 2009 and 2008, respectively		57,565	74,963
Grants receivable		17,191	13,533
Current portion of pledges receivable		82,063	40,455
Other current assets		55,181	20,097
Total current assets		227,798	149,048
Assets limited as to use		37,268	29,094
Property and equipment, net		280,073	214,901
Beneficial interest in net assets held by others		18,610	41,039
Pledges receivable, excluding current portion		87,127	140,690
Other assets		4,953	4,568
Total assets	$	655,829	579,340
Liabilities and Net Assets			
Current liabilities:			
Current portion of capital lease obligations	$	3,505	3,394
Current portion of notes payable		4,357	—
Line of credit		10,053	—
Accounts payable		19,471	22,143
Current portion of self-insurance reserves		9,599	7,983
Due to third-party payors		17,756	32,867
Due to Medical Schools		15,172	57,702
Other accrued expenses		74,685	72,830
Total current liabilities		154,598	196,919
Capital lease obligations, excluding current portion		37,680	41,165
Notes payable, excluding current portion		20,248	—
Self-insurance reserves, excluding current portion		35,179	32,544
Accrued postretirement benefit cost		41,111	40,212
Other long-term liabilities		13,293	6,225
Total liabilities		302,109	317,065
Net assets:			
Unrestricted		138,143	27,150
Temporarily restricted		203,693	221,175
Permanently restricted		11,884	13,950
Total net assets		353,720	262,275
Commitments and contingencies			
Total liabilities and net assets	$	655,829	579,340

See accompanying notes to combined financial statements.

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GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Statements of Operations

Year ended December 31, 2009
and seven months ended December 31, 2008

(In thousands)

	2009	2008
Revenue, gains, and other support:		
Net patient service revenue	$ 571,461	267,617
Contributions from Fulton and DeKalb Counties	75,654	45,377
Other revenue	120,069	59,678
Total revenue, gains, and other support	767,184	372,672
Expenses:		
Salaries and benefits	297,414	172,945
Supplies and other expenses	315,335	202,037
Interest	3,659	1,968
Depreciation and amortization	25,225	13,510
Provision for uncollectible accounts	91,215	10,590
Total expenses	732,848	401,050
Operating income (loss)	34,336	(28,378)
Nonoperating gains (losses):		
Investment income, net	1,209	1,321
Forgiveness of debt payable	3,415	20,000
Other	(1,581)	176
Total nonoperating gains, net	3,043	21,497
Revenue, gains, and other support in excess of (less than) expenses and losses	37,379	(6,881)
Accrued postretirement benefit cost adjustments	(493)	18,181
Net assets released from restriction used for the purchase of property and equipment	74,107	12,426
Contributions used for the purchase of property and equipment	—	1,432
Increase in unrestricted net assets	$ 110,993	25,158

See accompanying notes to combined financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Statements of Changes in Net Assets

Year ended December 31, 2009
and seven months ended December 31, 2008

(In thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets, June 1, 2008	$	1,992	35,440	13,950	51,382
Expenses and losses in excess of revenue, gains, and other support		(6,881)	—	—	(6,881)
Accrued postretirement benefit cost adjustments		18,181	—	—	18,181
Contributions		—	196,771	—	196,771
Net assets released from restriction used for the purchase of property and equipment		12,426	(12,426)	—	—
Contributions used for the purchase of property and equipment		1,432	—	—	1,432
Net assets released from restriction used for operations		—	(527)	—	(527)
Net change in beneficial interest in net assets held by others		—	1,917	—	1,917
Change in net assets		25,158	185,735	—	210,893
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		110,993	(17,482)	(2,066)	91,445
Net assets, December 31, 2009	$	138,143	203,693	11,884	353,720

See accompanying notes to combined financial statements.

GRADY MEMORIAL HOSPITAL CORPORATION AND AFFILIATE

Combined Statements of Cash Flows

Year ended December 31, 2009
and seven months ended December 31, 2008

(In thousands)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	91,445	210,893
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		25,225	13,510
Loss on disposal of property and equipment		2,574	—
Accrued pension cost adjustments		493	(18,181)
Net unrealized losses (gains) on investments		2,175	(120)
Provision for uncollectible accounts		91,215	10,590
Contributions used for the purchase of capital and equipment		(74,107)	(13,858)
Changes in operating assets and liabilities:			
Patient accounts receivable		(73,817)	(7,444)
Grants and pledges receivable		8,297	(181,145)
Other current assets		(35,084)	(3,182)
Other assets		(385)	(2,031)
Accounts payable and other accrued expenses		(11,674)	(45,246)
Due to third-party payors, net		(15,111)	13,619
Accrued postretirement benefit cost		406	(643)
Self-insurance reserves		4,251	(5,122)
Net cash provided by (used in) operating activities		15,903	(28,360)
Cash flows from investing activities:			
Purchase of property and equipment, net		(92,971)	(28,006)
Net change in assets limited as to use		(8,509)	497
Distribution of beneficial interest in net assets held by others		20,589	—
Net cash used in investing activities		(80,891)	(27,509)
Cash flows from financing activities:			
Principal repayments under capital lease obligations		(3,374)	(1,701)
Book overdraft		—	2,533
Cash proceeds from line of credit		10,053	—
Contributions used for the purchase of capital and equipment		74,107	13,858
Net cash provided by financing activities		80,786	14,690
Net change in cash and cash equivalents		15,798	(41,179)
Cash and cash equivalents, beginning of period		—	41,179
Cash and cash equivalents, end of period	$	15,798	—
Supplemental disclosures of cash flow information:			
Cash paid for interest	$	3,562	1,968
New capital lease obligations during the period		—	3,106

See accompanying notes to combined financial statements.

(1) Organization, Business, and Summary of Significant Accounting Policies

Grady Memorial Hospital Corporation (the System) is a 501(c)(3) not-for-profit health system formed on March 17, 2008, which subsequently entered into a Lease and Transfer Agreement (the Agreement) between the System and The Fulton-DeKalb Hospital Authority (the Authority). The System, located in Atlanta, Georgia, comprises Grady Memorial Hospital (the largest teaching hospital in the state, licensed for over 900 beds), Hughes Spalding Children's Hospital, eight free-standing primary care clinics, and other significant healthcare facilities and services consistent with an integrated delivery and medical education system serving a major metropolitan area. The System is the principal safety-net healthcare provider for the Atlanta metropolitan area, and maintains the sole Level I trauma center for the region.

Effective June 1, 2008, the System entered into the Agreement with the Authority. Because the System had no assets, liabilities, or operations until that date, for accounting purposes, the effective date of the Agreement is considered the inception date of the System. The key terms and conditions associated with the Agreement follow:

- The System will make monthly lease payments to the Authority, totaling $2.5 million in the initial year of the Agreement, and increasing each year by an amount generally measured by inflation in the published Consumer Price Index, not to exceed 3%, for an initial term of 40 years.
- The System will assume liabilities of the Authority related to its former operation of Grady Memorial Hospital and related facilities.
- In exchange for the lease payments and assumption of liabilities, the Authority will transfer to the System all of the Authority's right, title, and interest in the operating assets of Grady Memorial Hospital and related facilities.
- The System is appointed the agent for the Authority with respect to pre-existing Operating Agreements among the Authority, Fulton County, and DeKalb County. The Operating Agreements define the obligations of the Authority with respect to (principally) the provision of indigent care to the citizens of Fulton and DeKalb Counties (the Counties), in exchange for related ongoing funding that the Counties provide. The Authority is obligated to remit directly to the System all such funds the Authority receives from the Counties.

Certain assets and obligations of the Authority were excluded from the Agreement. In particular, the Authority retained certain assets and obligations related to (a) its sponsorship of The Fulton-DeKalb Hospital Authority Employee Pension Plan (the Plan – a frozen plan effective May 19, 2008) and (b) pre-existing Authority hospital revenue bond issues.

The Authority has defined obligations within the Agreement related to how it will apply the lease payments to its own obligations. A portion of the lease payments is to be applied to the Authority's ongoing funding of the Plan, and the Agreement requires that the System fund any shortfall between required Plan funding and available funds from the lease payments. Should there be an excess of lease payments over the Authority's bona fide operating costs and pension obligations, such excess must be returned to the System. The Authority may not carry over excess funds from year to year.

The System's acquisition of assets and assumption of liabilities under the Agreement was accounted for as a purchase in the accompanying combined financial statements. The System has recognized a capital lease obligation for the lease payments (excluding any future CPI adjustments), which were discounted at

7.24%, representing management's best estimate of a fair value rate that might be available to the System on a nonenhanced credit basis. Other acquired assets and assumed liabilities were recognized at their respective fair values.

Because any future funding obligations of the System for the Plan are currently indeterminable, those payments (if any) are accounted for on a "pay-as-you-go" basis and recognized currently in expense as invoiced from the Authority. During the year ended December 31, 2009 and seven months ended December 31, 2008, the System has recognized approximately $3.6 million and $4.0 million, respectively, in expense associated with its pension funding obligation as described herein. At December 31, 2009 and 2008, the System has an accrual for this obligation totaling approximately $5.5 million and $4.5 million, respectively, which is included in other accrued expenses in the accompanying combined balance sheets.

The Agreement subjects the System to a number of commercially typical covenants, principally related to continuance of mission as a safety-net hospital system, maintenance of facilities, and financial and other reporting, including the System's obligation to deliver audited financial statements within 120 days of year-end.

The significant accounting policies used by the System in preparing and presenting its combined financial statements follow:

(a) Principles of Combination

The accompanying combined financial statements include the accounts of the System and the Henry W. Grady Memorial Foundation, Inc. (the Foundation). All significant intercompany accounts and transactions are eliminated in combination.

(b) Use of Estimates

The preparation of combined financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, estimated third-party payor settlements, and the actuarially determined benefit liability related to the System's postretirement benefit plan. In addition, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks, and investments in highly liquid debt instruments with maturities of three months or less when purchased, excluding amounts limited as to use.

(d) Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying combined balance sheets. Investment income items (including unrealized gains and losses on trading investments, realized gains and losses on sales of investments, interest, and dividends) are included in revenues, gains, and other support in excess of (less than) expenses and losses unless the income or loss is temporarily or permanently restricted by donor or law.

The System has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820 - *Fair Value Measurements and Disclosures*. ASC 820 establishes an enhanced framework for measuring fair value and expands disclosures about fair value measurements.

In accordance with ASC 820, the System has categorized its financial instruments, based on the priority of inputs used in related valuation techniques, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

All of the System's investments, including assets limited as to use, are categorized as Level 1 at both December 31, 2009 and 2008.

(e) Assets Limited as to Use

Assets limited as to use include assets for self-insurance funding arrangements, assets designated under grant agreements, assets designated by the board of directors for capital expansion, and assets restricted by donors.

(f) Inventory

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or market.

(g) Property and Equipment

Property and equipment transferred to the System under the terms of the Agreement are stated at fair value at the date of transfer. Property and equipment acquired subsequently are stated at cost, with the exception of donated items, which are stated at fair value at the date of donation. Equipment held under capital lease obligations is initially recorded at the present value of minimum lease payments. Provisions for depreciation are computed using the straight-line method based on the estimated useful lives of the assets. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the estimated useful life or the lease term, and such amortization is included in depreciation and amortization in the accompanying combined statements of operations.

(Continued)

A summary of depreciable lives follows:

Land improvements	3 – 8 years
Buildings and improvements	5 – 40 years
Machinery, equipment, and vehicles	3 – 20 years

Gifts of long-lived assets such as property and equipment are excluded from expenses and losses in excess of revenue, gains, and other support and are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Contributions restricted to the purchase of property and equipment, which restrictions are met within the same year as received, are reported as increases in unrestricted net assets in the accompanying combined financial statements.

The System capitalizes interest cost on qualified construction and development projects as a component of the cost of the related projects.

(h) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System is restricted by the donor to a specific time period or purpose. Permanently restricted net assets are those that have been restricted by donors to be maintained in perpetuity. Permanently restricted net assets consist primarily of the System's beneficial interest in the Margaret Mitchell Trust that is held by the Authority. All of the earnings of the trust are donor-restricted for the System's use in providing indigent and charity care.

(i) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments (if necessary) due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

(j) Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(k) Revenue, Gains, and Other Support in Excess of (Less Than) Expenses and Losses

The combined statements of operations include revenue, gains, and other support in excess of (less than) expenses and losses. Changes in unrestricted net assets, which are excluded from revenue, gains, and other support in excess of (less than) expenses and losses (to the extent applicable in any particular year), include certain postretirement benefit plan accounting adjustments, and net assets released from restrictions used for purchase of property and equipment.

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

(l) *Contributions*

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the underlying condition is satisfied by the System or the date the donor's intention to give becomes a promise to give. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

(m) *Asset Retirement Obligations*

The System recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the System capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the recorded liability is recognized as a gain or loss in the combined statement of operations.

(n) *Impairment of Long-Lived Assets*

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized to the extent that the carrying amount of an asset exceeds its fair value. Assets to be disposed of are separately presented in the accompanying combined balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are presented separately in the asset and liability sections of the accompanying combined balance sheets. In the period in which the disposal group is sold or classified as held-for-sale, the results of its operations are classified in the accompanying combined statements of operations as discontinued operations in the current and prior period.

(Continued)

(o) Income Taxes

The System has been recognized by the Internal Revenue Service as exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3), and therefore, related income is generally not subject to federal or state income taxes. The Foundation has been similarly recognized.

On January 1, 2009, the System adopted FASB ASC 740 - *Income Taxes*, in accounting for uncertainty in income taxes. ASC 740 provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There was no impact on the System's combined financial statements as a result of the adoption of ASC 740.

(p) Postretirement Benefit Plan

The System has adopted the recognition, disclosure, and measurement date provisions of FASB ASC 715 - *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. ASC 715 requires that the System recognize the unfunded status of its postretirement benefit plan on its combined balance sheet. The System measures the Plan at December 31 each year.

(q) New Subsequent Event Accounting Standard

FASB ASC 855 - *Subsequent Events*, introduces the concept of financial statements being "available to be issued," and requires disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the combined financial statements were issued or were available to be issued. ASC 855 does not result in significant changes to subsequent events that are reported either through recognition or disclosure in the combined financial statements, and the System has evaluated subsequent events through April 29, 2010, the date the combined financial statements were issued.

(r) Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

(2) Principal Safety Net Healthcare Provider – Implications for the System

The System's creation was driven by the strategic vision of local business and community leaders who recognized the overriding importance of Grady Memorial Hospital in providing appropriately accessible healthcare for the indigent and other potentially under-served populations in the region. In short, the vision is founded on a deep desire to ensure that the System can both survive and thrive in an increasingly competitive and challenging healthcare industry environment. The System's ability to continue its mission on a long-term sustainable basis is a critical benefit to the citizens of both metropolitan Atlanta and the state of Georgia.

As indicated in note 1, the System is the principal safety-net healthcare provider for the Atlanta metropolitan area. Additionally, because the System is the sole Level I trauma center for the region (and for other reasons unique to the System), it also has significant patient volumes from outside of the metropolitan area. Finally, the System is the largest medical education platform in Georgia. Given all of those factors, the System's payor mix is dominated by care to the uninsured and underinsured. The financing of the System's care for this critical population is provided through two key sources:

- Funding from the Counties, as described in note 1, which totaled approximately $75.7 million and $80.3 million for the 2009 and 2008 calendar years, respectively.
- Funding from the combined state/federal Medicaid disproportionate share program (referred to in Georgia as the Indigent Care Trust Fund, or ICTF), which totaled approximately $78.4 million and $84.5 million for the 2009 and 2008 calendar years, respectively.

The System is wholly dependent on the two financing sources described above to provide net cash from operations at levels sufficient to fund the System's operating activities in a fashion consistent with its mission. Any material reduction in funds from these two financing sources would have a materially adverse impact on the System's financial results. Management recognizes the risks inherent in the System's dependence on these financing sources.

As previously noted, the System is the legal agent for the Authority's obligations to the Counties regarding the provision of indigent care to the Counties' citizens, under the terms of continuing Operating Agreements that obligate the Counties to fund the cost of that care according to certain defined criteria. To further clarify Fulton County's obligations (which have historically represented the significant majority of related funding), the Authority and Fulton County entered into a Memorandum of Understanding (the MOU), which effectively further memorializes the financial obligation of Fulton County under the Operating Agreements. System management views the MOU as an important additional level of confirmation ensuring that funding it receives from the Counties will continue at levels reasonably consistent with the services the System provides to the Counties' citizens. Nevertheless, funding under the Operating Agreements (as supplemented by the MOU) is necessarily subject to political and related implications arising from the Counties' budgeting and related processes, and therefore there are no guarantees regarding future funding amounts beyond the commitments evidenced in the Operating Agreements.

Under the provisions of the ICTF program, the System contributes funds to be used by the state in the Medicaid program that are then supplemented by federal funds, the aggregate of which are often referred to as combination dollars. The combination dollars are returned to the System as additional Medicaid inpatient reimbursement. The state Medicaid program is funded on a state fiscal year basis (the state maintains a June 30 fiscal year-end). As of December 31, 2009 and 2008, the System has been approved to participate in the state fiscal 2011 ICTF program; the state fiscal 2012 ICTF program plan terms have not been finalized. Because of the importance of the ICTF funding to the System, management maintains routine contact with state Medicaid officials and has no reason to believe that the System's participation in the state fiscal 2012 ICTF program will be meaningfully different from the System's historical participation. Nevertheless, there can be no assurance that the specific funding levels associated with the System's future participation in this program will be maintained at or near historical levels, or that the program will not ultimately be discontinued or materially modified. Interim distributions of approximately half of the annual ICTF funding are typically disbursed in December of each year. In 2009, this payment was delayed and $39.6 million remains outstanding at December 31, 2009.

The System's funding contribution to the ICTF program has historically been facilitated by a specific line-of-credit financing arrangement with a commercial bank. On August 7, 2009, the System obtained an amendment to the commitment letter dated June 22, 2009 from the bank, which is expected to fully enable the System's funding contribution.

Significant operational improvements have been achieved since the formation of the System and management remains focused on continuing to improve operational efficiencies and growing revenue.

An important goal in the creation of the System was the solicitation of contributions from community donors who had previously not provided Grady Memorial Hospital with significant funds. To that end, the System has received multiple commitments totaling approximately $300 million for contributions to support the System's significant need to improve its capital asset base through December 31, 2009. In particular, The Woodruff Foundation has formally committed $200 million over five years to the System for capital improvements. These funds have been, and will be, directed to a number of important capital asset needs, including major clinical equipment upgrades and new information technology systems. These capital asset additions will support the System's important strategic goals of improving clinical quality, attracting commercial and other insured patients, giving physicians and other clinicians clinical equipment that is consistent with current standards of care, and creating support systems that will optimize effectiveness and efficiency in both clinical and nonclinical information reporting.

The System's ability to continue to pursue its safety net mission in a fashion consistent with otherwise-comparable institutions serving major metropolitan areas is dependent on a number of factors, the most important of which have been described above. A reasonably assured funds flow from the Counties, continued participation in the ICTF program at legacy levels, achievement of continued operational improvement strategies, and enhanced community fund-raising support are all vital to the System's mission. Management believes that the System is well-positioned against the critical dependencies previously described, but also notes that any material variance from the System's expectations in each of these areas would have an associated material adverse effect on financial condition and results of operations.

Healthcare reform legislation, signed by the President in April 2009, is complex and far-reaching, possibly representing the most dramatic set of changes to the U.S. healthcare system since the advent of the Medicare program. Additionally, there are other transformative dynamics in the healthcare industry that pre-dated the signing of reform legislation that will also impact the System. The System's management is actively evaluating the impact of reform legislation and other important transformative factors, but is unable to predict currently what, if any, impact (positive or negative) such matters might have on the System.

(3) Other Current Assets

The composition of other current assets follows:

		December 31	
		2009	2008
		(In thousands)	
Prepaid expenses	$	5,653	5,338
Inventories		7,663	7,453
Due from Indigent Care Trust Fund		39,613	3,277
Other current assets		2,252	4,029
	$	55,181	20,097

(4) Assets Limited As To Use

The composition of assets limited as to use follows:

		December 31	
		2009	2008
		(In thousands)	
Internally designated for capital acquisition and other:			
Cash and cash equivalents	$	1,571	4,615
Mutual funds		1,297	2,427
Corporate and other bonds		672	580
		3,540	7,622
Held by trustee under escrow agreements:			
Cash and cash equivalents		1,219	908
U.S. government and agency bonds		35	72
		1,254	980
Held by trustee under self-insurance programs:			
Cash and cash equivalents		23	10
U.S. government and agency bonds		905	920
		928	930
Insurance guaranty trust fund:			
Cash and cash equivalents		7,862	6,621
Limited by donor for specific purposes:			
Cash and cash equivalents		20,013	10,022
Mutual funds		3,671	2,919
		23,684	12,941
Totals	$	37,268	29,094

(Continued)

The composition of investment income follows:

	Year ended December 31, 2009	Seven months ended December 31, 2008
	(In thousands)	
Interest and dividends	$ 736	1,801
Realized gains (losses) on sales of investments	85	(600)
Net unrealized gains on investments	388	120
	$ 1,209	1,321

(5) Property and Equipment

A summary of property and equipment follows:

	December 31	
	2009	2008
	(In thousands)	
Land and land improvements	$ 2,638	2,451
Buildings and fixtures	191,247	155,888
Equipment	95,387	57,786
	289,272	216,125
Less accumulated depreciation and amortization	46,339	13,612
	242,933	202,513
Construction in progress	37,140	12,388
	$ 280,073	214,901

Construction in progress at December 31, 2009 and 2008 principally consists of expenditures related to renovation of existing facilities. These projects are currently planned for completion in fiscal 2010 at an estimated total remaining cost to complete of approximately $99.4 million.

Equipment under capital lease obligations at December 31, 2009 and 2008, exclusive of amounts held under the Agreement, is approximately $11.2 million and $13.1 million, respectively. Related accumulated amortization at December 31, 2009 and 2008 is $3.0 million and $2.1 million, respectively.

(6) Pledges Receivable

Pledges receivable are due as follows:

		December 31 2009	December 31 2008
		(In thousands)	
Less than one year	$	82,063	40,455
One to five years		94,061	150,300
		176,124	190,755
Less unamortized discounts ranging from 2.2% to 3.4% in 2009 and 3.4% in 2008		6,644	9,610
Less allowance for doubtful pledges		290	—
	$	169,190	181,145

(7) Other Accrued Expenses

The composition of other accrued expenses follows:

		December 31 2009	December 31 2008
		(In thousands)	
Accrued salaries and benefits	$	29,518	22,174
Authority pension plan funding obligation		5,483	4,481
Current portion of accrued postretirement benefit cost		2,771	3,203
Other accrued expenses		36,913	42,972
	$	74,685	72,830

(8) Notes Payable

During 2009, the System entered into separate agreements with Emory University and Morehouse School of Medicine to convert certain accounts payable then due under healthcare services contracts (as described further in note 15) to long-term debt. Amounts outstanding are reflected as notes payable in the accompanying combined balance sheets and consist of the following:

	December 31	
	2009	2008
	(In thousands)	
Note payable to Emory University, payable in monthly installments of $268,000, including imputed interest at approximately 6.3% per annum. Final payment is due on December 31, 2016	$ 22,546	—
Note payable to the Morehouse School of Medicine, installments of $95,000, including imputed interest at approximately 6.3% per annum. Final payment is due on December 31, 2016.	7,956	—
	30,502	—
Less allowance for interest	5,897	—
Less current installments	4,357	—
Notes payable, less current installments	$ 20,248	—

(9) Self-Insurance Programs

The System is self-insured for its general and professional liability insurance coverages. The System's self-insured retention is $5 million per claim. Commercial insurance has been obtained to provide for coverage in excess of the System's self-insured retention limits on a claims-made basis.

The general and professional self-insurance reserves included in the accompanying combined balance sheets, totaling $36.2 million and $34.4 million at December 31, 2009 and 2008, respectively, include estimates of the ultimate costs for both reported claims and claims incurred but not reported. The System has employed independent actuaries to estimate the ultimate costs of the settlement of such claims. Accrued general and professional liability reserves have been discounted at 3.5% at both December 31, 2009 and 2008.

The System is self-insured for its workers' compensation liability exposures up to limits of $350,000 per claim. Commercial insurance has been obtained to provide for excess workers' compensation liability coverage. The related amounts recorded by the System in the accompanying combined balance sheets totaled $7.3 million and $6.1 million at December 31, 2009 and 2008, respectively. Accrued workers' compensation is recorded on an undiscounted basis in the accompanying combined financial statements.

Beginning in 2009, the System sponsors a self-insured program for its employee health benefits up to limits of $250,000 per claim. The System recognized related reserves of approximately $1.3 million in the accompanying 2009 combined balance sheet. The reserves include estimates of the ultimate cost for claims incurred but not reported through December 31, 2009.

In the opinion of management, adequate provision has been made for losses that may occur from the asserted and unasserted claims for each of these self-insurance programs.

(10) Net Patient Service Revenue

The System has agreements with governmental and other third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts paid by third-party payors. A summary of payment arrangements with major third-party payors follows:

Medicare – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based upon cost reimbursement or other retroactive-determination methodologies. Payments for cost reimbursable items are made at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. The Hospital's cost reports have been audited and settled for all fiscal years through 2005. Revenue from the Medicare program accounted for approximately 32% and 30% of the System's net patient service revenue for the year ended December 31, 2009 and seven months ended December 31, 2008, respectively.

Medicaid – Inpatient services rendered to Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the state of Georgia. Certain types of exempt services and outpatient services related to Medicaid beneficiaries are paid based upon cost reimbursement or other retroactive-determination methodologies. Payments for cost reimbursable items are made at tentative rates, with final settlement determined after submission of annual cost reports by the System and audits by the Medicare fiscal intermediary. The Hospital's cost reports have been audited and settled for all fiscal years through 2005. Revenue from the Medicaid program accounted for approximately 38% and 40% of the System's net patient service revenue for the year ended December 31, 2009 and seven months ended December 31, 2008, respectively. The System also contracts with certain managed care organizations to receive reimbursement for providing services to Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diem rates.

As described in note 2, the System participates in the state ICTF program (which for purposes of disclosure here also includes the System's participation in an ancillary program referred to as the Upper Payment Limit program). Net amounts received from the ICTF program are recognized as additional Medicaid inpatient reimbursement and, therefore, are reflected in net patient service revenue. The related net reimbursement benefit recognized by the System for the year ended December 31, 2009 and seven months ended December 31, 2008 was approximately $85.3 million and $53.6 million, respectively. The fact that the System's fiscal year-end differs from the state fiscal year also drives certain timing differences in terms of ICTF funds both received and to be received, and therefore the System has recognized a receivable from the ICTF in the accompanying

December 31, 2009 and 2008 combined balance sheets totaling approximately $39.6 million and $3.3 million, respectively.

The System has also entered into other reimbursement arrangements providing for payment methodologies, which include prospectively determined rates per discharge, prospectively determined per diem amounts, and discounts from established charges.

With respect to reserves for third-party payor cost report audits and anticipated settlements, the System routinely provides such reserves through initial audit and final settlement of the cost reports. The System has historically provided such reserves in recognition of the complexity of relevant reimbursement regulations and the volatility of related settlement processes. In any event, the System's estimates in this area will differ from actual experience, and those differences may be material.

The composition of net patient service revenue (excluding charity care) follows:

		Year ended December 31, 2009	Seven months ended December 31, 2008
Gross patient service revenue	$	1,307,376	598,270
Less provisions for contractual and other adjustments		735,915	330,653
Net patient service revenue	$	571,461	267,617

As further described in both notes 1 and 2, the System is the principal safety net healthcare provider for the Atlanta metropolitan area. Additionally, the System receives material funding from the Authority to finance in part its safety net mission with respect to the citizens of both Fulton and DeKalb Counties. Regarding these mission-critical services, the System maintains records to identify and monitor the level of charity care it provides, including the amount of charges foregone for services furnished under its charity care policies. Charges foregone, measured at established rates, were approximately $437.9 million and $234.3 million for the year ended December 31, 2009 and seven months ended December 31, 2008, respectively.

The System also incurs significant cost associated with care for the under and uninsured that do not apply and/or qualify for charity care assistance. The System incurred bad debt expense of approximately $91.2 million and $10.6 million for the year ended December 31, 2009 and the seven months ended December 31, 2008, respectively.

(11) Employee Benefits Plans

(a) Postretirement Medical Plan

The System provides retiree medical benefits covering all employees of the System who previously retired at age 55 or older with at least 10 years of service. During the seven months ended December 31, 2008, the System amended this plan to limit availability of retiree medical benefits to current employees aged 50 or older on September 4, 2008 and who retire at age 62 or older with at least 10 years of service. The cost of providing most of these benefits is shared with the retirees. The plan is unfunded, and therefore the System's participation is on a "pay-as-you-go" basis.

The changes in the accumulated postretirement benefit obligation (APBO) during the year ended December 31, 2009 and seven months ended December 31, 2008 follow:

		December 31	
		2009	2008
		(In thousands)	
APBO, beginning of year	$	43,415	60,427
Service cost		1,430	1,309
Interest cost		2,473	1,921
Plan participant contributions		1,397	856
Benefits paid		(3,315)	(2,247)
Actuarial (gain) loss		(1,518)	1,261
Plan amendments		—	(20,112)
APBO, end of year	$	43,882	43,415

The amounts recognized in the accompanying combined balance sheets follow:

		December 31	
		2009	2008
		(In thousands)	
Current liabilities	$	2,771	3,203
Long-term liabilities		41,111	40,212
Net amount recognized	$	43,882	43,415

The amounts accumulated in unrestricted net assets follow:

		December 31	
		2009	2008
		(In thousands)	
Prior service credit	$	(17,432)	(19,443)
Net (gain) loss		(256)	1,262
	$	(17,688)	(18,181)

The total amount of prior service cost (credit) and actuarial net loss expected to be amortized into net periodic postretirement benefit cost in 2010 is a net credit of $2.0 million.

(Continued)

Weighted average assumptions used to determine benefit obligations in the accompanying combined balance sheets follow:

	December 31	
	2009	2008
Discount rate	5.90%	6.20%
Rate of compensation increases	N/A	N/A

The components of net periodic postretirement benefit cost, which is included in salaries and benefits, follow:

	Year ended December 31, 2009	Seven months ended December 31, 2008
	(In thousands)	
Service cost	$ 1,430	1,309
Interest cost	2,473	1,921
Amortization of prior service credit	(2,011)	(670)
Net periodic postretirement benefit cost	$ 1,892	2,560

Weighted average assumptions used to determine net periodic postretirement benefit cost follow:

	Year ended December 31, 2009	Seven months ended December 31, 2008
Discount rate	6.20%	7.00%/6.75%*
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increases	N/A	N/A

* 6.75% used at plan amendment remeasurement.

Assumed healthcare cost trend rates follow:

2010	7.50%
2011	7.00
2012	6.50
2013	6.00
2014	5.50
2015 and thereafter	5.00

(Continued)

Assumed healthcare cost trend rates can have a significant effect on amounts reported for postretirement healthcare benefits. A 1% increase in the healthcare cost trend rate would increase the APBO by approximately $5.5 million and increase interest and service cost by approximately $570 thousand. A 1% decrease in the healthcare cost trend rate would decrease the APBO by approximately $4.7 million and reduce interest and service cost by approximately $470 thousand.

Expected Future Benefit Payments

The following benefit payments are expected to be paid (in thousands):

2010	$	2,771
2011		2,940
2012		2,936
2013		2,978
2014		2,998
2015 – 2019		18,153

(b) Defined Contribution Savings Plan

The System sponsors a defined contribution savings plan, which covers substantially all of its employees. Total matching contributions made and accrued under the savings plan totaled approximately $7.9 million and $851,000 for the year ended December 31, 2009 and seven months ended December 31, 2008, respectively.

Beginning January 1, 2009, the deferred retirement savings program changed from the previous 403(b) plan sponsored by the Authority to a 401(k) Plan sponsored by the System. The System matches employee contributions dollar for dollar up to 4% of eligible employees' base compensation after completion of one year of eligible service. Employees are immediately fully vested in matching contributions. Under the new plan, an employer discretionary nonelective provision exists whereby the System also may contribute at its discretion up to 2% of the eligible employees' annual based compensation. Eligible employees are not obligated to have made voluntary contributions to be eligible for the nonelective discretionary 2% contribution. Eligible employees vest in the 2% nonelective contributions at a rate of 20% per year over five years of service to attain 100% vesting after completion of year five, including credit for service rendered prior to December 31, 2008.

(12) Leases

As previously described in note 1, the Agreement was determined to be a capital lease obligation under relevant accounting literature. Additionally, the System has also entered into certain noncancelable medical equipment leases, determined to be capital lease obligations under relevant accounting literature, which expire at various dates through 2013. Future minimum payments under these capital lease obligations at December 31, 2009 follow (in thousands):

	The Agreement	Other
Payable in fiscal year:		
2010	$ 2,500	3,594
2011	2,500	2,892
2012	2,500	1,211
2013	2,500	553
2014	2,500	—
Thereafter	83,542	—
	96,042	8,250
Less interest cost	62,649	458
Less current portion	177	3,328
	$ 33,216	4,464

The System has also entered into certain noncancelable leases for office space and office equipment, determined to be operating leases under relevant accounting literature, which expire at various dates through 2019. Total rent expense recognized for the year ended December 31, 2009 and seven months ended December 31, 2008 was approximately $4.1 million and $3.0 million, respectively, principally for building and equipment rentals.

Future minimum payments due under noncancelable operating leases as of December 31, 2009 follow (in thousands):

Payable in fiscal year:	
2010	$ 1,343
2011	697
2012	692
2013	715
2014	706
Thereafter	1,437
	$ 5,590

(13) Business and Credit Concentrations

The System grants credit to patients, substantially all of whom reside in the System's service area. The System generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their

(Continued)

health insurance programs, plans, or policies (e.g., Medicare, Medicaid, preferred provider arrangements, and commercial insurance policies).

The composition of the System's net accounts receivable balance by payor type follows:

	December 31	
	2009	2008
Medicare	19%	16%
Medicaid	33	30
Commercial and other third-party payors	38	35
Patients	10	19
	100%	100%

(14) Fair Value of Financial Instruments

The carrying amounts of all applicable asset and liability financial instruments reported in the accompanying combined balance sheets approximate their estimated fair values, in all significant respects, at December 31, 2009 and 2008. Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

(15) Affiliation with Medical Schools

The System serves as the largest teaching hospital in the state of Georgia. In that respect, the System has contracts with both Emory University (Emory) and the Morehouse School of Medicine (Morehouse) (collectively, "the Medical Schools"), wherein practicing interns and residents of the Medical Schools form the "house medical staff" for the System. The Medical Schools are compensated for the services of these physicians based on certain formulas, which are generally tied to the number of full-time intern and resident equivalents practicing at the System and the equivalent salaries of comparable healthcare professionals. Additionally, the System has agreed to fund other costs specifically associated with the ongoing provision of physician services by the Medical Schools, including the cost of professional liability exposures and the funding of intergovernmental transfers to enable the receipt of related Medicaid program revenue enhancements for physician services billed by the Medical Schools. The current contracts expire on June 30, 2013 for both Emory and Morehouse. Total expense for direct physician services under these contracts totaled approximately $83.4 million and $44.6 million for the year ended December 31, 2009 and seven months ended December 31, 2008, respectively, and is reported in other expenses in the accompanying combined statements of operations.

While the contracts with the Medical Schools call for monthly settlement of the System's costs under the contracts, the ongoing financial challenges associated with the System's overall mission (as described further in both notes 1 and 2) resulted in the accumulation, over a period of time, of payment delinquencies under the contracts. In recognition of the unique challenges it faces and in the spirit of community support the System has engendered, the Medical Schools agreed to forego a portion of the amounts due under their contracts with the System. Emory forgave approximately $3.2 million and approximately $20.0 million and Morehouse forgave approximately $202,000 and $0, during the year ended December 31, 2009 and during the seven months ended December 31, 2008, respectively, in amounts previously due and unpaid under their respective contracts with the System. This forgiveness of debt is reported as a nonoperating gain in the accompanying combined statements of operations for the year ended December 31, 2009 and seven months ended December 31, 2008.

A portion of supplemental Medicaid funding received by the System has historically been passed through to Morehouse to support Morehouse's medical education programs. Supplemental Medicaid funding of $39.5 million and $22.6 million received by the System in 2009 and 2008, respectively, was provided to Morehouse, in addition to contractual support provided for professional services.

During 2009, the System was notified by Emory that the Department of Justice Tax Review Division had settled Emory's request for a refund of certain prior year's FICA taxes remitted for Emory's medical residents and fellows, a number of whom (as previously noted) serve as System house staff under related contractual agreement. The System received and recognized approximately $15.9 million in other operating income in the accompanying combined statement of operations for the year ended December 31, 2009.

(16) Other Related Parties

Hughes Spalding Operating Company, Inc.

With the execution of the Agreement (note 1), Hughes Spalding Operating Company, Inc. (HSOC) committed to a total of $15 million of donated capital for capital improvements to Hughes Spalding. The System has a contract with HSOC, a nonprofit affiliate of Children's Healthcare of Atlanta (CHOA), whereby HSOC provides certain management, administrative, and related services to Hughes Spalding Children's Hospital (Hughes Spalding) for an initial term of 15 years beginning February 2006. The contract requires that Hughes Spalding operate under the name "Children's Healthcare of Atlanta at Hughes Spalding." HSOC is responsible for the costs of operating Hughes Spalding. The System has a commitment of $2 million of specific annual support for the operation of Hughes Spalding and CHOA has a matching support commitment of $2 million annually. Additionally, the System and CHOA are each responsible for 50% of the Hughes Spalding "Excess/Deficit" (as defined) up to a total of $2 million annually per organization, not to exceed $4 million in any successive rolling three-year period. The System maintains ownership of Hughes Spalding, including ownership of Hughes Spalding's certificate of need, licensure, and provider agreements. The System memorialized support for Hughes Spalding totaling $2 million and $1.2 million during the year ended December 31, 2009 and seven months ended December 31, 2008, respectively, in fulfilling its annual support commitment. Hughes Spalding also received $2 million from CHOA related to its annual commitment of $2 million, as well as $2 million related to capital support during the year ended December 31, 2009 and $1.2 million from CHOA related to its annual commitment of $2 million, as well as $1.4 million related to capital support during the seven months ended December 31, 2008.

The management agreement also gives CHOA the right to acquire Hughes Spalding, subject to a lease/purchase negotiation with the System and other terms and conditions. Any such option, if elected, contemplates a reversionary interest on the part of the System and other System involvement in HSOC's potential ownership of Hughes Spalding, which would be subject to additional negotiation as well. The agreement also contemplates that, given the $15 million in original donations by HSOC and other ongoing consideration under the agreement as described above, there would be no further economic consideration required in the exercise of the HSOC option. Given the significant uncertainties associated with the potential future exercise of the HSOC option, there is no current recognition of the option in the System's combined financial statements.

Fulton-DeKalb Hospital Authority

During the year ended December 31, 2009 and the seven months ended December 31, 2008, $2.5 million and $1.4 million, respectively, of lease payments were provided to the Authority in accordance with the Agreement. As required by the Agreement, at the conclusion of the first "lease year" ended May 31, 2009, excess funds of $0 million were applied toward the Authority's pension obligation and excess funds in the amount of $1.1 million have yet to be applied as of December 31, 2009. The Authority provided $452,000 and $157,000 in funds released from restriction held on behalf of the System in 2009 and 2008, respectively.

(17) Asset Retirement Obligations

The System's asset retirement obligations arise primarily from contractual commitments to remove asbestos in System facilities at the time of major renovation or demolition and to restore leased property, at the end of the lease term, to its condition at inception of the lease.

The following table presents the activity for the asset retirement obligations and additional cost basis of related assets for the year ended December 31, 2009 and seven months ended December 31, 2008:

	December 31	
	2009	2008
	(In thousands)	
Balance at beginning of year	$ 1,171	1,125
Accretion expense	85	46
Balance at end of year (included in other long-term liabilities)	$ 1,256	1,171

		December 31 2009	December 31 2008
		(In thousand)	
Additional cost basis	$	103	103
Accumulated depreciation		(6)	(2)
Cost basis, net (included in property and equipment)	$	97	101

(18) Line of Credit

The System has historically maintained a line-of-credit facility with a commercial bank, which serves as bridge financing for the System's intergovernmental transfer (IGT) funding requirements for the ICTF program (notes 2 and 9) and as a general revolving working capital facility. On August 7, 2009, the System executed an amendment to its prior commitment letter dated June 22, 2009 with the bank for renewal of the facility for the upcoming annual ICTF program cycle, and therefore, the new facility currently expires August 6, 2010. The working capital component generally provides $10 million of non-IGT funding capacity, while the ICTF program component generally flexes with the required amount of IGT funding. In total, the facility is currently estimated at $50 million. Approximately $10 million was outstanding under the facility at December 31, 2009, and no amounts were outstanding at December 31, 2008.

The ICTF program component is repaid with the receipt of related program funds by the System, and reduces to zero as the System's IGT funding requirements for the current program year are met. Amounts outstanding under the working capital and ICTF program components accrue interest at LIBOR plus 240 basis points and 170 basis points, respectively. The working capital component carries a 20 basis point commitment fee on the unused line, while the ICTF program component carries a commitment fee of 10 basis points against each associated draw. The facility matures 364 days from closing.