

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.



FINANCIAL STATEMENTS

for the years ended July 31, 2016 and 2015

## C O N T E N T S

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Phoebe Putney Memorial Hospital, Inc.  
Albany, Georgia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Phoebe Putney Memorial Hospital, Inc. (Corporation), which comprise the balance sheets as of July 31, 2016 and 2015, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoebe Putney Memorial Hospital, Inc. as of July 31, 2016 and 2015, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Draffin + Tucker, LLP*  
Albany, Georgia  
December 7, 2016

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

BALANCE SHEETS, July 31, 2016 and 2015

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 49,285	\$ 49,636
Patient accounts receivable, net of allowance for doubtful accounts of \$34,000,000 in 2016 and \$30,000,000 in 2015	97,898	97,157
Supplies, at lower of cost (first-in, first-out) or market	10,587	11,390
Estimated third-party payor settlements	10,383	8,039
Other current assets	<u>11,084</u>	<u>7,619</u>
Total current assets	<u>179,237</u>	<u>173,841</u>
Assets limited as to use:		
Internally designated for capital improvements	<u>377</u>	<u>375</u>
Property and equipment, net	<u>292,454</u>	<u>264,864</u>
Other assets:		
Interest in net assets of Phoebe Foundation, Inc.	17,506	15,894
Deferred financing cost	2,761	2,903
Goodwill and other assets	125,320	125,152
Related party receivables	<u>-</u>	<u>8,128</u>
Total other assets	<u>145,587</u>	<u>152,077</u>
Total assets	<u>\$ 617,655</u>	<u>\$ 591,157</u>

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

BALANCE SHEETS, July 31, 2016 and 2015

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 6,384	\$ 6,174
Accounts payable	12,767	16,881
Accrued expenses	<u>25,819</u>	<u>30,336</u>
Total current liabilities	44,970	53,391
Long-term debt, net of current portion	285,033	291,416
Accrued pension cost	129,646	99,691
Related party payables	52,065	-
Derivative financial instruments	<u>14,511</u>	<u>10,474</u>
Total liabilities	<u>526,225</u>	<u>454,972</u>
Net assets:		
Unrestricted	80,977	126,964
Temporarily restricted	8,429	7,202
Permanently restricted	<u>2,024</u>	<u>2,019</u>
Total net assets	<u>91,430</u>	<u>136,185</u>
Total liabilities and net assets	\$ <u>617,655</u>	\$ <u>591,157</u>

See accompanying notes to financial statements.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
for the years ended July 31, 2016 and 2015

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 590,607	\$ 536,245
Provision for bad debts	<u>( 91,706)</u>	<u>( 45,608)</u>
Net patient service revenue	498,901	490,637
Other revenue	<u>17,661</u>	<u>20,308</u>
Total revenues, gains and other support	<u>516,562</u>	<u>510,945</u>
Expenses:		
Salaries and wages	148,217	144,151
Employee health and welfare	46,640	36,009
Medical supplies and other	200,116	190,130
Purchased services	85,023	89,161
Depreciation and amortization	39,368	37,046
Interest	<u>6,932</u>	<u>7,112</u>
Total expenses	<u>526,296</u>	<u>503,609</u>
Operating income (loss)	<u>( 9,734)</u>	<u>7,336</u>
Nonoperating gains (losses):		
Investment and other nonoperating losses	( 3,766)	( 1,891)
Loss on sale of fixed assets	<u>-</u>	<u>( 298)</u>
Total nonoperating losses	<u>( 3,766)</u>	<u>( 2,189)</u>
Excess revenues (expenses)	( 13,500)	5,147

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued  
for the years ended July 31, 2016 and 2015

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
Change in interest in net assets of Phoebe Foundation, Inc.	\$( 70)	\$( 655)
Net assets released from restrictions	450	1,400
Net actuarial loss	( 37,895)	( 48,293)
Amortization of prior service cost	24	148
Amortization of net gain	<u>5,004</u>	<u>1,591</u>
Decrease in unrestricted net assets	<u>( 45,987)</u>	<u>( 40,662)</u>
Temporarily restricted net assets:		
Change in interest in net assets of Phoebe Foundation, Inc.	1,677	1,327
Net assets released from restriction	<u>( 450)</u>	<u>( 1,400)</u>
Increase (decrease) in temporarily restricted net assets	<u>1,227</u>	<u>( 73)</u>
Permanently restricted net assets:		
Change in interest in net assets of Phoebe Foundation, Inc.	<u>5</u>	<u>56</u>
Decrease in net assets	( 44,755)	( 40,679)
Net assets, beginning of year	<u>136,185</u>	<u>176,864</u>
Net assets, end of year	\$ <u>91,430</u>	\$ <u>136,185</u>

See accompanying notes to financial statements.



PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS  
for the years ended July 31, 2016 and 2015

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$( 44,755)	\$( 40,679)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	39,368	37,046
Change in interest in net assets of Phoebe Foundation, Inc.	( 1,612)	( 728)
Change in derivative financial instruments	4,037	2,386
Changes in:		
Receivables	( 741)	( 6,309)
Supplies	803	( 852)
Estimated third-party payor settlements	( 2,344)	( 6,525)
Other assets	( 3,491)	4,251
Accounts payable and accrued expenses	( 8,631)	6,054
Accrued pension cost	<u>29,955</u>	<u>31,659</u>
Net cash provided by operating activities	<u>12,589</u>	<u>26,303</u>
Cash flows from investing activities:		
Purchase of property and equipment	( 19,698)	( 11,995)
Purchases of assets limited as to use	<u>( 2)</u>	<u>( 2)</u>
Net cash used by investing activities	<u>( 19,700)</u>	<u>( 11,997)</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS, Continued  
for the years ended July 31, 2016 and 2015

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Payments on long-term debt	\$( 6,173)	\$(193,874)
Proceeds from issuance of long-term debt	-	187,870
Advances (to) from related parties	<u>12,933</u>	<u>( 27,906)</u>
Net cash provided (used) by financing activities	<u>6,760</u>	<u>( 33,910)</u>
Decrease in cash and cash equivalents	( 351)	( 19,604)
Cash and cash equivalents, beginning of year	<u>49,636</u>	<u>69,240</u>
Cash and cash equivalents, end of year	\$ <u>49,285</u>	\$ <u>49,636</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ <u>6,720</u>	\$ <u>7,351</u>

Property and equipment in related party payables as of July 31, 2016 was approximately \$47,260,000.

See accompanying notes to financial statements.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies

Organization

Phoebe Putney Memorial Hospital, Inc., (Corporation) located in Albany, Georgia, is a not-for-profit acute care hospital which operates satellite clinics in the surrounding counties. The Corporation provides inpatient, outpatient and emergency care services for residents of Southwest Georgia. Admitting physicians are primarily practitioners in the local area. The Corporation is a single operating entity and is a wholly-owned subsidiary of Phoebe Putney Health System, Inc. (System).

Reorganization

Effective September 1, 1991, the Hospital Authority of Albany-Dougherty County, Georgia (Authority) implemented a reorganization plan for the hospital whereby all the assets, management and governance of the hospital was transferred to Phoebe Putney Memorial Hospital, Inc., a not-for-profit corporation, qualified as an organization described in Section 501(c)(3) of the Internal Revenue Code, pursuant to a lease and transfer agreement. During 2009, the lease term was renewed for an additional forty years with a nominal annual lease payment.

Effective August 1, 2012, the lease and transfer agreement between the Corporation and the Authority was amended and restated. The amendment was made for the transfer and inclusion of the hospital formerly known as Palmyra Park Hospital, LLC (Palmyra) which was acquired by the Authority on December 15, 2011. The amendment included the extension of the lease for a term of forty years from the date of the current amendment.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in certificates of deposit with original maturities of twelve months or less. The Corporation routinely invests its surplus operating funds in highly liquid money market mutual funds.

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Corporation's allowance for doubtful accounts for self-pay patients was approximately 99% of self-pay accounts receivable at July 31, 2016 and 2015. The Corporation updated its Financial Assistance Policy during 2016 as discussed in Note 2.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies, Continued

Supplies

Supplies, which consist primarily of drugs, food, and medical supplies, are valued at first-in, first-out cost, but not in excess of market.

Derivative Financial Instruments

The Corporation has entered into interest rate swap agreements as part of its interest rate risk management strategy. These arrangements are accounted for under the provisions of FASB ASC 815 *Derivatives and Hedging*. FASB ASC 815 establishes accounting and reporting standards requiring that derivative instruments be recorded at fair value as either an asset or liability.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of unrestricted net assets. The ineffective component, if any, is recorded in excess revenues (expenses) in the period in which the hedge transaction affects earnings. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains or losses on the derivative are recorded in excess revenues (expenses). For derivative instruments not designated as hedging instruments, the unrealized gain or loss is recognized in nonoperating gains (losses) during the period of change.

Assets Limited as to Use

Assets limited as to use include designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess revenues (expenses), 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.

Beneficial Interest in Net Assets of Foundation

The Corporation accounts for the activities of Phoebe Foundation, Inc. in accordance with FASB ASC 958-20, *Not-For-Profit Entities, Financially Interrelated Entities*. FASB ASC 958-20 establishes reporting standards for transactions in which a donor makes a contribution to a not-for-profit organization which accepts the assets on behalf of or transfers these assets to a beneficiary which is specified by the donor. Phoebe Foundation, Inc. accepts assets on behalf of the Corporation.

Goodwill

Goodwill and intangible assets with indefinite lives are tested for impairment annually and more frequently in the event of an impairment indicator. Intangible assets with definite lives are amortized over their respective estimated useful lives, and reviewed whenever events or circumstances indicate impairment may exist.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies, Continued

Goodwill, Continued

The Corporation assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Corporation determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is required. If the two-step impairment test is determined to be necessary, and in step two the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference will be recorded.

In accordance with the accounting standard, the Corporation assesses goodwill for impairment on an annual basis. See Note 7 for goodwill disclosures.

Deferred Financing Cost

Costs related to the issuance of long-term debt were deferred and are being amortized using the straight-line method, which approximates the effective interest method, over the life of the related debt.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Excess Revenues (Expenses)

The statement of operations and changes in net assets includes excess revenues (expenses). Changes in unrestricted net assets which are excluded from excess revenues (expenses), consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Corporation 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 Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation 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 gift is received. The 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 statement of operations and changes in net assets 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 financial statements.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies, Continued

Estimated Malpractice and Other Self-Insurance Cost

The provisions for estimated medical malpractice claims and other claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Corporation is a not-for-profit corporation that has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The accounting policies prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Corporation only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2016 and 2015 or for the years then ended. The Corporation's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies, Continued

Impairment of Long-Lived Assets

The Corporation evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Corporation has not recorded any impairment charges of long-lived assets in the accompanying statements of operations and changes in net assets for the years ended July 31, 2016 and 2015.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement and Disclosures* defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC 820 describes the following three levels of inputs that may be used:

- *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- *Level 2:* Observable prices that are based on inputs not quoted on active markets but corroborated by market data.
- *Level 3:* Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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1. Summary of Significant Accounting Policies, Continued

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through December 7, 2016, the date the financial statements were issued.

Recently Adopted Accounting Pronouncement

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The guidance exempts investments measured using the net asset value (NAV) practical expedient from categorization within the fair value hierarchy and related disclosures. The Corporation's early implementation was applied retrospectively and only resulted in changes to the Corporation's fair value measurement investment disclosures.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2015 financial statements to conform to the fiscal year 2016 presentation. These reclassifications had no impact on the change in net assets in the accompanying financial statements.

2. Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. The Corporation does not believe that there are any significant credit risks associated with receivables due from third-party payors.

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience,

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

2. Net Patient Service Revenue, Continued

a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

July 31, 2016				
Patient Service Revenue				
(Net of Contractual Allowances and Discounts)				
(Dollars in Thousands)				
<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
\$ <u>183,179</u>	\$ <u>90,545</u>	\$ <u>255,212</u>	\$ <u>61,671</u>	\$ <u>590,607</u>

July 31, 2015				
Patient Service Revenue				
(Net of Contractual Allowances and Discounts)				
(Dollars in Thousands)				
<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
\$ <u>167,434</u>	\$ <u>85,243</u>	\$ <u>249,340</u>	\$ <u>34,228</u>	\$ <u>536,245</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 37% and 18%, respectively, of the Corporation's net patient revenue for the year ended July 31, 2016 and 34% and 17%, respectively, of the Corporation's net patient revenue for the year ended July 31, 2015. 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 will change by a material amount in the near term. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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2. Net Patient Service Revenue, Continued

The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

A summary of the payment arrangements with major third-party payors follows:

- Medicare

Inpatient acute care and rehabilitation services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined per diems.

The Corporation is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare Administrative Contractor (MAC). The Corporation's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Corporation. The Corporation's Medicare cost reports have been audited by the MAC through July 31, 2011.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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2. Net Patient Service Revenue, Continued

- Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per admission. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Corporation is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. The Corporation's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through July 31, 2011.

The Corporation also contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled 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 diems.

The Corporation participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Corporation receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Corporation's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$10,197,000 and \$9,459,000 for the years ended July 31, 2016 and 2015, respectively.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$2,756,000 and \$4,529,000 for the years ended July 31, 2016 and 2015, respectively.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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2. Net Patient Service Revenue, Continued

• Medicaid, Continued

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a “provider payment” in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately \$6,871,000 and \$6,428,000 relating to the Act is included in medical supplies and other in the accompanying statement of operations and changes in net assets for the years ended July 31, 2016 and 2015, respectively.

• Other Arrangements

The Corporation has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

• Uninsured Patients

In 2016, the Corporation updated its Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, patients who are eligible individuals will not be charged more for emergency or other medically necessary care than the Amounts Generally Billed (AGB) for individuals who have insurance coverage. The minimum percentage discount to be applied to FAP eligible individuals shall be calculated on an annual basis. AGB is determined by dividing the sum of claims paid the previous fiscal year by Medicare fee-for-service and all private health insurance, including payments received from beneficiaries and insured patients, by the sum of the associated gross charges for those claims.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2016 and 2015 were approximately \$957,000,000 and \$938,000,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$59,000,000 and \$85,000,000 in 2016 and 2015, respectively. The cost of charity and indigent care services provided during 2016 and 2015 was approximately \$21,000,000 and \$30,000,000, respectively computed by applying a total cost factor to the charges foregone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2016 and 2015.

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Gross patient charges	\$ <u>1,455,599</u>	\$ <u>1,428,558</u>
Uncompensated services:		
Charity and indigent care	58,823	84,851
Medicare	486,143	489,187
Medicaid	181,964	194,687
Other allowances	138,062	123,588
Bad debts	<u>91,706</u>	<u>45,608</u>
Total uncompensated care	<u>956,698</u>	<u>937,921</u>
Net patient service revenue	\$ <u>498,901</u>	\$ <u>490,637</u>

Continued



PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

4. Investments

Assets Limited as to Use

The composition of assets limited as to use at July 31, 2016 and 2015 is set forth in the following table. Assets limited as to use are classified as trading. See Note 19 for valuation methodologies.

	<u>Dollars in Thousands</u>	
	<u>2016</u>	<u>2015</u>
By board for capital improvements:		
Certificates of deposit	\$ <u>    377</u>	\$ <u>    375</u>

Investment income for cash and cash equivalents and assets limited as to use is comprised of the following for the years ending July 31, 2016 and 2015:

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Interest income	\$ <u>    88</u>	\$ <u>   417</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

5. Property and Equipment

A summary of property and equipment at July 31, 2016 and 2015 follows:

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
Land	\$ 12,128	\$ 13,149
Land improvements	3,583	2,755
Building	339,506	338,946
Equipment	<u>378,298</u>	<u>321,046</u>
	733,515	675,896
Less accumulated depreciation	<u>451,845</u>	<u>412,504</u>
	281,670	263,392
Construction in progress	<u>10,784</u>	<u>1,472</u>
Net property and equipment	\$ <u>292,454</u>	\$ <u>264,864</u>

Depreciation expense for the years ended July 31, 2016 and 2015 amounted to approximately \$39,368,000 and \$37,046,000, respectively.

Construction contracts exist for various projects at year end with a total commitment of \$23,471,000. At July 31, 2016, the remaining commitment on these contracts approximated \$15,663,000.

6. Deferred Financing Costs

Bond issue costs and loan origination fees are amortized over the life of the debt instrument. Amortization expense and write-offs were \$142,000 for the years ended July 31, 2016 and 2015.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

7. Goodwill and Other Assets

A summary of goodwill and other assets at July 31, 2016 and 2015 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Goodwill	\$ 124,992	\$ 124,992
Other assets	<u>328</u>	<u>160</u>
Total goodwill and other assets	\$ <u>125,320</u>	\$ <u>125,152</u>

Goodwill is related to the Corporation's purchase of health care clinics and lease of Palmyra, formerly purchased by the Authority. The goodwill is evaluated annually for impairment.

The changes in the carrying amount of goodwill for the years ended July 31, 2016 and 2015, are as follows:

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Balance at beginning of year:		
Goodwill	\$ 168,921	\$ 168,921
Accumulated impairment losses	<u>( 43,929)</u>	<u>( 43,929)</u>
	124,992	124,992
Goodwill acquired during the year	-	-
Impairment losses	<u>-</u>	<u>-</u>
Balance at end of year:		
Goodwill	168,921	168,921
Accumulated impairment losses	<u>( 43,929)</u>	<u>( 43,929)</u>
Total	\$ <u>124,992</u>	\$ <u>124,992</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

8. Long-Term Debt

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
2012 Series Revenue Anticipation Certificates, payable in varying annual amounts from \$940,000 to \$16,285,000 in 2043; bearing interest at fixed rates from 2.00% to 5.00%.	\$ 101,555	\$ 103,865
2008A Series Refunding Revenue Anticipation Certificates, payable in varying annual amounts from \$1,780,000 to \$3,795,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread.	43,555	45,380
2008B Series Refunding Revenue Anticipation Certificates, payable in varying annual amounts from \$1,770,000 to \$3,790,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread.	43,475	45,300
2010A-1 Revenue Anticipation Certificates, payable in varying annual amounts from \$52,000 to \$7,010,000 in 2040; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread.	60,000	60,000

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

8. Long-Term Debt, Continued

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
2010A-2 Revenue Anticipation Certificates, payable in varying annual amounts from \$33,000 to \$4,345,000 in 2040; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread.	\$ <u>37,190</u> <u>285,775</u>	\$ <u>37,190</u> <u>291,735</u>
Less current portion	<u>6,384</u> <u>279,391</u>	<u>6,174</u> <u>285,561</u>
Add unamortized premium	<u>5,642</u>	<u>5,855</u>
	\$ <u>285,033</u>	\$ <u>291,416</u>

The Series 2008A and 2008B Refunding Revenue Certificates were issued on October 30, 2008 for the purposes of refunding certain revenue certificates which financed the costs of making certain additions, extensions, and capital improvements to the Corporation's health care system. The Series 2008A and 2008B Refunding Revenue Certificates were reissued on December 7, 2012 and the interest rates were converted from a daily variable rate with security provided by bank letters of credit to a variable rate based on a percentage of LIBOR plus a credit spread. The Series 2008A and 2008B Refunding Revenue Certificates were reissued again on February 2, 2015 and the interest rates were converted from a variable rate based on a percentage of LIBOR plus a credit spread to a new variable rate based on a percentage of LIBOR plus a credit spread. The Corporation may convert the interest rate upon compliance with terms and provisions of the related indenture.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

8. Long-Term Debt, Continued

The Series 2010A Revenue Certificates were issued on July 9, 2010 for the purpose of reimbursing the Corporation for prior additions, extensions and improvements to the Corporation's facilities. The Series 2010A Revenue Certificates were reissued on February 2, 2015 as Series 2010A-1 Revenue Certificates and Series 2010A-2 Revenue Certificates, respectively, and the interest rate was converted from a variable rate based on a percentage of LIBOR plus a credit spread to a new variable rate based on a percentage of LIBOR plus a credit spread. The Corporation may convert the interest rate upon compliance with terms and provisions of the related indenture.

The Series 2012 Revenue Certificates were issued on December 1, 2012 for the purposes of financing the costs of making certain additions, extensions, and capital improvements to its health care system. The Series 2012 Revenue Certificates bear interest at fixed rates from 2.00% to 5.00%.

Series 2008A, 2008B, 2010A-1, 2010A-2 and 2012 Revenue Certificates are secured by all receipts of, and revenue, income and money derived from the Corporation's operation of the Hospital premises.

The outstanding notes securing the Series 2008A, 2008B, 2010A-1, 2010A-2 and 2012 Revenue Certificates were issued pursuant to the Master Trust Indenture dated as of March 1, 2002, as amended, among the Corporation, the System and U.S. Bank National Association, as master trustee. Under the terms of the Master Trust Indenture, the Corporation is limited on the incurrence of additional borrowings and requires that the Corporation satisfy certain measures of financial performance as long as the notes are outstanding.

Scheduled principal repayments on long-term debt for the next five years are as follows:

(Dollars in Thousands)						
<u>Year</u>	<u>2008A</u>	<u>2008B</u>	<u>2010A-1</u>	<u>2010A-2</u>	<u>2012</u>	<u>Total</u>
2017	\$ 1,780	\$ 1,770	\$ 74	\$ 46	\$ 2,500	\$ 6,170
2018	1,860	1,850	52	33	2,590	6,385
2019	1,835	1,835	136	84	2,755	6,645
2020	2,065	2,065	-	-	2,790	6,920
2021	2,285	2,285	-	-	2,600	7,170
Thereafter	<u>33,730</u>	<u>33,670</u>	<u>59,738</u>	<u>37,027</u>	<u>88,320</u>	<u>252,485</u>
Total	<u>\$ 43,555</u>	<u>\$ 43,475</u>	<u>\$ 60,000</u>	<u>\$ 37,190</u>	<u>\$ 101,555</u>	<u>\$ 285,775</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

9. Derivative Financial Instruments

The Corporation entered into fixed pay and constant maturity swaps to effectively swap variable interest rates to fixed interest rates thus reducing the impact of interest rate changes on future interest expense. The fair market value of the swaps are reported in noncurrent liabilities on the balance sheet. The critical terms of the swaps are as follows:

**\$25MM Fixed Pay LIBOR Swap – Non-Hedge**  
**(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
Notional amount	\$ 21,874	\$ 22,112
Fair market value	\$( 6,676)	\$( 5,305)
Life remaining on swap	16 Years	17 Years

**\$25MM Fixed Pay LIBOR Swap – Non-Hedge**  
**(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
Notional amount	\$ 21,874	\$ 22,112
Fair market value	\$( 6,369)	\$( 4,990)
Life remaining on swap	16 Years	17 Years

**\$21.145MM Fixed Pay LIBOR Swap – Non-Hedge**  
**(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
Notional amount	\$ 18,501	\$ 18,711
Fair market value	\$( 5,387)	\$( 4,221)
Life remaining on swap	16 Years	17 Years

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

9. Derivative Financial Instruments, Continued

**Constant Maturity LIBOR Swap – Non-Hedge  
(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
Notional amount	\$ 35,945	\$ 37,128
Fair market value	\$ 1,470	\$ 1,765
Life remaining on swap	16 Years	17 Years

**Constant Maturity LIBOR Swap – Non-Hedge  
(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
Notional amount	\$ 35,945	\$ 37,128
Fair market value	\$ 1,509	\$ 1,713
Life remaining on swap	16 Years	17 Years

**Constant Maturity LIBOR Swap – Non-Hedge  
(Dollars in Thousands)**

	<u>2016</u>	<u>2015</u>
Notional amount	\$ 71,890	\$ 74,255
Fair market value	\$ 942	\$ 564
Life remaining on swap	2 Years	3 Years

The swaps were issued at market terms so that they had no fair value at their inception. The carrying amount of the swaps has been adjusted to fair value at the end of the year which, because of changes in forecasted levels of the LIBOR, resulted in reporting a liability. As the net swaps were in a liability position as of July 31, 2016 and 2015, the Corporation deemed the capacity to perform on the part of the derivative counterparty to be of little or no concern; and no adjustment was applied to standard market valuation practices.

The swap results are included in excess revenues (expenses). For the years ending July 31, 2016 and 2015, this earning impact totaled approximately \$(4,037,000) and \$(2,386,000), respectively.

Continued



PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

10. Temporarily and Permanently Restricted Net Assets

A summary of the restricted net assets at July 31, 2016 and 2015 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
<u>Temporarily Restricted Net Assets</u>		
Donor restricted investments	\$ <u>8,429</u>	\$ <u>7,202</u>
<u>Permanently Restricted Net Assets</u>		
Restricted investments to be held in perpetuity by Phoebe Foundation, Inc.	\$ <u>2,024</u>	\$ <u>2,019</u>

11. Pension Plan

The Corporation has a defined benefit pension plan covering all full time regular employees working 1,000 hours or more in a twelve-month period with an employment date before December 31, 2006. The plan provides benefits that are based upon earnings and years of service. The Corporation's funding policy is to make the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The measurement dates were July 31, 2016 and 2015. The Corporation issues a publicly available financial report that includes financial statements and required supplementary information for the Retirement Plan for Employees of Phoebe Putney Health System, Inc. That report may be obtained by contacting the management of the Corporation.

The Corporation has elected to freeze benefit accruals effective in December 2014. The Corporation will continue to pay benefits under the plan consistent with the provisions existing at the date of the plan freeze.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

11. Pension Plan, Continued

The following table sets forth the defined benefit pension plan funded status and amounts recognized in the financial statements at July 31, 2016 and 2015:

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Plan assets at fair value at July 31	\$ 191,320	\$ 197,124
Projected benefit obligation at July 31	<u>320,966</u>	<u>296,815</u>
Funded status	\$( <u>129,646</u> )	\$( <u>99,691</u> )
Amounts recognized in the balance sheet consist of:		
Noncurrent liabilities	\$( <u>129,646</u> )	\$( <u>99,691</u> )
Amounts recognized in unrestricted net assets:		
Net actuarial loss	\$(125,219)	\$( 92,328)
Prior service cost not yet recognized in net periodic pension cost	( 81)	( 105)
Deferred pension cost	\$( <u>125,300</u> )	\$( <u>92,433</u> )
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	3.87%	4.60%
Rate of compensation increase	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.60%	4.59%
Expected long-term return on plan assets	7.75%	7.75%
Rate of compensation increase	2.50%	4.00%

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

11. Pension Plan, Continued

Mortality table assumptions used to determine pension benefit obligations were RP-2006 Employee and Healthy Annuitant Mortality Table with Fully Generational Projections using MP2015 and MP2014 for 2016 and 2015, respectively.

The Corporation's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

The following table sets forth the components of net periodic cost and other amounts recognized in unrestricted net assets for the years ended July 31, 2016 and 2015:

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Service cost	\$ 3,259	\$ 3,296
Interest cost	11,454	11,470
Expected return on plan assets	( 15,200)	( 15,081)
Amortization of prior service cost	24	148
Amortization of recognized net actuarial loss	<u>5,004</u>	<u>1,591</u>
Net periodic benefit cost	<u>4,541</u>	<u>1,424</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial (gain) loss	37,895	48,293
Amortization of prior service cost	( 24)	( 148)
Amortization of net actuarial loss	<u>( 5,004)</u>	<u>( 1,591)</u>
Total recognized in unrestricted net assets	<u>32,867</u>	<u>46,554</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 37,408</u>	<u>\$ 47,978</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

11. Pension Plan, Continued

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
Projected benefit obligation, beginning of year	\$ 296,814	\$ 253,892
Service cost	3,259	3,296
Interest cost	11,454	11,470
Actuarial loss	18,010	35,801
Benefits paid	( 8,571)	( 7,645)
 Projected benefit obligation, end of year	 \$ <u>320,966</u>	 \$ <u>296,814</u>
 Accumulated benefit obligation	 \$ <u>317,897</u>	 \$ <u>288,606</u>

The change in fair value of plan assets for the years ended July 31, 2016 and 2015 included the following components:

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
Plan assets at fair value, beginning of year	\$ 197,124	\$ 185,861
Actual return on assets	( 4,686)	2,589
Employer contributions	7,453	16,319
Benefits paid	( 8,571)	( 7,645)
 Plan assets at fair value, end of year	 \$ <u>191,320</u>	 \$ <u>197,124</u>

The Corporation anticipates making a contribution during fiscal year 2017 of \$8,369,000.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

11. Pension Plan, Continued

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Year Ending July 31</u>	<u>(Dollars in Thousands)</u>
	<u>Pension Benefits</u>
2017	\$ 10,460
2018	11,674
2019	12,504
2020	13,247
2021	14,023
2022 – 2026	81,402

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at July 31, 2016.

The actuarial loss and prior service cost to be recognized during the next 12 months beginning August 1, 2016 is as follows:

	<u>(Dollars in Thousands)</u>
Amortization of net actuarial loss	\$ 3,285
Amortization of prior year service costs	<u>24</u>
Total	\$ <u>3,309</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

11. Pension Plan, Continued

Plan Assets

The composition of plan assets at July 31, 2016 and 2015 is as follows:

Asset category:	Target	Plan Assets	
	<u>Allocation</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	- %	4%	6%
U.S. equity securities	20%	28%	27%
Fixed income	20%	22%	21%
Real assets	13%	3%	3%
Opportunistic	5%	5%	5%
Hedge funds	20%	16%	16%
Non U.S. equity securities	16%	16%	16%
Emerging markets	<u>6%</u>	<u>6%</u>	<u>6%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Corporation's investment strategy is to manage the portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. The portfolio is diversified by investing in multiple types of investment-grade securities. The investment policy requires assets of the plan to be primarily invested in securities with at least an investment grade rating to minimize interest rate and credit risk. The plan assets are long-term in nature and are intended to generate returns while preserving capital.

Pension assets are invested in various classes as summarized in the table below for 2016 and 2015. The allocation between different investment vehicles is determined by the Corporation, based on current market conditions, short-term and long-term market outlooks, and cash needs for distributions and plan expenses. Assumptions for expected returns on plan assets are based on historical performance, long-term market outlook, and a diversified investment approach designed to provide steady, consistent returns that minimize market fluctuations. The Corporation utilizes the services of a professional investment advisor in the selection of individual fund managers. The investment advisor tracks the performance of each fund manager and makes recommendations for redistributions, as needed, to comply with targeted allocations or to replace underperforming funds.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

11. Pension Plan, Continued

The Corporation attempts to mitigate investment risk by rebalancing between investment classes as the Corporation's contributions and monthly benefit payments are made. Although changes in interest rates may affect the fair value of a portion of the investment portfolio and cause unrealized gains and losses, such gains or losses would not be realized unless the investments are sold.

The fair values of the Corporation's pension plan assets at July 31, 2016 and 2015, by asset category are as follows:

<u>Asset Category</u>	Fair Value Measurements at July 31, 2016			
	(Dollars in Thousands) <u>Total</u>	Quoted Prices in Active Markets For Identical Assets ( <u>Level 1</u> )	Significant Other Observable Inputs ( <u>Level 2</u> )	Significant Unobservable Inputs ( <u>Level 3</u> )
Money market funds	\$ 8,394	\$ -	\$ 8,394	\$ -
Corporate stocks:				
Emerging market stocks	11,100	-	11,100	-
Common stock	1,287	1,287	-	-
Other stock	4,440	4,401	39	-
Real estate investment trusts	6,144	6,144	-	-
Corporate stocks – preferred REIT	<u>53</u>	<u>53</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	31,418	\$ <u>11,885</u>	\$ <u>19,533</u>	\$ <u>-</u>
Investments measured at net asset value	<u>159,902</u>			
Total assets at fair value	\$ <u>191,320</u>			

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

11. Pension Plan, Continued

<u>Asset Category</u>	Fair Value Measurements at July 31, 2015			
	(Dollars in Thousands) <u>Total</u>	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 11,973	\$ 2,493	\$ 9,480	\$ -
Corporate stocks:				
Emerging market stocks	10,949	-	10,949	-
Common stock	1,071	1,071	-	-
Other stock	4,702	4,660	42	-
Real estate investment trusts	6,395	6,395	-	-
Corporate stocks – preferred REIT	<u>48</u>	<u>48</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	35,138	\$ <u>14,667</u>	\$ <u>20,471</u>	\$ <u>-</u>
Investments measured at net asset value	<u>161,986</u>			
Total assets at fair value	\$ <u>197,124</u>			

Continued



PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

11. Pension Plan, Continued

The following table sets forth additional information for assets valued at NAV as a practical expedient:

	as of July 31, 2016			
	(Dollars in Thousands) <u>Fair Value</u>	(Dollars in Thousands) <u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
Common collective trusts:				
Index funds	\$ 5,853	None	None	3 Days
Other funds	\$ 38,926	None	Semi-monthly - Quarterly	7 - 95 Days
Partner/joint venture interests:				
U.S. equity funds	\$ 32,956	\$ 639	Monthly - Annually	33 - 180 Days
Registered investment company:				
Fixed income funds	\$ 41,360	None	None - Monthly	10 - 30 Days
Other funds	\$ 10,471	None	None - Annually	None - 90 Days
Hedge fund: multi-strategy funds	\$ 8,227	None	Quarterly - Annually	45 - 90 Days
Hedge fund: long/short equity funds	\$ 17,192	None	Monthly - Annually	3 - 60 Days
Hedge fund: other funds	\$ 4,917	None	Monthly	22 <sup>nd</sup> Day of Month Prior
	as of July 31, 2015			
	(Dollars in Thousands) <u>Fair Value</u>	(Dollars in Thousands) <u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
Common collective trusts:				
Index funds	\$ 5,580	None	None	3 Days
Other funds	\$ 40,213	None	Semi-monthly - Quarterly	7 - 95 Days
Partner/joint venture interests:				
U.S. equity funds	\$ 32,234	\$ 609	Monthly - Annually	33 - 180 Days
Registered investment company:				
Fixed income funds	\$ 40,936	None	None - Monthly	10 - 30 Days
Other funds	\$ 10,474	None	None - Annually	None - 90 Days
Hedge fund: multi-strategy funds	\$ 7,956	None	Quarterly - Annually	45 - 90 Days
Hedge fund: long/short equity funds	\$ 19,611	None	Monthly - Annually	3 - 90 Days
Hedge fund: other funds	\$ 4,919	None	Monthly	22 <sup>nd</sup> Day of Month Prior

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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11. Pension Plan, Continued

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Financial assets using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. See Note 19 for valuation methodologies.

Defined Contribution Pension Plan

The Corporation maintains defined contribution pension plans covering substantially all eligible employees. Employees may deposit a portion of their earnings for each pay period on a pre-tax basis and the Corporation matches 50% of each participant's voluntary contributions up to a maximum of 4% of the employee's annual salary. At its discretion, the Corporation may make additional contributions to the Plan. Matching and discretionary contribution expenses for the years ended July 31, 2016 and 2015 totaled approximately \$3,648,000 and \$2,718,000, respectively. For 2016 and 2015, the total discretionary contributions paid totaled approximately \$-0- and \$-0-, respectively.

12. Employee Health Insurance

The Corporation has a self-insurance program under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator for claims incurred and paid. In addition, the Corporation participates in a shared group financing layer agreement with other Georgia hospitals through a program offered by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims. For all of fiscal year 2015 and for fiscal year 2016 through December 31, 2015, the claims included in the financing program were covered claims between \$150,000 and \$500,000. Effective January 1, 2016, the parameters of the program changed to include covered claims between \$225,000 and \$650,000. Each participant in the program is responsible for a portion of the shared claims based on their percentage of the total claims for the group. Additional insurance has been obtained to provide coverage for claims exceeding \$650,000. Total expenses related to this plan were approximately \$22,500,000 and \$18,790,000 for 2016 and 2015, respectively.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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13. Malpractice Insurance

Effective August 1, 2006, Phoebe Putney Indemnity, LLC (PPI), located in South Carolina, issued a claims-made policy covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability of the Corporation with a retroactive date of January 1, 1990. Under the policy, the limit of liability is \$5,000,000 per occurrence, with an annual aggregate of \$27,000,000 at July 31, 2016 and 2015.

Effective August 1, 2015, PPI purchased excess of loss reinsurance coverage in order to limit its financial exposure to large claims relating to employed physicians and surgeons. Under the per risk coverage, the reinsurer shall pay up to \$750,000 per loss, per insured, in excess of \$250,000 per loss, per insured. Under the clash coverage, the reinsurer shall pay up to \$750,000 per loss occurrence, in excess of \$250,000 per loss occurrence. The maximum amount recoverable for both of these coverage's combined shall not exceed 40% of the subject premium or \$6,000,000, whichever is greater. Under the excess of limits coverage, the reinsurer shall pay up to \$4,000,000 per loss, per insured, in excess of \$1,000,000, per loss, per insured. The maximum amount recoverable for this coverage shall not exceed \$8,000,000. The reinsurance treaty provides for adjustable premiums based on ceded losses up to a stated maximum.

The Corporation has also purchased excess liability coverage which covers \$50,000,000 per occurrence and in aggregate in excess of the PPI coverage of \$5,000,000. All of the risk related to this coverage has been ceded to unrelated reinsurers via a contract of reinsurance.

Various claims and assertions have been made against the Corporation in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

14. Concentrations of Credit Risk

The Corporation is located in Albany, Georgia. The Corporation grants credit without collateral to its patients, most of whom are residents of Southwest Georgia and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at July 31, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Medicare	38%	34%
Medicaid	18%	20%
Blue Cross	10%	11%
Commercial	21%	23%
Patients	<u>13%</u>	<u>12%</u>
Total	<u>100%</u>	<u>100%</u>

At July 31, 2016, the Corporation had deposits at major financial institutions which exceeded the \$250,000 Federal Deposit Insurance Corporation limits. Management believes the credit risks related to these deposits is minimal.

15. Related Party Transactions

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Due from Phoebe Putney Health Ventures, Inc.	\$ 69	\$ 117
Due from (to) Phoebe Putney Health System, Inc.	( 52,124)	8,011
Due to Phoebe Foundation, Inc.	<u>( 10)</u>	<u>-</u>
Net related party transactions	\$( <u>52,065</u> )	\$ <u>8,128</u>

The related party transactions that affect the above receivables and payables arise from the sharing of services and costs.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

16. Related Organization

Phoebe Foundation, Inc. (Foundation) was established to raise funds to support the operation of the Corporation. The Foundation's bylaws provide that all funds raised, except for funds required for the operation of the Foundation, be distributed to or be held for the benefit of the Corporation. The Foundation's general funds, which represent the Foundation's unrestricted resources, are distributed to the Corporation in amounts and in periods determined by the Foundation's Board of Directors, who may also restrict the use of general funds for hospital plant replacement or expansion or other specific purposes. Plant replacement and expansion funds, specific-purpose funds, and assets obtained from endowment income of the Foundation are distributed to the Corporation as required to comply with the purposes specified by donors. The Corporation's interest in the net assets of the Foundation is reported as an other asset in the balance sheets.

	<u>(Dollars in Thousands)</u>	
	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 5,555	\$ 2,834
Investments	11,371	12,461
Other assets	589	615
Due from related parties	<u>10</u>	<u>-</u>
Total assets	\$ <u>17,525</u>	\$ <u>15,910</u>
Liabilities and net assets:		
Accounts payable	\$ 19	\$ 16
Net assets	<u>17,506</u>	<u>15,894</u>
Total liabilities and net assets	\$ <u>17,525</u>	\$ <u>15,910</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

16. Related Organization, Continued

	(Dollars in Thousands)	
	<u>2016</u>	<u>2015</u>
Revenue and support	\$ 839	\$ 1,847
Expenses	<u>970</u>	<u>1,875</u>
Excess of revenue and support (expenses)	( 131)	( 28)
Restricted contributions	1,682	1,383
Other changes in net assets	61	( 627)
Net assets, beginning of year	<u>15,894</u>	<u>15,166</u>
Net assets, end of year	\$ <u>17,506</u>	\$ <u>15,894</u>

17. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	(Dollars in Thousands)	
	<u>July 31,</u>	
	<u>2016</u>	<u>2015</u>
Patient care services	\$ 355,636	\$ 340,705
General and administrative	<u>170,660</u>	<u>162,904</u>
Total	\$ <u>526,296</u>	\$ <u>503,609</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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18. Fair Values of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

- *Cash and cash equivalents, estimated third-party payor settlements, accounts payable and accrued expenses:* The carrying amount reported in the balance sheet approximates their fair value due to the short-term nature of these instruments.
- *Assets limited as to use:* Amounts reported in the balance sheet approximate fair value. See Note 19 for fair value measurement disclosures.
- *Derivative financial instruments:* The carrying amount reported in the balance sheet for derivative financial instruments approximates its fair value. See Note 19 for fair value measurement disclosures.
- *Long-term debt:* Fair values of the Corporation's revenue notes are based on current traded value. The carrying amount reported in the balance sheet for debt totals approximately \$291,417,000 and \$297,590,000 at July 31, 2016 and 2015, respectively, with a fair value of approximately \$298,240,000 and \$298,991,000, respectively. Based on inputs used in determining the estimated fair value, the Corporation's long-term debt would be classified as Level 2 in the fair value hierarchy.

19. Fair Value Measurement

Following is a description of the valuation methodologies used for assets and liabilities at fair value. There have been no changes in the methodologies used at July 31, 2016 and 2015.

- *Money market funds and certificates of deposit:* Valued at amortized cost, which approximates fair value.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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19. Fair Value Measurement, Continued

- *Corporate stocks:* Certain corporate stocks are valued at the closing price reported on the active market on which the individual securities are traded. Other corporate stocks are valued based on quoted prices for similar investments in active or inactive markets or valued using observable market data. When quoted prices or observable inputs are not available, the stocks are valued using management's assumptions about the assumptions market participants would utilize in pricing the stock.
- *Fixed income funds, hedge funds, and other funds:* Valued at the net asset value (NAV) of shares held at year end. Certain investments invest in a variety of growth and value assets. Management of the funds has the ability to shift investments as they feel necessary to meet established goals.
- *Common collective trusts:* Valued using net asset value (NAV). The NAV's are based on fair value, determined based on prices quoted and published by the investment manager of the accounts. Quoted prices are determined based on fair value of the underlying assets.
- *Partnerships/joint ventures:* Determined using net asset value (NAV) of underlying assets held by the limited partnerships. The limited partnerships invest in a variety of equity securities, some of which do not have readily available market prices. In the absence of readily available market prices, the fair values are estimated by the investment managers of those equity securities. Estimated values may differ from the values that would have been used if readily available market prices existed or if the equity securities were liquidated at the valuation date.
- *Real estate investment trusts:* Valued on the basis of a discounted cash flow approach, which includes the future rental receipts, expenses, and residual values as the highest and best use of the real estate from a market participant view as rental property.
- *Derivatives:* Valued using forward LIBOR curves. Values are then verified against counterparty mark-to-market valuations.

Continued



PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

19. Fair Value Measurement, Continued

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Fair values of liabilities measured on a recurring basis at July 31, 2016 and 2015 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets For Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>July 31, 2016</u>				
Liabilities:				
Derivatives	\$ <u>14,511</u>	\$ <u>-</u>	\$ <u>14,511</u>	\$ <u>-</u>
<u>July 31, 2015</u>				
Liabilities:				
Derivatives	\$ <u>10,474</u>	\$ <u>-</u>	\$ <u>10,474</u>	\$ <u>-</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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20. Commitments and Contingencies

Compliance Plan

The healthcare industry has been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Corporation has implemented a compliance plan focusing on such issues. There can be no assurance that the Corporation will not be subjected to future investigations with accompanying monetary damages.

Health Care Reform

There has been increasing pressure on Congress and state legislatures to control and reduce the cost of healthcare on the national or at the state level. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms, and various individual and business mandates among other provisions. The costs of these provisions are and will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Corporation.

Litigation

The Corporation is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results from operations. See malpractice insurance disclosures in Note 13.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2016 and 2015

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21. Electronic Health Record Incentive Payments

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) was enacted into law on February 17, 2009 as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals.

Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in Medicare reimbursements beginning in FY 2015. On July 13, 2010, the Department of Health and Human Services (DHHS) released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages: I, II and III. The final rules specify the initial criteria for physicians and eligible hospitals necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

The final rule set the earliest interim payment date for the incentive payment at May 2011. The first year of the Medicare portion of the program is defined as the federal government fiscal year October 1, 2010 to September 30, 2011.

The Corporation recognizes income related to the Medicare and Medicaid incentive payments using a grant model based upon when it has determined that it is reasonably assured that the Hospital will be meaningfully using EHR technology for the applicable period and the cost report information is reasonably estimable.

The Corporation successfully demonstrated meeting meaningful use of its certified EHR technology for fiscal year 2016 and 2015. The Hospital applied for and received approval from Medicare and Medicaid notifying the Hospital qualified for approximately \$600,000 and \$1,200,000, respectively, which has been recorded in other revenue. Approximately \$600,000 and \$1,200,000 of the payments are accrued in other current assets at July 31, 2016 and 2015, respectively.

INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTAL INFORMATION

Board of Directors  
Phoebe Putney Memorial Hospital, Inc.  
Albany, Georgia

We have audited the financial statements of Phoebe Putney Memorial Hospital, Inc. as of and for the years ended July 31, 2016 and 2015 and our report thereon dated December 7, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in this report on pages 51 to 57, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

*Driffin + Tucker, LLP*  
Albany, Georgia  
December 7, 2016

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY

July 31, 2016

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Phoebe Putney Memorial Hospital, Inc. (Corporation) is a not-for-profit health care organization that exists to serve the community. The Corporation opened in 1911 to serve the community by caring for the sick regardless of ability to pay. As a tax-exempt hospital, the Corporation has no stockholders or owners. All revenue after expenses is reinvested in the mission to care for the citizens of the community – into clinical care, health programs, state-of-the-art technology and facilities, research, and teaching and training of medical professionals now and for the future.

The Corporation operates as a charitable organization consistent with the requirements of Internal Revenue Code Section 501(c)(3) and the “community benefit standard” of IRS Revenue Ruling 69-545. The Corporation takes seriously its responsibility as the community’s safety net hospital and has a strong record of meeting and exceeding the charitable care and the organizational and operational standards required for federal tax-exempt status. The Corporation demonstrates a continued and expanding commitment to meeting its mission and serving the citizens by providing community benefits. A community benefit is a planned, managed, organized, and measured approach to meeting identified community health needs, requiring a partnership between the healthcare organization and the community to benefit residents through programs and services that improve health status and quality of life.

The Corporation improves the health and well-being of Southwest Georgia through clinical services, education, research and partnerships that build health capacity in the community. The Corporation provides community benefits for every citizen in its service area as well as for the medically underserved. The Corporation conducts community needs assessments and pays close attention to the needs of low income and other vulnerable persons and the community at large. The Corporation often works with community groups to identify needs, strengthen existing community programs and plan newly needed services. It provides a wide-ranging array of community benefit services designed to improve community health and the health of individuals and to increase access to health care, in addition to providing free and discounted services to people who are uninsured and underinsured. The Corporation’s excellence in community benefit programs was recognized by the prestigious Foster McGaw Prize awarded to the Corporation in 2003 for its broad-based outreach in building collaboratives that make measurable improvements in health status, expand access to care and build community capacity, so that patients receive care closest to their own neighborhoods. Drawing on a dynamic and flexible structure, the community benefit programs are designed to respond to assessed needs and are focused on upstream prevention.

As Southwest Georgia’s leading provider of cost-effective, patient-centered health care, the Corporation is also the region’s largest employer with more than 3,600 members of the Corporation Family caring for patients. The Corporation participates in the Medicare and Medicaid programs and is one of the leading providers of Medicaid services in Georgia.

See independent auditor’s report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued  
July 31, 2016

The following table summarizes the amounts of charges foregone (i.e., contractual adjustments) and estimates the losses incurred by the Corporation due to inadequate payments by these programs and for indigent/charity. This table does not include discounts offered by the Corporation under managed care and other agreements:

	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Medicare	\$ 486,000,000	\$ 176,000,000
Medicaid	182,000,000	66,000,000
Indigent/charity	<u>59,000,000</u>	<u>21,000,000</u>
	<u>\$ 727,000,000</u>	<u>\$ 263,000,000</u>

The following is a summary of the community benefit activities and health improvement services offered by the Corporation and illustrates the activities and donations during fiscal year 2016.

**I. Community Health Improvement Services**

A. Community Health Education

The Corporation provided health education services that reached 4,251 individuals in 2016 at a cost of \$354,240. These services included the following free classes and seminars:

- Nutrition and Diabetes Awareness Classes
- CPR training for 500 health care workers
- Comprehensive Health Fairs
- Camp Good Grief
- Teen Maze
- Various School Based Health Fairs
- Go Noodle Activity Programs

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued  
July 31, 2016

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**I. Community Health Improvement Services, Continued**

A. Community Health Education, Continued

*Men's and Women's Health Conferences*

*Men's Health Conferences*

The Men's Conference provided blood pressure, glucose, and cholesterol and BMI screenings for each participant and was made possible by a broad coalition of providers such as the Faith-based Initiative, Heart and Cancer Society, Cancer Coalition of South Georgia, and Public Health among others with 350 men in attendance.

*Women's Health Conferences*

The Women's Conferences attracted approximately 370 participants and focused on breast health and a full range of health screenings

*Network of Trust*

This is a nationally recognized program aimed at teen mothers to prevent repeat pregnancies, provide parenting skills, and complete high school. This program also includes a teen father program along with other teenaged children programs. Network of Trust enrolled 75 teen parents during the 2015/2016 school year at a cost of \$301,768. Project results demonstrate teens that graduated from the two-semester program are less likely to have a second pregnancy prior to age 21.

B. Community Based Clinical Services

*Flu Shots and Health Screenings*

The Corporation provides free flu shots to volunteers. In 2016, the Corporation administered 230 flu shots at an unreimbursed cost of \$6,013. The Corporation also provides free health screenings to individuals in Southwest Georgia. In 2016, the Corporation administered 417 health screenings at an unreimbursed cost of \$171,634.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued  
July 31, 2016

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**I. Community Health Improvement Services, Continued**

**B. Community Based Clinical Services, Continued**

*School Nurse Program*

The Corporation provides nurses in sixteen elementary schools, six middle schools, and four high schools in Dougherty County with a goal of creating access to care for students, assessing the health care status of each population represented and effectively establishing referrals for all health care needs. Nurses also conducted various school-based health fairs throughout the school year. During the 2015/2016 school year, the school nurse program covered 17,000 student visits. These programs operated at a cost of \$331,749 in 2016.

**C. Health Care Support Services**

*Government Sponsored Eligibility Applications to the Poor and Needy*

The Corporation contracts with Change Healthcare (formerly Chamberlain Edmonds) to process eligibility applications on behalf of the poor and needy that may be eligible for Medicaid. In some cases, it can take up to two years to be deemed eligible. In 2016, the Corporation paid \$668,197 to Change Healthcare to process Medicaid applications.

- Indigent Financial Assistance

Patients whose household income is at or below 125% of the Federal Poverty Guidelines are classified as indigent and are eligible for free care as provided in the Financial Assistance Policy.

- Charity Financial Assistance

Patients whose household income is between 126% - 200% of the Federal Poverty Guidelines qualify for discounted charges for care based on a sliding schedule in the Financial Assistance Policy.

See independent auditor's report on supplemental information.



PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued  
July 31, 2016

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**I. Community Health Improvement Services, Continued**

C. Health Care Support Services, Continued

• Catastrophic Financial Assistance

Patients whose income exceeds 200% of the Federal Poverty Guidelines, and whose balance owed exceeds 25% of their annual income, resulting in excessive hardship, qualify for discounted charges on a sliding scale basis ranging from 89% to 60% based on income and number of dependents. Terms and conditions are detailed in the Financial Assistance Policy.

**II. Health Professions Education**

The Corporation recognizes that to continuously improve the Corporation's long-term value to our community and our customers, to encourage life-long learning among employees and to achieve a world-class employer status, it is in the Corporation's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. The Corporation also provides non-employees financial support in pursuing healthcare related degrees. In fiscal year 2016, the Corporation provided \$491,249 in clinical supervision and training of nursing students, and an additional \$860,004 in clinical supervision and training to pharmacy, pharmacy techs and other allied health professionals. In all, approximately 587 students received clinical instruction from one of our facilities.

**III. Subsidized Health Services**

A. Other Subsidized Services

Inmate Care

The Corporation provides care to persons in jail for Dougherty County. In 2016 the Corporation provided \$356,475 of unreimbursed medical and drug treatment to 187 inmates.

Indigent Drug Pharmacy

Indigent Drug Pharmacy provides medication upon discharge to patients that are either indigent or uninsured. In 2016, the pharmacy filled 6,695 prescriptions at a cost of \$214,815.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued  
July 31, 2016

**IV. Financial and In-Kind Support**

In 2016, The Corporation provided \$151,946 in cash donations and in-kind support to non-profit organizations in Southwest Georgia. Listed are some highlights:

- The Cancer Coalition of South Georgia received \$76,000 for staff support and various projects centered on prevention, screening and early detection.
- Albany Marathon received a \$20,000 donation to raise funds for hospice services.
- United Way received a \$20,305 donation for their community-based efforts.
- In-kind support of Foregone Rent to non-profit organizations at an estimated cost of \$33,141.

**V. Community Benefit Operations**

The Corporation incurred \$162,334 to support staff and community health needs assessment costs that included \$32,000 renewal of Healthy Communities Institute's dashboard feature on our website:

<http://www.phoebehealth.com/health-matters/buiding-healthy-communitess>

**Summary**

	<b><u>2016</u></b>
<b>Community Health Improvement Services:</b>	
Community Health Education	\$ 354,240
Community Based Clinical Services	509,396
Healthcare Support Services	<u>668,197</u>
<b>Total community health improvement services</b>	<b><u>1,531,833</u></b>
<b>Health Professions Education:</b>	
Nurses/nursing students	491,249
Other health professional education	<u>860,004</u>
<b>Total health professional education</b>	<b><u>1,351,253</u></b>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2016

V. **Community Benefit Operations, Continued**

**Summary, Continued**

	<b><u>2016</u></b>
<b>Subsidized Health Services:</b>	
Other subsidized health services	\$ <u>571,290</u>
<b>Total subsidized health services</b>	<b><u>571,290</u></b>
<b>Financial and In-Kind Support:</b>	
Cash donations	118,805
In-kind donations	<u>33,141</u>
<b>Total financial and in-kind support</b>	<b><u>151,946</u></b>
<b>Community Benefit Operations:</b>	
Dedicated staff and other resources	<u>162,334</u>
<b>Total community benefit operations</b>	<b><u>162,334</u></b>
<b>Other:</b>	
Traditional charity care – estimated unreimbursed cost of charity services	21,000,000
Unpaid cost of Medicare services – estimated unreimbursed cost of Medicare services	176,000,000
Unpaid cost of Medicaid services – estimated unreimbursed cost of Medicaid services	<u>66,000,000</u>
<b>Total other</b>	<b><u>263,000,000</u></b>
<b>Total summary</b>	<b><u>\$ 266,768,656</u></b>

This report has been prepared in accordance with the community benefit reporting guidelines established by Catholic Health Association (CHA) and VHA. The Internal Revenue Services' requirements for reporting community benefits are different than the guidelines under which this report has been prepared.

See independent auditor's report on supplemental information.