

PHOEBE SUMTER MEDICAL CENTER, INC.



FINANCIAL STATEMENTS

for the years ended July 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Phoebe Sumter Medical Center, Inc.
Americus, Georgia

We have audited the accompanying financial statements of Phoebe Sumter Medical Center, Inc. (Hospital), 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.

Continued

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 Hospital'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 Hospital'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 that 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 Sumter Medical Center, 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.

Driffin + Tucker, LLP
Albany, Georgia
February 7, 2017

PHOEBE SUMTER MEDICAL CENTER, INC.

BALANCE SHEETS, July 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash	\$ 24,892,000	\$ 16,822,000
Patient accounts receivable, net of allowance for doubtful accounts of \$12,368,000 in 2016 and \$8,136,000 in 2015	9,641,000	9,544,000
Supplies, at lower of cost (first-in, first-out) or market	1,372,000	914,000
Other current assets	<u>1,704,000</u>	<u>1,399,000</u>
Total current assets	<u>37,609,000</u>	<u>28,679,000</u>
Assets limited as to use:		
Internally designated for capital improvements	<u>4,175,000</u>	<u>4,092,000</u>
Property and equipment, net	<u>43,782,000</u>	<u>43,931,000</u>
Other assets:		
Notes receivable	210,000	252,000
Interest in net assets of Sumter Regional Hospital Foundation, Inc.	<u>3,238,000</u>	<u>3,160,000</u>
Total other assets	<u>3,448,000</u>	<u>3,412,000</u>
Total assets	<u>\$ 89,014,000</u>	<u>\$ 80,114,000</u>

	<u>2016</u>	<u>2015</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable	\$ 1,826,000	\$ 1,191,000
Accrued expenses	3,111,000	2,979,000
Estimated third-party payor settlement	<u>749,000</u>	<u>260,000</u>
Total current liabilities	5,686,000	4,430,000
Related party payables	<u>2,216,000</u>	<u>1,698,000</u>
Total liabilities	7,902,000	6,128,000
Unrestricted net assets	<u>81,112,000</u>	<u>73,986,000</u>
Total liabilities and unrestricted net assets	\$ <u>89,014,000</u>	\$ <u>80,114,000</u>

See accompanying notes to financial statements.

PHOEBE SUMTER MEDICAL CENTER, INC.

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

	<u>2016</u>	<u>2015</u>
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 90,067,000	\$ 84,181,000
Provision for bad debts	<u>(19,976,000)</u>	<u>(20,035,000)</u>
Net patient service revenue	70,091,000	64,146,000
Other revenue	<u>2,118,000</u>	<u>1,961,000</u>
Total revenues, gains, and other support	<u>72,209,000</u>	<u>66,107,000</u>
Expenses:		
Salaries and wages	18,812,000	16,849,000
Employee health and welfare	6,188,000	5,037,000
Medical supplies and other	22,188,000	21,026,000
Purchased services	13,824,000	12,457,000
Depreciation and amortization	<u>4,312,000</u>	<u>4,587,000</u>
Total expenses	<u>65,324,000</u>	<u>59,956,000</u>
Operating profit	<u>6,885,000</u>	<u>6,151,000</u>
Nonoperating gains (losses):		
Investment income and other	97,000	44,000
Gain (loss) on disposal of assets	<u>29,000</u>	<u>(62,000)</u>
Total nonoperating gains (losses)	<u>126,000</u>	<u>(18,000)</u>
Excess revenues	7,011,000	6,133,000
Change in unrealized gain on investments other than trading	37,000	29,000
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	<u>78,000</u>	<u>(42,000)</u>
Increase in unrestricted net assets	7,126,000	6,120,000
Unrestricted net assets, beginning of year	<u>73,986,000</u>	<u>67,866,000</u>
Unrestricted net assets, end of year	<u>\$ 81,112,000</u>	<u>\$ 73,986,000</u>

See accompanying notes to financial statements.

PHOEBE SUMTER MEDICAL CENTER, INC.

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

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ 7,126,000	\$ 6,120,000
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Change in unrealized gain on investments	(37,000)	(29,000)
(Gain) loss on disposal of assets	(29,000)	62,000
Depreciation and amortization	4,312,000	4,587,000
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	(78,000)	42,000
Forgiveness of notes receivable	55,000	186,000
Changes in:		
Patient accounts receivable	(97,000)	(774,000)
Supplies	(458,000)	(131,000)
Other current assets	(305,000)	1,063,000
Notes receivable	(13,000)	(12,000)
Accounts payable	635,000	(118,000)
Accrued expenses	132,000	198,000
Estimated third-party payor settlements	<u>489,000</u>	<u>35,000</u>
Net cash provided by operating activities	<u>11,732,000</u>	<u>11,229,000</u>
Cash flows from investing activities:		
Purchase of property and equipment	(4,273,000)	(252,000)
Proceeds from sale of fixed assets	139,000	-
Proceeds from sale of investments	1,241,000	3,183,000
Purchase of investments	<u>(1,287,000)</u>	<u>(3,176,000)</u>
Net cash used by investing activities	<u>(4,180,000)</u>	<u>(245,000)</u>

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Advances from related parties	\$ 22,209,000	\$ 16,450,000
Payments to related parties	<u>(21,691,000)</u>	<u>(21,494,000)</u>
Net cash provided (used) by financing activities	<u>518,000</u>	<u>(5,044,000)</u>
Net increase in cash	8,070,000	5,940,000
Cash at beginning of year	<u>16,822,000</u>	<u>10,882,000</u>
Cash at end of year	<u>\$ 24,892,000</u>	<u>\$ 16,822,000</u>

See accompanying notes to financial statements.

PHOEBE SUMTER MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2016 and 2015

1. Summary of Significant Accounting Policies

Organization

Phoebe Sumter Medical Center, Inc. (Hospital) was organized on January 5, 2009 as a nonprofit corporation and is a wholly-owned subsidiary of Phoebe Putney Health System, Inc. (System).

Effective June 30, 2009, the Americus-Sumter County Hospital Authority (Authority) implemented a reorganization plan for Sumter Regional Hospital (SRH) whereby all the assets, management, and governance of SRH was transferred to the Hospital, pursuant to a lease and transfer agreement. The lease term is forty years with an annual contribution of \$25,000 to the Authority. Under the lease and transfer agreement, the Authority was required to construct a new hospital facility. The new hospital facility was placed in service and leased to the Hospital for the remainder of the lease term. As part of the lease and transfer agreement, System agreed to contribute up to \$25,000,000 to the construction cost of the new facility or the physician recruiting efforts of the Hospital, as needed.

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.

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor resources 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 Hospital 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

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PHOEBE SUMTER MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Allowance For Doubtful Accounts, Continued

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 Hospital 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 Hospital's allowance for doubtful accounts for self-pay patients was approximately 91 % of self-pay accounts receivable at July 31, 2016 and 2015. The Hospital updated its Financial Assistance Policy during 2016 as discussed in Note 2.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess revenues unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess revenues unless the investments are trading securities.

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.

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.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess revenues, 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 Hospital accounts for the activities of its related Foundation 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. Sumter Regional Hospital Foundation, Inc. (Foundation) accepts assets on behalf of the Hospital.

Excess Revenues

The statement of operations and changes in net assets includes excess revenues. Changes in unrestricted net assets which are excluded from excess revenues, 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).

Net Patient Service Revenue

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

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue, Continued

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 Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Estimated Malpractice and Other Self-Insurance Costs

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 Hospital 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 Hospital applies accounting policies that 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 Hospital 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.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

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 Hospital'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.

Impairment of Long-Lived Assets

The Hospital 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 Hospital has not recorded any impairment charges 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.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

- *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.

Subsequent Event

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through February 7, 2017, the date the financial statements were available to be issued.

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

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

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

2. Net Patient Service Revenue, Continued

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)				
<u>Medicare</u>	<u>Medicaid</u>	<u>Self-Pay</u>	<u>Other</u>	<u>Total All Payors</u>
\$ <u>19,851,000</u>	\$ <u>14,457,000</u>	\$ <u>17,304,000</u>	\$ <u>38,455,000</u>	\$ <u>90,067,000</u>

July 31, 2015				
Patient Service Revenue				
(Net of Contractual Allowances and Discounts)				
<u>Medicare</u>	<u>Medicaid</u>	<u>Self-Pay</u>	<u>Other</u>	<u>Total All Payors</u>
\$ <u>23,025,000</u>	\$ <u>13,848,000</u>	\$ <u>16,168,000</u>	\$ <u>31,140,000</u>	\$ <u>84,181,000</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 28% and 21%, respectively, of the Hospital's net patient revenue for the year ended July 31, 2016 and 36% and 22%, respectively, of the Hospital'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. Cost report estimated reimbursement amounts are adjusted in subsequent periods as final settlements are determined.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

2. Net Patient Service Revenue, Continued

The Hospital 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 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.

The Hospital is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital'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 Hospital. The Hospital's Medicare cost reports have been audited by the MAC through July 31, 2013, with the exception of July 31, 2012.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

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 the Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through July 31, 2013.

The Hospital has also entered into 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 Hospital participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Hospital receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Hospital's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$2,932,000 and \$3,587,000 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 \$349,000 and \$450,000 for the years ended July 31, 2016 and 2015, respectively.

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PHOEBE SUMTER MEDICAL CENTER, INC.

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

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 will result in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately \$691,000 and \$722,000 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 Hospital has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

• Uninsured Patients

In 2016, the Hospital updated its Financial Assistance Policy (FAP) in accordance with Internal Revenue Code 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 SUMTER MEDICAL CENTER, INC.

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

3. Uncompensated Services

The Hospital was compensated for services at amounts less than its established rates.

Charges for uncompensated services for 2016 and 2015 were approximately \$158,154,000 and \$121,691,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$5,875,000 and \$4,555,000 for the years ended July 31, 2016 and 2015, respectively. The cost of charity and indigent care services provided during the years ended July 31, 2016 and 2015 was approximately \$1,681,000 and \$1,470,000, 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 the years ended July 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Gross patient charges	\$ <u>228,245,000</u>	\$ <u>185,837,000</u>
Uncompensated services:		
Charity and indigent care	5,875,000	4,555,000
Medicare	81,068,000	57,067,000
Medicaid	29,386,000	22,533,000
Other allowances	21,849,000	17,501,000
Bad debts	<u>19,976,000</u>	<u>20,035,000</u>
Total uncompensated care	<u>158,154,000</u>	<u>121,691,000</u>
Net patient service revenue	\$ <u>70,091,000</u>	\$ <u>64,146,000</u>

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

4. Assets Limited as to Use

The composition of assets limited as to use as of July 31, 2016 and 2015 is set forth in the following table. Assets limited as to use are available for sale and are stated at fair value.

	<u>2016</u>	<u>2015</u>
By board for capital improvements:		
Money market funds	\$ 1,007,000	\$ 992,000
Government debt securities	2,110,000	1,999,000
Corporate debt securities	<u>1,058,000</u>	<u>1,101,000</u>
Total assets limited as to use	\$ <u>4,175,000</u>	\$ <u>4,092,000</u>

Investment income and gains and losses for the above are comprised of the following for the years ended July 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Income (loss):		
Interest income	\$ 80,000	\$ 70,000
Realized losses	(5,000)	(48,000)
Investment expenses	<u>(29,000)</u>	<u>(29,000)</u>
	\$ <u>46,000</u>	\$(<u>7,000</u>)
Other changes in unrestricted net assets:		
Unrealized gain	\$ <u>37,000</u>	\$ <u>29,000</u>

The Hospital's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

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PHOEBE SUMTER MEDICAL CENTER, 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:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,746,000	\$ 1,688,000
Land improvements	2,337,000	2,396,000
Buildings and improvements	42,739,000	45,348,000
Equipment	<u>22,131,000</u>	<u>15,440,000</u>
	68,953,000	64,872,000
Less accumulated depreciation and amortization	<u>(25,181,000)</u>	<u>(21,111,000)</u>
	43,772,000	43,761,000
Construction-in-progress	<u>10,000</u>	<u>170,000</u>
Property and equipment, net	\$ <u>43,782,000</u>	\$ <u>43,931,000</u>

Depreciation expense for the years ended July 31, 2016 and 2015 amounted to approximately \$4,300,000 and \$4,600,000, respectively.

Construction contracts exist at year end with a total commitment of \$1,300,000. At July 31, 2016, the remaining commitment on these contracts approximated \$1,300,000.

6. Notes Receivable

Notes receivable consist of educational loans to employees as well as loans secured by promissory notes to physicians under recruitment arrangements. Loans are service cancellable with forgiveness over a period of time in which the employee or physician works in the System or in the System's service area. The amounts forgiven and charged to expense during 2016 and 2015 were approximately \$55,000 and \$186,000, respectively.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

7. Defined Contribution Plan

The Hospital may participate in the System's defined contribution pension plan covering substantially all eligible employees. Employees may deposit a portion of their earnings for each pay period on a pre-tax basis and the System matches 50% of each participant's voluntary contributions up to a maximum of 4% of the employee's annual salary. At its discretion, the System may make additional contributions to the plan. Matching and discretionary contribution expense was approximately \$378,000 and \$156,000, for the years ended July 31, 2016 and 2015, respectively. For 2016 and 2015, the total discretionary contributions paid totaled approximately \$-0- and \$-0-, respectively.

8. Employee Health Insurance

The Hospital participates in the System's self-insurance program under which a third-party administrator processes and pays claims. The Hospital reimburses the third-party administrator for claims incurred and paid. In addition, the Hospital 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 \$4,204,000 and \$3,356,000 for 2016 and 2015, respectively.

9. Malpractice Insurance

The Hospital is covered by the System's claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis through the parent's wholly-owned subsidiary, Phoebe Putney Indemnity, LLC (PPI), located in South Carolina. The System's policy with PPI includes limit of liability of \$5,000,000 per occurrence, with an annual aggregate of \$27,000,000 at July 31, 2016 and 2015.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

9. Malpractice Insurance, Continued

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 coverages 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 System 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 Hospital 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.

10. Concentrations of Credit Risk

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor arrangements. 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	31%	26%
Medicaid	15%	15%
Other third-party payors	47%	50%
Patients	<u>7%</u>	<u>10%</u>
Total	<u>100%</u>	<u>100%</u>

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

10. Concentrations of Credit Risk, Continued

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

11. Related Party Transactions

Related party transactions as of July 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Due to Phoebe Putney Health System, Inc.	\$ <u>2,216,000</u>	\$ <u>1,698,000</u>

The related party transactions that affect the above payables arise from normal management related services, physician practice operations, and other shared cost.

12. Related Organization

The Foundation was established to raise funds to support the operation of the Hospital. The Foundation's bylaws provide that the majority of all funds raised, except for funds acquired for the operation of the Foundation, be distributed to or be held for the benefit of the Hospital. The Foundation's general funds, which represent the Foundation's unrestricted resources, are distributed to the Hospital in amounts and in periods determined by the Foundation's Board of Trustees, who may also restrict the use of general funds for Hospital plant replacement or other specific purposes. Plant replacement and expansion funds, and specific-purpose funds are distributed to the Hospital as required to comply with the purpose specified by donors. A summary of the Foundation's assets, liabilities, net assets, results of operations, and changes in net assets follows. The Hospital's interest in the net assets of the Foundation is reported in other assets in the balance sheets.

	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 972,000	\$ 905,000
Investments	2,256,000	2,240,000
Other assets	<u>24,000</u>	<u>24,000</u>
Total assets	\$ <u>3,252,000</u>	\$ <u>3,169,000</u>

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

12. Related Organization, Continued

	<u>2016</u>	<u>2015</u>
Liabilities and net assets:		
Accounts payable	\$ 14,000	\$ 9,000
Net assets	<u>3,238,000</u>	<u>3,160,000</u>
Total liabilities and net assets	\$ <u>3,252,000</u>	\$ <u>3,169,000</u>
Revenue and support	\$ 108,000	\$ 97,000
Expenses	(30,000)	(139,000)
Excess of revenue and support (expenses)	78,000	(42,000)
Net assets, beginning of year	<u>3,160,000</u>	<u>3,202,000</u>
Net assets, end of year	\$ <u>3,238,000</u>	\$ <u>3,160,000</u>

13. Functional Expenses

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

	<u>2016</u>	<u>2015</u>
Patient care services	\$ 53,272,000	\$ 48,977,000
General and administrative	<u>12,052,000</u>	<u>10,979,000</u>
Total	\$ <u>65,324,000</u>	\$ <u>59,956,000</u>

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

14. Fair Value Measurement

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

- *Money market funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Hospital are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Corporate debt securities:* Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical and similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- *Government debt securities:* Certain government debt securities are valued at the closing price reported in the active market in which the individual security is traded. Other government debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

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 the Hospital 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.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

14. Fair Value Measurement

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

		<u>Fair Value Measurements At Reporting Date Using</u>		
	<u>Fair Value</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>July 31, 2016</u>				
Assets:				
Money market funds	\$ 1,007,000	\$ 1,007,000	\$ -	\$ -
Government debt securities	2,110,000	1,708,000	402,000	-
Corporate debt securities	<u>1,058,000</u>	<u>-</u>	<u>1,058,000</u>	<u>-</u>
Total assets	<u>\$ 4,175,000</u>	<u>\$ 2,715,000</u>	<u>\$ 1,460,000</u>	<u>\$ -</u>
<u>July 31, 2015</u>				
Assets:				
Money market funds	\$ 992,000	\$ 992,000	\$ -	\$ -
Government debt securities	1,999,000	1,567,000	432,000	-
Corporate debt securities	<u>1,101,000</u>	<u>-</u>	<u>1,101,000</u>	<u>-</u>
Total assets	<u>\$ 4,092,000</u>	<u>\$ 2,559,000</u>	<u>\$ 1,533,000</u>	<u>\$ -</u>

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. Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

15. Commitments and Contingencies

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 Hospital.

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 Hospital has implemented a compliance plan focusing on such issues. There can be no assurance that the Hospital will not be subjected to future investigations with accompanying monetary damages.

Litigation

The Hospital 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 Hospital's future financial position or results from operations. See malpractice insurance disclosures in Note 9.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

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

16. 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 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 Hospital recognizes income related to 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 Hospital successfully demonstrated meeting meaningful use of its certified EHR technology for fiscal years 2016 and 2015. The Hospital applied for and received approval from Medicare and Medicaid notifying the Hospital qualified for approximately \$248,000 and \$796,000 for fiscal years 2016 and 2015, respectively, which has been recorded in other revenue. Approximately \$248,000 and \$687,000 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 Sumter Medical Center, Inc.
Americus, Georgia

We have audited the financial statements of Phoebe Sumter Medical Center, Inc. as of and for the years ended July 31, 2016 and 2015 and our report thereon dated February 7, 2017, 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 30 to 33, 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
February 7, 2017

PHOEBE SUMTER MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY

July 31, 2016

Phoebe Sumter Medical Center, Inc. (PSMC), formerly Sumter Regional Hospital, is a not-for-profit health care organization that exists to serve the community. PSMC opened in 1953 to serve the community by caring for the sick regardless of their ability to pay. As a not-for-profit hospital, PSMC 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.

PSMC 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. PSMC 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. PSMC 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.

PSMC improves the health and well being of Southwest Georgia through clinical services, education, research, and partnerships that build health capacity in the community. PSMC provides community benefits for all citizens, as well as for the medically underserved. PSMC conducts community needs assessments and pays close attention to the needs of low income and other vulnerable persons and the community at large. PSMC 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. Drawing on a dynamic and flexible structure, the community benefit programs are designed to respond to assessed needs and are focused on upstream prevention.

PSMC participates in the Medicare and Medicaid programs and is one of the leading providers of Medicaid services in Georgia.

Continued

PHOEBE SUMTER MEDICAL CENTER, 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 PSMC due to inadequate payments by these programs and for indigent/charity services. This table does not include discounts offered by PSMC under managed care and other agreements:

	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Medicare	\$ 81,000,000	\$ 23,000,000
Medicaid	29,000,000	8,000,000
Indigent/charity	<u>6,000,000</u>	<u>2,000,000</u>
	<u>\$ 116,000,000</u>	<u>\$ 33,000,000</u>

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

I. Community Health Improvement Services

A. Community Health Education

Men's Health Conferences

PSMC held its Annual Men's Health Conference on September 19, 2015 that provided health screenings for PSA, cholesterol, blood pressure, hearing and vision, health information, speakers, and fellowship to more than 200 attendees. The health conference programs provide outreach, health screenings, educational programs, and health conferences and events. These programs target men at risk of poor health status. The programs target uninsured or underinsured men without a primary care physician or knowledge of recommended preventive health care services. PSMC incurred expenses of \$11,228 for this event.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2016

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

Women's Health Conferences

PSMC held its Annual Women's Health Conference on May 14, 2016 that provided screenings for glucose and cholesterol, blood pressure, hearing and vision, health information, speakers and fellowship for more than 200 attendees. The health conference programs provide outreach, health screenings, educational programs, and health conferences and events. These programs target women at risk of poor health status. The programs target uninsured or underinsured women without a primary care physician or knowledge of recommended preventive health care services. PSMC incurred expenses of \$7,227 for this event.

B. Community Based Clinical Services

Flu Shots and Health Screenings

PSMC provides free flu shots to volunteers and students. In 2016, PSMC administered 1,080 flu shots at an unreimbursed cost of \$16,524.

School Nurse Program

PSMC provides a nurse and two techs in the Sumter County School System. During the 2015/2016 school year, the school nurse program had 15,321 clinic visits and administered 33,170 doses of medication at a cost of \$94,796.

C. Health Care Support Services

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.

Continued

PHOEBE SUMTER MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2016

I. Community Health Improvement Services, Continued

C. Health Care Support Services, Continued

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.

Catastrophic Financial Assistance

Patients whose income exceeds 200% of the Federal Poverty Guidelines, and whose balance owed exceed 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

PSMC recognizes that to continuously improve the organization'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 organization's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. In fiscal year 2016, PSMC provided approximately \$15,000 in clinical supervision and training of nursing students. Approximately 74 students received clinical instruction from our facility.

III. Community Benefit Operations

PSMC incurred \$63,378 in support staff costs to support its community benefit efforts.

See independent auditor's report on supplemental information.