

PHOEBE PUTNEY HEALTH SYSTEM, INC.



CONSOLIDATED FINANCIAL STATEMENTS

for the years ended July 31, 2014 and 2013

## C O N T E N T S

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Phoebe Putney Health System, Inc.  
Albany, Georgia

### **Report on Financial Statements**

We have audited the accompanying consolidated financial statements of Phoebe Putney Health System, Inc. (Corporation) and Subsidiaries, which comprise the consolidated balance sheets as of July 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Phoebe Putney Indemnity, LLC (PPI), a wholly-owned subsidiary, which statements reflect total assets constituting 6.4% and 6.1%, respectively of consolidated total assets at July 31, 2014 and 2013, and total revenues constituting 2.1% and 2.0%, respectively of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PPI, is based solely on the report of the other auditors. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phoebe Putney Health System, Inc. as of July 31, 2014 and 2013, 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 3, 2014

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS, July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 99,078,553	\$ 93,863,355
Patient accounts receivable, net of allowance for doubtful accounts of \$55,000,000 in 2014 and \$51,000,000 in 2013	112,738,393	121,014,507
Supplies, at lower of cost (first-in, first-out) or market	11,463,221	12,340,226
Estimated third-party payor settlements	1,000,702	7,921,847
Other current assets	<u>17,151,372</u>	<u>14,469,585</u>
Total current assets	<u>241,432,241</u>	<u>249,609,520</u>
Assets limited as to use:		
Internally designated for capital improvements	332,622,604	297,608,002
Internally designated for self-insurance	71,112,670	65,437,556
Externally designated by donors	<u>9,238,241</u>	<u>6,277,296</u>
Total assets limited as to use	<u>412,973,515</u>	<u>369,322,854</u>
Property and equipment, net	<u>398,922,441</u>	<u>421,738,851</u>
Other assets:		
Deferred financing cost	3,045,923	3,188,380
Goodwill	130,734,787	130,664,387
Other assets	<u>11,035,092</u>	<u>31,576,331</u>
Total other assets	<u>144,815,802</u>	<u>165,429,098</u>
Total assets	<u>\$ 1,198,143,999</u>	<u>\$ 1,206,100,323</u>

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS, July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 6,003,553	\$ 5,423,553
Accounts payable	24,078,345	24,555,962
Accrued expenses	<u>50,240,912</u>	<u>58,049,703</u>
Total current liabilities	80,322,810	88,029,218
Long-term debt, net of current portion	297,589,914	303,593,467
Accrued pension cost	68,031,420	103,153,525
Accrued self-insurance cost	45,717,258	48,660,145
Derivative financial instruments	<u>8,087,979</u>	<u>6,795,221</u>
Total liabilities	<u>499,749,381</u>	<u>550,231,576</u>
Net assets:		
Unrestricted	689,156,377	649,591,451
Temporarily restricted	7,274,971	4,496,165
Permanently restricted	<u>1,963,270</u>	<u>1,781,131</u>
Total net assets	<u>698,394,618</u>	<u>655,868,747</u>
 Total liabilities and net assets	 <u>\$ 1,198,143,999</u>	 <u>\$ 1,206,100,323</u>

The accompanying notes are an integral part of these financial statements.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND  
CHANGES IN NET ASSETS  
for the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 720,132,034	\$ 743,560,936
Provision for bad debts	<u>(112,400,948)</u>	<u>(109,093,258)</u>
Net patient service revenue	607,731,086	634,467,678
Other revenue	<u>39,381,119</u>	<u>34,782,825</u>
Total revenues, gains and other support	<u>647,112,205</u>	<u>669,250,503</u>
Expenses:		
Salaries and wages	295,873,538	304,963,608
Employee health and welfare	71,576,844	99,378,406
Medical supplies and other	174,598,499	165,831,255
Provision for bad debts - Dorminy	22,683,706	-
Purchased services	60,771,316	56,735,858
Depreciation and amortization	44,875,131	41,113,350
Interest	<u>7,336,259</u>	<u>7,474,231</u>
Total expenses	<u>677,715,293</u>	<u>675,496,708</u>
Operating loss	<u>( 30,603,088)</u>	<u>( 6,246,205)</u>
Nonoperating gains (losses):		
Investment income	40,686,483	52,796,230
Loss on impairment of goodwill	<u>-</u>	<u>( 43,929,294)</u>
Total nonoperating gains	<u>40,686,483</u>	<u>8,866,936</u>
Excess revenues	10,083,395	2,620,731

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND  
CHANGES IN NET ASSETS, Continued  
for the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Net assets released from restrictions	\$ 588,458	\$ 1,208,440
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	( 30,330)	593,953
Net actuarial gain	27,616,806	39,447,559
Amortization of prior service cost	224,715	181,422
Amortization of net gain	1,071,559	7,064,269
Other changes in unrestricted net assets	<u>10,323</u>	<u>( 1,163,980)</u>
Increase in unrestricted net assets	<u>39,564,926</u>	<u>49,952,394</u>
Temporarily restricted net assets:		
Restricted donations	3,367,264	670,958
Net assets released from restrictions	<u>( 588,458)</u>	<u>( 1,208,440)</u>
Increase (decrease) in temporarily restricted net assets	<u>2,778,806</u>	<u>( 537,482)</u>
Permanently restricted net assets:		
Restricted donations	<u>182,139</u>	<u>200,033</u>
Increase in net assets	42,525,871	49,614,945
Net assets, beginning of year	<u>655,868,747</u>	<u>606,253,802</u>
Net assets, end of year	\$ <u>698,394,618</u>	\$ <u>655,868,747</u>

The accompanying notes are an integral part of these financial statements.



PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
for the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 42,525,871	\$ 49,614,945
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized (gain) loss and changes in unrealized (gain) loss on investments	( 40,033,287)	(42,605,500)
Depreciation and amortization	44,875,131	41,113,350
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	30,330	( 593,953)
Loss on impairment of goodwill	-	43,929,294
Change in derivative financial instruments	1,292,758	( 7,240,251)
Changes in:		
Receivables	8,276,114	(12,908,604)
Supplies	877,005	( 1,260,934)
Estimated third-party payor settlements	6,921,145	( 2,542,701)
Other receivables	-	( 704,825)
Other assets	17,901,179	(14,992,154)
Accounts payable and accrued expenses	( 8,286,408)	7,653,405
Accrued pension cost	( 35,122,105)	(35,745,817)
Accrued self-insurance cost	( 2,942,887)	( 170,495)
Net cash provided by operating activities	<u>36,314,846</u>	<u>23,545,760</u>
Cash flows from investing activities:		
Purchase of property and equipment	( 22,058,721)	(36,687,953)
Payments from Authority	-	17,316,845
Sale of assets limited as to use	125,813,689	72,001,495
Purchase of assets limited as to use	<u>(129,431,063)</u>	<u>(90,255,183)</u>
Net cash used by investing activities	<u>( 25,676,095)</u>	<u>(37,624,796)</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued  
for the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from financing activities:		
Payments on short-term debt	\$ -	\$(100,000,000)
Payments on long-term debt	( 5,423,553)	(116,074,091)
Proceeds from issuance of long-term debt	<u>-</u>	<u>211,311,593</u>
Net cash used by financing activities	( <u>5,423,553</u> )	( <u>4,762,498</u> )
Increase (decrease) in cash and cash equivalents	5,215,198	( 18,841,534)
Cash and cash equivalents, beginning of year	<u>93,863,355</u>	<u>112,704,889</u>
Cash and cash equivalents, end of year	\$ <u><u>99,078,553</u></u>	\$ <u><u>93,863,355</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ <u><u>7,136,000</u></u>	\$ <u><u>7,700,000</u></u>

- In 2013, the Corporation acquired long-term assets, primarily consisting of goodwill of approximately \$157,581,000, as a result of the transactions to acquire Palmyra Park Hospital, LLC and medical practices.

The accompanying notes are an integral part of these financial statements.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2014 and 2013

1. Summary of Significant Accounting Policies

Organization

Phoebe Putney Health System, Inc. (Corporation) is the not-for-profit parent company of Phoebe Putney Memorial Hospital, Inc., a not-for-profit entity, Phoebe Putney Health Ventures, Inc., a for-profit corporation, Phoebe Physician Group, Inc., a not-for-profit corporation, Phoebe Worth Medical Center, Inc., a not-for-profit entity, Phoebe Sumter Medical Center, Inc., a not-for-profit entity, Phoebe Putney Indemnity, LLC, a single member LLC, and Phoebe Foundation, Inc., a not-for-profit entity. The above entities are consolidated and all intercompany transactions are eliminated.

Phoebe Putney Memorial Hospital, Inc. (PPMH), located in Albany, Georgia, is an acute care hospital, which operates satellite clinics in the surrounding counties. It provides inpatient, outpatient and emergency care services for residents of Southwest Georgia. Admitting physicians are primarily practitioners in the local area.

Phoebe Putney Health Ventures, Inc. engages in healthcare and related activities in furtherance of the exempt purposes of Phoebe Putney Health System, Inc. and Phoebe Putney Memorial Hospital, Inc.

Phoebe Physician Group, Inc. was established to organize and operate medical practices exclusively for the benefit of Phoebe Putney Memorial Hospital, Inc., Phoebe Worth Medical Center, Inc., and Phoebe Sumter Medical Center, Inc.

Phoebe Worth Medical Center, Inc. (PWMC), located in Sylvester, Georgia, is a 25 bed rural critical access hospital. It provides inpatient, outpatient, and emergency care services for residents of Worth County, Georgia.

Phoebe Sumter Medical Center, Inc. (PSMC), located in Americus, Georgia, is an acute care hospital. It provides inpatient, outpatient and emergency care services for residents of Sumter County, Georgia.

Phoebe Putney Indemnity, LLC, is organized as a single parent captive under the captive insurance laws of the State of South Carolina to insure the risks of Phoebe Putney Health System, Inc.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

Organization, Continued

Phoebe Foundation, Inc. was established to raise funds of any kind or character to be used exclusively for charitable, medical, educational and scientific purposes at or in connection with Phoebe Putney Memorial Hospital, Inc. or the Hospital Authority of Albany-Dougherty County, Georgia (Authority).

Reorganization

Effective September 1, 1991, the Hospital Authority of Albany-Dougherty County, Georgia 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.

Effective August 1, 2012, the lease and transfer agreement between PPMH 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, for approximately \$195 million. The amendment included the extension of the lease for a term of forty years from the date of the current amendment.

Effective July 1, 2009, the Americus-Sumter County Hospital Authority (Sumter Authority) implemented a reorganization plan for Sumter Regional Hospital (SRH) whereby all the assets, management and governance of SRH was transferred to Phoebe Sumter Medical Center, 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. The lease term is forty years with an annual contribution of \$25,000 to the Sumter Authority. Under the lease and transfer agreement, the Sumter Authority was required to construct a new hospital facility. The new hospital facility is leased to Phoebe Sumter Medical Center, Inc. for the remainder of the lease term. This transaction is accounted for as a pooling of interest. As part of the lease and transfer agreement, the Corporation agreed to contribute up to \$25,000,000 to the construction cost of the new facility or the physician recruiting efforts of Phoebe Sumter Medical Center, Inc., as needed.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

Use of Estimates

The preparation of the consolidated 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.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. The Corporation routinely invests its surplus operating funds in 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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts, Continued

The Corporation's allowance for doubtful accounts for fiscal year 2014 increased as a percentage of self-pay accounts receivable compared to fiscal year 2013. The increase was the result of industry trends, which have led to the patients taking on greater responsibility, which has had a negative impact on overall reimbursement.

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.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investments without a readily determinable fair value are evaluated for the applicability of the cost or equity method. Investments qualifying for the equity method are stated at quoted net asset value of shares held at year end. 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.

Derivative Financial Instruments

The Corporation has entered into interest rate swap agreements as part of its interest rate risk management strategy. These agreements 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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

Derivative Financial Instruments, Continued

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 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. 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 primarily include assets restricted by donors and held by Phoebe Foundation, Inc., and designated assets set aside by the Board of Directors for future capital improvements and self-insurance trust agreements, 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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. 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, 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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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1. Summary of Significant Accounting Policies, Continued

Goodwill

Under FASB authoritative guidance, goodwill and intangible assets with indefinite lives are no longer amortized, but are tested for impairment annually and more frequently in the event of an impairment indicator. The accounting standard also requires that intangible assets with definite lives be amortized over their respective estimated useful lives, and reviewed whenever events or circumstances indicate impairment may exist.

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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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1. Summary of Significant Accounting Policies, Continued

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 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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

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.

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

Phoebe Putney Health System, Inc., Phoebe Putney Memorial Hospital, Inc., Phoebe Worth Medical Center, Inc., Phoebe Sumter Medical Center, Inc., Phoebe Physician Group, Inc., and Phoebe Foundation, Inc. are not-for-profit corporations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Phoebe Putney Indemnity, LLC is not subject to federal income taxes due to its organization as a single member LLC. Phoebe Putney Health Ventures, Inc. is a for-profit entity. With respect to its for-profit entity as well as any unrelated business income generated through the tax exempt entities, the Corporation accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and income tax credit carryforwards. Deferred income tax assets or liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in rates is recognized in income in the period in which the enactment date occurs. The Corporation is required to establish a valuation allowance for any portion of the deferred tax assets that management believes will not be realized.

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, 2014 and 2013 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.

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 consolidated statements of operations and changes in net assets for the years ended July 31, 2014 and 2013.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

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.

Phoebe Sumter Beneficial Interest in Net Assets of Foundation

PSMC accounts for the activities of Sumter Regional Hospital 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 a donor. Sumter Regional Hospital Foundation, Inc. accepts assets on behalf of PSMC.

Recently Adopted Accounting Pronouncement

In 2014, the Corporation adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2013-01, *Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities*. This new guidance was issued to clarify that the scope of ASU No. 2011-11 applies to derivatives that are either offset or subject to an enforceable master netting arrangement or similar agreement. The adoption of this ASU did not have an effect on the financial statements and relates only to disclosure.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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 3, 2014, the date the financial statements were issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2013 consolidated financial statements to conform to the fiscal year 2014 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 arrangements 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, 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, 2014				
Patient Service Revenue				
(Net of Contractual Allowances and Discounts)				
<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
\$ <u>217,365,685</u>	\$ <u>93,698,071</u>	\$ <u>295,913,567</u>	\$ <u>113,154,711</u>	\$ <u>720,132,034</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

2. Net Patient Service Revenue, Continued

July 31, 2013				
Patient Service Revenue				
(Net of Contractual Allowances and Discounts)				
<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
\$ <u>221,752,432</u>	\$ <u>93,985,474</u>	\$ <u>318,253,994</u>	\$ <u>109,569,036</u>	\$ <u>743,560,936</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 36% and 15%, respectively, of the Corporation's net patient revenue for the year ended July 31, 2014 and 35% and 15%, respectively of the Corporation's net patient revenue for the year ended July 31, 2013. 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.

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 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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

2. Net Patient Service Revenue, Continued

• Medicare, Continued

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, 2010.

• 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, 2010.

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 \$10,916,000 and \$9,292,000 for the years ended July 31, 2014 and 2013, respectively.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

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 \$1,474,000 and \$2,955,000 for the years ended July 31, 2014 and 2013, respectively.

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 \$7,825,000 and \$7,704,000 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, 2014 and 2013, 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.

Continued



PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2014 and 2013 were approximately \$1,165,000,000 and \$1,142,000,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$80,000,000 and \$90,000,000 in 2014 and 2013, respectively. The cost of charity and indigent care services provided during 2014 and 2013 was approximately \$31,000,000 and \$34,000,000, 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 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Gross patient charges	\$ <u>1,773,005,360</u>	\$ <u>1,776,272,169</u>
Uncompensated services:		
Charity and indigent care	80,304,959	90,469,887
Medicare	584,307,132	558,865,121
Medicaid	230,696,826	225,359,997
Other allowances	157,564,409	158,016,228
Bad debts	<u>112,400,948</u>	<u>109,093,258</u>
Total uncompensated care	<u>1,165,274,274</u>	<u>1,141,804,491</u>
Net patient service revenue	\$ <u><u>607,731,086</u></u>	\$ <u><u>634,467,678</u></u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

4. Investments

Assets Limited as to Use

The composition of assets limited as to use at July 31, 2014 and 2013 is set forth in the following table. Assets limited as to use are classified as trading and are stated at fair value.

	<u>2014</u>	<u>2013</u>
By board for capital improvements:		
Money market funds	\$ 7,633,864	\$ 8,013,584
Certificates of deposit	373,107	371,246
Equity securities	8,605,966	10,271,687
Mutual funds – fixed income funds	71,801,933	59,960,653
Mutual funds – index funds	14,615,374	21,079,509
Mutual funds – growth and other funds	10,152,686	10,087,602
Real estate investment funds	11,500,521	9,699,740
Government debt securities	2,001,591	2,177,089
Corporate debt securities	1,389,891	1,005,480
Alternative investments in hedge funds	75,074,819	64,695,921
Common collective trusts invested in equity securities	86,980,220	79,161,836
Limited partnerships invested in equity securities	<u>42,492,632</u>	<u>31,083,655</u>
Total board designated for capital improvements	<u>332,622,604</u>	<u>297,608,002</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

4. Investments, Continued

Assets Limited as to Use, Continued

	<u>2014</u>	<u>2013</u>
By board for self-insurance:		
Money market funds	\$ 3,169,883	\$ 9,636,100
Mutual funds – growth and other funds	40,105,699	26,191,702
Mutual funds – fixed income funds	17,082,235	19,600,941
Alternative investments in hedge funds	<u>10,754,853</u>	<u>10,008,813</u>
Total board designated for self-insurance	<u>71,112,670</u>	<u>65,437,556</u>
Externally designated by donors:		
Money market funds	2,468,196	1,308,871
Equity securities	968,919	210,373
Mutual funds – fixed income funds	4,992	899,836
Mutual funds – index funds	1,128,383	810,545
Mutual funds – growth and other funds	3,367,094	2,698,506
Corporate debt securities	960,255	-
Real estate investment funds	23,855	8,172
Alternative investments in hedge funds	5,912	118,309
Common collective trusts invested in equity securities	<u>310,635</u>	<u>222,684</u>
Total externally designated by donors	<u>9,238,241</u>	<u>6,277,296</u>
Total assets limited as to use	<u>\$ 412,973,515</u>	<u>\$ 369,322,854</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

4. Investments, Continued

Assets Limited as to Use, Continued

The following table provides a summary of the Corporation's investments as of July 31, 2014 and 2013, for which the cost basis of securities exceeds fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions:

Description of Securities	July 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	\$ 1,102,819	\$( 85,625)	\$ -	\$ -	\$ 1,102,819	\$( 85,625)
Mutual funds – growth funds	128,436	( 4,404)	9,827,873	( 325,912)	9,956,309	( 330,316)
Mutual funds – fixed income funds	392,020	( 9,324)	-	-	392,020	( 9,324)
Alternative investments in hedge funds	-	-	347,979	( 72,958)	347,979	( 72,958)
Real estate investment funds	<u>1,343,116</u>	<u>( 40,063)</u>	<u>-</u>	<u>-</u>	<u>1,343,116</u>	<u>( 40,063)</u>
Total	\$ <u>2,966,391</u>	\$ <u>(139,416)</u>	\$ <u>10,175,852</u>	\$ <u>( 398,870)</u>	\$ <u>13,142,243</u>	\$ <u>( 538,286)</u>
Description of Securities	July 31, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equity securities	\$ -	\$ -	\$ 9,852	\$( 1,146)	\$ 9,852	\$( 1,146)
Mutual funds – growth funds	5,763,411	(133,432)	2,829,220	( 334,372)	8,592,631	( 467,804)
Alternative investments in hedge funds	-	-	841,574	( 105,084)	841,574	( 105,084)
Common collective trusts invested in equity securities	8,413,336	(411,055)	10,523,540	(1,458,984)	18,936,876	(1,870,039)
Limited partnerships invested in equity securities	-	-	1,995,000	( 232,227)	1,995,000	( 232,227)
Real estate investment funds	<u>-</u>	<u>-</u>	<u>973,044</u>	<u>( 7,664)</u>	<u>973,044</u>	<u>( 7,664)</u>
Total	\$ <u>14,176,747</u>	\$ <u>(544,487)</u>	\$ <u>17,172,230</u>	\$ <u>(2,139,477)</u>	\$ <u>31,348,977</u>	\$ <u>(2,683,964)</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

4. Investments, Continued

Assets Limited as to Use, Continued

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. In analyzing an issuer's financial condition, management considers whether the investments are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Management has considered the nature of investments in an unrealized loss position, the cause of their impairment, the severity and duration of their impairment, the current global economic conditions, the Corporation's intentions to sell or ability to hold the investments, and other relevant information available to management in determining if investments are other than temporarily impaired. Based on an evaluation of these factors, the Corporation has concluded that the declines in fair values of the Corporation's investments reported in the above table are temporary.

Investment income, including realized gains and losses and unrealized gains and losses for the above trading securities are as follows for the years ending July 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Dividend income	\$ 3,107,467	\$ 3,249,885
Interest income	623,276	679,346
Realized gains	16,709,022	7,070,434
Investment expenses	( 1,543,755)	( 1,576,892)
Unrealized gains	<u>23,324,265</u>	<u>35,535,066</u>
Total	<u>\$ 42,220,275</u>	<u>\$ 44,957,839</u>

The Corporation'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 consolidated financial statements.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

4. Investments, Continued

Assets Limited as to Use, Continued

A comparison of the Corporation's investment holdings to the investment policy targets at July 31, 2014 and 2013 is set forth in the following table:

	2014			2013		
	<u>Portfolio Total</u>	<u>Portfolio Allocation</u>	<u>Investment Policy Target</u>	<u>Portfolio Total</u>	<u>Portfolio Allocation</u>	<u>Investment Policy Target</u>
U.S. equities	\$ 106,832,032	26%	20%	\$ 98,194,598	27%	20%
Non U.S. equities	70,496,104	17%	16%	60,846,790	16%	16%
Emerging markets	28,022,126	7%	6%	18,973,937	5%	6%
Hedge funds	85,835,584	20%	20%	74,823,042	20%	20%
Real assets	14,901,722	4%	13%	13,711,484	4%	13%
Opportunistic funds	-	-	5%	-	-	5%
U.S. fixed income	93,240,897	23%	20%	83,443,202	23%	20%
Cash and cash equivalents	<u>13,645,050</u>	<u>3%</u>	<u>- %</u>	<u>19,329,801</u>	<u>5%</u>	<u>- %</u>
Total	\$ <u>412,973,515</u>	<u>100%</u>	<u>100%</u>	\$ <u>369,322,854</u>	<u>100%</u>	<u>100%</u>

The Corporation's investment portfolio is managed by a variety of fund managers. Each fund may from time to time hold cash due to the timing of sales and purchases activity. Based on the investment policy target, the entire fund is considered to be invested.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

5. Property and Equipment

A summary of property and equipment at July 31, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 32,466,388	\$ 32,321,972
Land improvements	6,440,418	6,668,421
Building	440,248,600	435,158,225
Equipment	<u>336,331,024</u>	<u>346,672,215</u>
	815,486,430	820,820,833
Less accumulated depreciation	<u>429,871,370</u>	<u>414,003,822</u>
	385,615,060	406,817,011
Construction in progress	<u>13,307,381</u>	<u>14,921,840</u>
Net property and equipment	\$ <u>398,922,441</u>	\$ <u>421,738,851</u>

Depreciation expense for the years ended July 31, 2014 and 2013 amounted to approximately \$44,875,000 and \$41,113,000, respectively.

Construction contracts exist for various projects at year end with a total commitment of \$1,447,000. At July 31, 2014, the remaining commitment on these contracts approximated \$394,000.

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 for the years ended July 31, 2014 and 2013 amounted to approximately \$142,000 and \$1,235,000, respectively.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

7. Goodwill

Goodwill is related to the Corporation's purchase of an area hospital and health care clinics. The goodwill is evaluated annually for impairment.

The changes in the carrying amount of goodwill for the years ended July 31, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year:		
Goodwill	\$ 174,593,681	\$ 17,012,675
Accumulated impairment losses	( 43,929,294)	-
	<u>130,664,387</u>	<u>17,012,675</u>
Goodwill acquired during the year	70,400	157,581,006
Impairment losses	<u>-</u>	<u>( 43,929,294)</u>
Balance at end of year:		
Goodwill	174,664,081	174,593,681
Accumulated impairment losses	( 43,929,294)	( 43,929,294)
Total	\$ <u>130,734,787</u>	\$ <u>130,664,387</u>

Due to an increase in the uninsured population as well as regulatory changes, the Corporation determined that the carrying amount of the net assets related to the Hospital formerly known as Palmyra exceeded their fair value. The fair value was computed using a combination of the discounted cash flow method and two market approach methods including the guideline public company method and the merger and acquisition method performed on July 1, 2013. Accordingly, the Corporation recognized an impairment loss of \$43,929,294 for fiscal year 2013.

Continued



PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

8. Other Receivables / Hospital Authority of Albany-Dougherty County, Georgia Lease Amendment

On August 1, 2012, the Corporation leased Palmyra from the Authority which satisfied the receivable balance in full. Accordingly, the results of operations for Palmyra have been included in the accompanying financial statements from that date forward.

The lease was entered into for the purpose of gaining additional patient capacity.

Consideration for the lease comprised of the following (at fair value):

Satisfaction of receivable from the Authority	\$ <u>217,893,063</u>
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Goodwill in the amount of \$157,581,000 was recognized in the lease of Palmyra and is attributable to a long history of successful operations resulting in strong earnings.

The following assets and liabilities were recognized in the lease (at fair value):

Cash	\$ 17,316,845
Patient accounts receivable	9,092,766
Prepaid expenses, supplies, and other assets	3,212,113
Capital assets	38,225,103
Current liabilities	( <u>7,534,770</u> )
 Total identifiable assets	 60,312,057
 Goodwill and other intangible assets	 <u>157,581,006</u>
 Total	 \$ <u>217,893,063</u>

Intangible assets acquired include the trade name, certificate of need and other licenses, and non-compete covenants whose fair value is approximately \$1,757,000.

Costs related to the lease, which include legal, consulting, valuation, and other fees, of approximately \$3,501,000 have been charged directly to operations and are included in the purchased services line in the 2013 consolidated statements of operations and changes in net assets.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

9. Other Assets

During the construction of the new hospital facility, the Corporation advanced the Sumter Authority approximately \$35,000,000 for construction and other assets. The Corporation has also contributed funds toward the recruitment of physicians. The Corporation agreed to fund construction and recruitment at a maximum not to exceed \$25,000,000 should amounts from federal and state agencies and other third parties be less than the actual costs of construction and recruitment. As of July 31, 2012, the Corporation has recorded a \$25,000,000 contribution advance toward the construction of the new hospital contingent upon inadequate funding from federal and state agencies and other third parties. The remaining \$10,358,000 is recorded as a receivable in other assets at July 31, 2013. During 2014, the Sumter Authority repaid approximately \$4,737,000 of the advance to the Corporation and the remaining \$5,621,000 is recorded as a receivable in other assets at July 31, 2014. The Sumter Authority is pursuing receipt of funds from federal and state agencies and other third parties sufficient to repay the \$35,000,000.

10. Long-Term Debt

	<u>2014</u>	<u>2013</u>
2008A Series Refunding Revenue		
Anticipation Certificates, payable in varying annual amounts from \$1,600,000 to \$3,795,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread.	\$ 46,980,000	\$ 48,545,000
2008B Series Refunding Revenue		
Anticipation Certificates, payable in varying annual amounts from \$1,595,000 to \$3,790,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread.	46,895,000	48,460,000

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

10. Long-Term Debt, Continued

	<u>2014</u>	<u>2013</u>
2010A Series Revenue Anticipation Certificates, payable in varying annual amounts from \$85,000 to \$11,355,000 in 2040; bearing interest at a monthly rate to be adjusted by the Remarketing Agent.	\$ 97,475,000	\$ 97,830,000
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%.	<u>106,175,000</u>	<u>107,900,000</u>
	297,525,000	302,735,000
Less current portion	<u>6,003,553</u>	<u>5,423,553</u>
	291,521,447	297,311,447
Add unamortized premium	<u>6,068,467</u>	<u>6,282,020</u>
	<u>\$ 297,589,914</u>	<u>\$ 303,593,467</u>

The Series 1993 Revenue Certificates were paid off in January 2013 pursuant to the prior redemption clause.

The Series 2008A and 2008B Revenue Certificates 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 certificates were reissued as the Series 2008A and 2008B Refunding Revenue Certificates on December 7, 2012.

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 2010A Revenue Certificates bear interest at a monthly rate adjusted by J. P. Morgan Chase Bank, N.A. The Corporation may convert the interest rate upon compliance with terms and provisions of the indenture.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

10. Long-Term Debt, Continued

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 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 certificates at July 31, 2014 were issued pursuant to the 2002 Master Indenture dated as of March 1, 2002. Under the terms of the 2002 Master 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:

<u>Year</u>	<u>2008A</u>	<u>2008B</u>	<u>2010A</u>	<u>2012</u>	<u>Total</u>
2015	\$ 1,600,000	\$ 1,595,000	\$ 285,000	\$ 2,310,000	\$ 5,790,000
2016	1,825,000	1,825,000	-	2,310,000	5,960,000
2017	1,780,000	1,770,000	120,000	2,500,000	6,170,000
2018	1,860,000	1,850,000	85,000	2,590,000	6,385,000
2019	1,835,000	1,835,000	220,000	2,755,000	6,645,000
Thereafter	<u>38,080,000</u>	<u>38,020,000</u>	<u>96,765,000</u>	<u>93,710,000</u>	<u>266,575,000</u>
Total	\$ <u>46,980,000</u>	\$ <u>46,895,000</u>	\$ <u>97,475,000</u>	\$ <u>106,175,000</u>	\$ <u>297,525,000</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

11. 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 other liabilities on the balance sheet. The critical terms of the swaps are as follows:

**\$25MM Fixed Pay LIBOR Swap – Non-Hedge**

	<u>2014</u>	<u>2013</u>
Notional amount	\$ 22,368,051	\$ 22,650,926
Fair market value	\$( 4,674,040)	\$( 3,945,119)
Life remaining on swap	18 Years	19 Years

**\$25MM Fixed Pay LIBOR Swap – Non-Hedge**

	<u>2014</u>	<u>2013</u>
Notional amount	\$ 22,368,051	\$ 22,650,926
Fair market value	\$( 4,345,079)	\$( 4,290,406)
Life remaining on swap	18 Years	19 Years

**\$21.145MM Fixed Pay LIBOR Swap – Non-Hedge**

	<u>2014</u>	<u>2013</u>
Notional amount	\$ 18,918,898	\$ 19,158,152
Fair market value	\$( 3,675,068)	\$( 3,335,782)
Life remaining on swap	18 Years	19 Years

**Constant Maturity LIBOR Swap – Non-Hedge**

	<u>2014</u>	<u>2013</u>
Notional amount	\$ 38,267,590	\$ 39,370,090
Fair market value	\$ 2,149,856	\$ 3,063,717
Life remaining on swap	18 Years	19 Years

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

11. Derivative Financial Instruments, Continued

<b>Constant Maturity LIBOR Swap – Non-Hedge</b>		
	<u>2014</u>	<u>2013</u>
Notional amount	\$ 38,267,591	\$ 39,370,091
Fair market value	\$ 2,188,453	\$ 3,150,006
Life remaining on swap	18 Years	19 Years
<b>Constant Maturity LIBOR Swap – Non-Hedge</b>		
	<u>2014</u>	<u>2013</u>
Notional amount	\$ 76,535,181	\$ 78,740,181
Fair market value	\$ 267,899	\$ 844,482
Life remaining on swap	4 Years	5 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, 2014 and 2013, 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. For the years ending July 31, 2014 and 2013, this earnings impact totaled approximately \$(1,293,000) and \$6,882,000, respectively.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

12. Temporarily and Permanently Restricted Net Assets

A summary of the restricted net assets at July 31, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
<u>Temporarily Restricted Net Assets</u>		
Donor restricted investments	\$ <u>7,274,971</u>	\$ <u>4,496,165</u>
<u>Permanently Restricted Net Assets</u>		
Restricted investments to be held in perpetuity by Phoebe Foundation, Inc.	\$ <u>1,963,270</u>	\$ <u>1,781,131</u>

13. 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, 2014 and 2013. 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. The recognition of the effect of the planned freeze has been recognized in the financial statements for the year ended July 31, 2014. Curtailment charges associated with the freeze total \$67,718.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Plan assets at fair value at July 31	\$ 185,860,872	\$ 165,003,768
Projected benefit obligation at July 31	<u>253,892,292</u>	<u>268,157,293</u>
Funded status	\$( <u>68,031,420</u> )	\$( <u>103,153,525</u> )
Amounts recognized in the consolidated balance sheet consist of:		
Noncurrent liabilities	\$( <u>68,031,420</u> )	\$( <u>103,153,525</u> )
Amounts recognized in unrestricted net assets:		
Net actuarial loss	\$( 45,625,887 )	\$( 74,314,252 )
Prior service cost not yet recognized in net periodic pension cost	( <u>253,249</u> )	( <u>477,964</u> )
Deferred pension cost	\$( <u>45,879,136</u> )	\$( <u>74,792,216</u> )
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	4.59%	5.30%
Rate of compensation increase	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	5.30%	4.57%
Expected long-term return on plan assets	7.75%	8.75%
Rate of compensation increase	4.00%	4.00%

Continued



PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. Pension Plan, Continued

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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Service cost	\$ 7,299,084	\$ 14,356,617
Interest cost	12,198,246	13,248,662
Expected return on plan assets	(12,985,709)	(14,168,537)
Amortization of prior service cost	156,997	181,422
Amortization of recognized net actuarial loss	1,071,559	7,064,269
Settlement/curtailment expense	<u>67,718</u>	<u>-</u>
Net periodic benefit cost	<u>7,807,895</u>	<u>20,682,433</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial gain	(27,616,806)	(39,447,559)
Amortization of prior service cost	( 224,715)	( 181,422)
Amortization of net actuarial loss	<u>( 1,071,559)</u>	<u>( 7,064,269)</u>
Total recognized in unrestricted net assets	<u>(28,913,080)</u>	<u>(46,693,250)</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$(21,105,185)</u>	<u>\$(26,010,817)</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. Pension Plan, Continued

	<u>2014</u>	<u>2013</u>
Projected benefit obligation, beginning of year	\$ 268,157,293	\$ 289,274,601
Service cost	7,299,084	14,356,617
Interest cost	12,198,246	13,248,662
Actuarial (gain) loss	17,709,122	( 31,803,450)
Settlement/curtailment gain	( 38,864,525)	-
Benefits paid	( <u>12,606,928</u> )	( <u>16,919,137</u> )
 Projected benefit obligation, end of year	 \$ <u>253,892,292</u>	 \$ <u>268,157,293</u>
 Accumulated benefit obligation	 \$ <u>244,076,943</u>	 \$ <u>217,525,690</u>

The change in fair value of plan assets for the years ended July 31, 2014 and 2013 included the following components:

	<u>2014</u>	<u>2013</u>
Plan assets at fair value, beginning of year	\$ 165,003,768	\$ 150,375,259
Actual return on assets	19,447,112	21,812,646
Employer contributions	14,016,920	9,735,000
Benefits paid	( <u>12,606,928</u> )	( <u>16,919,137</u> )
 Plan assets at fair value, end of year	 \$ <u>185,860,872</u>	 \$ <u>165,003,768</u>

The Corporation anticipates making a contribution during fiscal year 2015 of \$23,916,026.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. 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>Pension Benefits</u>
2015	\$ 8,100,000
2016	\$ 8,581,000
2017	\$ 9,254,000
2018	\$ 10,117,000
2019	\$ 11,117,000
2020 – 2024	\$ 70,931,000

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at July 31, 2014.

The actuarial loss and prior service cost to be recognized during the next 12 months beginning August 1, 2014 is as follows:

Amortization of net actuarial loss	\$ 1,590,932
Amortization of prior year service costs	<u>148,249</u>
Total	\$ <u>1,739,181</u>

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. Pension Plan, Continued

Plan Assets

The composition of plan assets at July 31, 2014 and 2013 is as follows:

	<u>Target Allocation</u>	<u>Pension Benefits</u>	
		<u>2014</u>	<u>2013</u>
Asset category:			
Cash and cash equivalents	- %	3%	6%
U.S. equity securities	20%	23%	24%
Fixed income	20%	22%	20%
Real assets	13%	4%	4%
Opportunistic	5%	3%	5%
Hedge funds	20%	22%	19%
Non U.S. equity securities	16%	17%	17%
Emerging markets	<u>6%</u>	<u>6%</u>	<u>5%</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 equities, debt securities, cash and cash equivalents, hedge funds, and U.S. government securities. 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 HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. 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, 2014 and 2013, by asset category are as follows:

<u>Asset Category</u>	Fair Value Measurements at July 31, 2014			
	<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	\$ 6,134,586	\$ -	\$ 6,134,586	\$ -
Common collective trusts:				
Index funds	12,591,640	-	12,591,640	-
Other funds	12,580,023	-	12,580,023	-
Corporate stocks:				
Emerging market stocks	11,946,574	-	11,946,574	-
Other stock	5,994,055	5,945,211	48,844	-
Real estate investment trusts	4,520,344	4,520,344	-	-
Partner/joint venture interests:				
Equity funds	47,408,748	-	35,872,584	11,536,164
Registered investment company:				
Fixed income funds	51,536,335	-	51,536,335	-
Hedge fund: multi-strategy funds	7,520,048	-	7,520,048	-
Hedge fund: long/short equity funds	8,504,742	-	8,504,742	-
Hedge fund: other funds	5,109,081	-	5,109,081	-
Other funds	<u>12,014,696</u>	<u>1,125,330</u>	<u>10,889,366</u>	<u>-</u>
Total	\$ <u>185,860,872</u>	\$ <u>11,590,885</u>	\$ <u>162,733,823</u>	\$ <u>11,536,164</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. Pension Plan, Continued

<u>Asset Category</u>	Fair Value Measurements at July 31, 2013			
	<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	\$ 9,396,411	\$ -	\$ 9,396,411	\$ -
Common collective trusts:				
Index funds	15,384,945	-	15,384,945	-
Other funds	14,071,892	-	14,071,892	-
Corporate stocks:				
Emerging market stocks	8,808,062	-	8,808,062	-
Other stock	5,939,365	5,847,301	92,064	-
Real estate investment trusts	4,336,095	4,336,095	-	-
Partner/joint venture interests:				
Equity funds	37,210,544	-	28,006,196	9,204,348
Registered investment company:				
Fixed income funds	43,365,057	-	43,365,057	-
Hedge fund: multi-strategy funds	8,383,435	-	8,383,435	-
Hedge fund: long/short equity funds	5,936,994	-	5,936,994	-
Other funds	<u>12,170,968</u>	<u>248,830</u>	<u>11,922,138</u>	<u>-</u>
<b>Total</b>	<b>\$ <u>165,003,768</u></b>	<b>\$ <u>10,432,226</u></b>	<b>\$ <u>145,367,194</u></b>	<b>\$ <u>9,204,348</u></b>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. Pension Plan, Continued

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

	as of July 31, 2014			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
Common collective trusts:				
Index funds	\$ 12,591,640	None	None – Monthly	3 – 30 Days
Other funds	\$ 12,580,023	None	Monthly	10 Days
Partner/joint venture interests:				
U.S. equity	\$ 47,408,748	None	Bi-monthly – Annually	5 – 90 Days
Registered investment company:				
Fixed income funds	\$ 51,536,335	None	None – Monthly	3 – 10 Days
Other funds	\$ 10,889,366	None	None – Annually	None – 95 Days
Hedge fund: multi-strategy funds	\$ 7,520,048	None	Quarterly – Annually	45 – 95 Days
Hedge fund: long/short equity funds	\$ 8,504,742	None	Quarterly – Annually	30 – 65 Days
Hedge fund: other funds	\$ 5,109,081	None	Monthly	3 Business Days
	as of July 31, 2013			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
Common collective trusts:				
Index funds	\$ 15,384,945	None	None – Monthly	3 – 30 Days
Other funds	\$ 14,071,892	None	Monthly	10 Days
Partner/joint venture interests:				
U.S. equity	\$ 37,210,544	None	Bi-monthly – Annually	5 – 90 Days
Registered investment company:				
Fixed income funds	\$ 43,365,057	None	None – Monthly	3 – 10 Days
Other funds	\$ 11,922,138	None	None – Annually	None – 95 Days
Hedge fund: multi-strategy funds	\$ 8,383,435	None	Quarterly – Annually	45 – 95 Days
Hedge fund: long/short equity funds	\$ 5,936,994	None	Quarterly – Annually	30 – 65 Days

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

13. Pension Plan, Continued

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</u>
	<u>Partner/Joint Venture Interests</u>
July 31, 2012	\$ 9,992,607
Realized and unrealized gains (losses) included in other nonoperating revenue	1,471,574
Purchases	331,250
Sales	<u>( 2,591,083)</u>
July 31, 2013	9,204,348
Realized and unrealized gains (losses) included in other nonoperating revenue	1,228,214
Purchases	1,706,250
Sales	<u>( 602,648)</u>
July 31, 2014	\$ <u>11,536,164</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. 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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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13. Pension Plan, Continued

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. Matching contribution expenses for the years ended July 31, 2014 and 2013 totaled approximately \$4,030,000 and \$3,529,000, respectively. For 2014 and 2013, the total discretionary contributions paid totaled approximately \$3,301,000 and \$0-, respectively.

The Corporation maintains an unfunded Supplemental Executive Retirement plan (SERP), which provides retirement benefits to certain officers and select employees. This plan is non-qualified and does not have a minimum funding requirement. The liability for this SERP obligation is included in accrued expenses in the accompanying balance sheets.

14. 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 and has purchased stop-loss insurance coverage for claims in excess of \$150,000 for each individual employee. Total expenses related to this plan were approximately \$36,518,000 and \$47,999,000 for 2014 and 2013, respectively.

15. 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 and \$23,000,000 at July 31, 2014 and 2013, respectively.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

15. Malpractice Insurance, Continued

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.

16. Concentrations of Credit Risk

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, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Medicare	32%	36%
Medicaid	22%	16%
Blue Cross	8%	7%
Commercial	19%	22%
Patients	<u>19%</u>	<u>19%</u>
Total	<u>100%</u>	<u>100%</u>

At July 31, 2014, 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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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:

	<u>July 31,</u>	
	<u>2014</u>	<u>2013</u>
Patient care services	\$ 399,596,552	\$ 399,443,823
General and administrative	225,907,351	227,465,304
Depreciation and amortization	44,875,131	41,113,350
Interest expense	<u>7,336,259</u>	<u>7,474,231</u>
Total	<u>\$ 677,715,293</u>	<u>\$ 675,496,708</u>

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:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.
- *Assets limited as to use:* Amounts reported in the balance sheet are at fair value. See Note 19 for fair value measurement disclosures.
- *Accounts payable and accrued expenses:* The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.
- *Estimated third-party payor settlements:* The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.
- *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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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18. Fair Values of Financial Instruments, Continued

- *Short-term and long-term debt:* Fair values of the Corporation's revenue notes are based on current traded value. The fair value of the Corporation's remaining debt is estimated using discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount reported in the balance sheet for debt totals approximately \$303,593,000 and \$309,017,000 at July 31, 2014 and 2013, respectively, with a fair value of approximately \$302,778,000 and \$294,984,000, 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 at fair value. There have been no changes in the methodologies used at July 31, 2014 and 2013.

- *Money market funds and certificates of deposit:* Valued at amortized cost, which approximates fair value.
- *Equity securities:* Certain equity securities are valued at the closing price reported on the active market on which the individual securities are traded. Other equity securities are valued based on quoted prices for similar investments in active or inactive markets or valued using observable market data.
- *Mutual funds and alternative investments in hedge 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.
- *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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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19. Fair Value Measurement, Continued

- *Corporate debt securities:* Certain corporate securities are valued at the closing price reported in the active market in which the security is traded. Other corporate securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security 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 U. S. government securities are valued at the closing price reported in the active market in which the individual security is traded. Other U.S. governmental securities are based on yields currently available on comparable securities of issuers with similar credit ratings.
- *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.
- *Limited partnerships invested in equity securities:* Valued at net asset value (NAV) which is determined by the 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.
- *Derivatives:* Valued using forward LIBOR curves. Values are then verified against counterparty mark-to-market valuations.

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

19. Fair Value Measurement, Continued

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

	as of July 31, 2014			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds – fixed income funds	\$ 88,889,160	None	None – Monthly	3 – 30 Days
Mutual funds – index funds	\$ 14,883,403	None	No Restrictions	3 Days
Mutual funds – growth and other funds	\$ 15,101,677	None	No Restrictions	None
Alternative investments:				
Hedge fund: credit opportunities	\$ 10,420,486	None	Annually	90 Days
Hedge fund: multi- strategy	\$ 24,495,658	None	Quarterly – Annually	45 – 90 Days
Hedge fund: long/short equity	\$ 34,742,593	None	Monthly – Annually	3 – 90 Days
Hedge fund: other	\$ 16,176,847	None	Monthly – Quarterly	10 – 90 Days
Common collective trusts:				
Equity securities	\$ 29,677,969	None	Monthly	30 Days
Emerging markets	\$ 33,010,058	None	Monthly	6 – 30 Days
Other	\$ 24,602,828	None	Monthly – Quarterly	10 – 95 Days
Limited partnerships invested in equity:				
Securities	\$ 42,492,632	\$ 1,039,400	None – Quarterly	None – 60 Days

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

19. Fair Value Measurement, Continued

as of July 31, 2013

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds – fixed income funds	\$ 78,969,585	None	None – Monthly	3 – 30 Days
Mutual funds – index funds	\$ 21,399,224	None	No Restrictions	3 Days
Alternative investments:				
Hedge fund: credit opportunities	\$ 8,980,444	None	Annually	90 Days
Hedge fund: multi-strategy	\$ 20,225,401	None	Quarterly – Annually	45 – 90 Days
Hedge fund: long/short equity	\$ 22,671,113	None	Monthly – Annually	30 – 90 Days
Hedge fund: other	\$ 22,946,085	None	Monthly – Quarterly	10 – 90 Days
Common collective trusts:				
Equity securities	\$ 25,497,992	None	Monthly	30 Days
Emerging markets	\$ 26,299,068	None	Monthly	6 Days
Other	\$ 27,587,460	None	Monthly – Quarterly	10 – 95 Days
Limited partnerships invested in equity:				
Securities	\$ 31,083,655	None	None – Quarterly	None – 60 Days

- *Mutual funds – fixed income funds:* The fixed income mutual funds seek to provide a high level of current income while preserving principal by primarily investing in a portfolio of domestic and international debt securities with an investment grade or better and with a dollar weighted average maturity between three and ten years. Redemption frequency varies based on each fund’s policy and ranges from no redemption restrictions with three days’ notice, to monthly redemption with 30 days’ notice.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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19. Fair Value Measurement, Continued

- *Mutual funds – index funds:* The index mutual funds are invested in a variety of large cap domestic companies that are members of the indices. Members of the indices are determined each year during annual reconstruction and enhanced quarterly with the addition of initial public offerings. The index mutual funds have no redemption restrictions with three days' notice.
- *Mutual funds – growth and other funds:* The growth and other mutual funds seek to provide a high level of return through the allocation of investments among both small cap investments and mortgage-backed securities. The Corporation may redeem daily from the fund without notice of redemption.
- *Alternative investments in hedge funds:* The objective of the hedge funds is to use leveraged, long, short, and derivative positions in both domestic and international markets with the goal of generating high returns while maintaining minimal risk. The hedge funds may be redeemed from a range of monthly with three days' notice, to annually with 90 days' notice. The limits on redemptions vary from none, to a 25% gate of funds invested.
- *Common collective trusts invested in equity securities (CCTs):* The CCTs seek to provide high returns by investing in small and large cap securities, distressed securities, as well as the acquisition of controlling interests with equity. The CCTs may be redeemed from a range of monthly with six days' notice, to quarterly with 95 days' notice. The limits on redemptions vary from none, to a 25% gate of funds invested.
- *Limited partnerships invested in equity securities:* The limited partnerships invested in equity securities seek to provide risk-adjusted returns by investing in a mixture of domestic and international highly liquid equities, equities in global real estate markets, and equities in consumer markets. Redemption frequency varies based on each fund's policy and ranges from no redemption restrictions with no notice, to quarterly redemption with 60 days' notice. The limits on redemptions vary from none, to a 10% gate of funds invested.

Continued



PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

19. Fair Value Measurement, Continued

Fair values of assets and liabilities measured on a recurring basis at July 31, 2014 and 2013 is follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets For Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>July 31, 2014</u>				
<b>Assets:</b>				
Money market funds	\$ 13,271,943	\$ 121,073	\$ 13,150,870	\$ -
Certificates of deposit	373,107	-	373,107	-
Equity securities	9,574,885	9,418,768	156,117	-
Mutual funds – fixed income funds	88,889,160	-	88,889,160	-
Mutual funds – index funds	15,743,757	860,354	14,883,403	-
Mutual funds – growth and other funds	53,625,479	38,523,802	15,101,677	-
Real estate investment trusts	11,524,376	11,524,376	-	-
Corporate debt securities	2,350,146	-	2,350,146	-
Government debt securities	2,001,591	-	2,001,591	-
Alternative investments:				
Hedge fund: credit opportunities	10,420,486	-	5,572,698	4,847,788
Hedge fund: multi-strategy	24,495,658	-	15,171,029	9,324,629
Hedge fund: long/short equity	34,742,593	-	22,717,468	12,025,125
Hedge fund: other	16,176,847	-	16,130,089	46,758
Common collective trusts:				
Equity securities	29,677,969	-	29,677,969	-
Emerging markets	33,010,058	-	33,010,058	-
Other	24,602,828	-	24,602,828	-
Limited partnerships invested in equity securities	<u>42,492,632</u>	<u>-</u>	<u>40,798,262</u>	<u>1,694,370</u>
Total assets	\$ <u>412,973,515</u>	\$ <u>60,448,373</u>	\$ <u>324,586,472</u>	\$ <u>27,938,670</u>
<b>Liabilities:</b>				
Derivatives	\$ <u>8,087,979</u>	\$ <u>-</u>	\$ <u>8,087,979</u>	\$ <u>-</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

19. Fair Value Measurement, Continued

	<u>July 31, 2013</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Fair Value</u>	<u>Quoted Prices in Active Markets For Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
<b>Assets:</b>				
Money market funds	\$ 18,958,555	\$ 21,972	\$ 18,936,583	\$ -
Certificates of deposit	371,246	-	371,246	-
Equity securities	10,482,060	8,495,373	1,986,687	-
Mutual funds – fixed income funds	80,461,430	1,491,845	78,969,585	-
Mutual funds – index funds	21,890,054	490,830	21,399,224	-
Mutual funds – growth and other funds	38,977,810	38,977,810	-	-
Real estate investment trusts	9,707,912	9,707,912	-	-
Corporate debt securities	1,005,480	-	1,005,480	-
Government debt securities	2,177,089	-	2,177,089	-
<b>Alternative investments:</b>				
Hedge fund: credit opportunities	8,980,444	-	4,756,167	4,224,277
Hedge fund: multi-strategy	20,225,401	-	11,296,179	8,929,222
Hedge fund: long/short equity	22,671,113	-	11,669,977	11,001,136
Hedge fund: other	22,946,085	-	22,703,042	243,043
<b>Common collective trusts:</b>				
Equity securities	25,497,992	-	25,497,992	-
Emerging markets	26,299,068	-	26,299,068	-
Other	27,587,460	-	27,587,460	-
<b>Limited partnerships invested in equity securities</b>				
	<u>31,083,655</u>	<u>-</u>	<u>30,414,154</u>	<u>669,501</u>
<b>Total assets</b>	<b>\$ <u>369,322,854</u></b>	<b>\$ <u>59,185,742</u></b>	<b>\$ <u>285,069,933</u></b>	<b>\$ <u>25,067,179</u></b>
<b>Liabilities:</b>				
Derivatives	\$ <u>6,795,221</u>	\$ <u>-</u>	\$ <u>6,795,221</u>	\$ <u>-</u>
<b>Non-recurring measurements:</b>				
Goodwill	\$ <u>113,651,712</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>113,651,712</u>

In accordance with Subtopic 350-20, goodwill with a carrying amount of approximately \$157,581,000 was written down to its implied fair value of approximately \$113,652,000, resulting in an impairment charge of approximately \$43,929,000, which was included in excess revenues in the nonoperating section of the consolidated statements of operations and changes in net assets at July 31, 2013.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

19. Fair Value Measurement, Continued

*Transfers of Level 1 and Level 2 assets:* Transfers of assets between Level 1 and Level 2 are recorded as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the years ended July 31, 2014 and 2013, approximately \$8,831,000 and \$0-, respectively, of growth mutual funds were transferred from Level 1 to Level 2, because the funds are no longer considered actively traded. There were no transfers from Level 2 to Level 1 during the years ended July 31, 2014 and 2013.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Limited Partnerships Invested in <u>Equity Securities</u>	Alternative Investments in <u>Hedge Funds</u>	<u>Total</u>
July 31, 2012	\$ 590,130	\$ 23,825,795	\$ 24,415,925
Realized and unrealized gains (losses) included in other nonoperating revenue	16,871	4,095,895	4,112,766
Purchases	62,500	2,400,000	2,462,500
Sales	<u>-</u>	<u>( 5,924,012)</u>	<u>( 5,924,012)</u>
July 31, 2013	669,501	24,397,678	25,067,179
Realized and unrealized gains (losses) included in other nonoperating revenue	162,327	2,756,992	2,919,319
Purchases	1,012,500	326,547	1,339,047
Sales	<u>( 149,958)</u>	<u>( 1,236,917)</u>	<u>( 1,386,875)</u>
July 31, 2014	\$ <u>1,694,370</u>	\$ <u>26,244,300</u>	\$ <u>27,938,670</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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20. Related Party Transactions

The Corporation has contracts with certain hospitals in the surrounding area to provide management services. The agreements automatically renew for successive terms of one year unless either party provides written notice with intent to terminate the agreement at least sixty days prior to termination.

21. Commitments and Contingencies

Compliance Plan

The healthcare industry has recently 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. 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

In recent years, there has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare on the national or at the state level. In 2010, legislation was enacted which included cost controls on hospitals, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of certain provisions 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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

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22. Provision for Bad Debts – Dorminy

The Corporation entered into an agreement with the Hospital Authority of Ben Hill County D/B/A Dorminy Medical Center (Dorminy) to provide management services originating August 1, 2011. This agreement was terminated on May 31, 2014. Under the management agreement, the Corporation provided personnel and management services in excess of \$21,092,000, as well as loan advances of approximately \$2,350,000, of which substantially all remain outstanding at July 31, 2014. At the termination of the management agreement, payment of the outstanding balances was requested by the Corporation. Dorminy has contested the repayment of the amounts due the Corporation. The Corporation intends to pursue collection of the outstanding balance. Due to the opposition to repayment by Dorminy and concerns about the financial viability of small rural hospitals, a provision has been recorded in the 2014 financial statements.

23. 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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued  
July 31, 2014 and 2013

23. Electronic Health Record Incentive Payments, Continued

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.

PPMH, PWMC, and PSMC each recognize income related to the Medicare and Medicaid incentive payments using a grant model based upon when each has determined that it is reasonably assured that PPMH, PWMC, and PSMC will be meaningfully using EHR technology for the applicable period and the cost report information is reasonably estimable.

PPMH, PWMC, and PSMC each successfully demonstrated meeting meaningful use of certified EHR technology for fiscal year 2014 and 2013. PPMH, PWMC and PSMC each applied for and received approval from Medicare and Medicaid notifying that each qualified for the two programs. As of July 31, 2014 and 2013, PPMH, PWMC, and PSMC qualified for approximately \$5,400,000 and \$5,900,000, respectively, which has been recorded in other revenue. Approximately \$4,100,000 and \$600,000 of the payments are accrued in other current assets at July 31, 2014 and 2013, respectively.

Eligible professionals (EPs) may participate in either the Medicare or Medicaid incentive program, but not both. EPs are allowed to switch programs one time after their first incentive payment is initiated. Most EPs will maximize their incentive payments by participating in the Medicaid incentive programs, but Medicaid or needy individual patient volume thresholds must be met to qualify. Over the life of the program, the maximum Medicare EP payment is \$44,000 per professional, and the maximum Medicaid EP payment is \$63,750 per professional. The Corporation received approximately \$600,000 and \$800,000 from the Medicare and Medicaid incentive programs in 2014 and 2013, respectively, for EPs working in practices owned and operated by PPG.

INDEPENDENT AUDITOR'S REPORT ON  
CONSOLIDATING INFORMATION

Board of Directors  
Phoebe Putney Health System, Inc.  
Albany, Georgia

We have audited the consolidated financial statements of Phoebe Putney Health System, Inc. and subsidiaries as of and for the years ended July 31, 2014 and 2013, and our report thereon dated December 3, 2014, 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 consolidated financial statements as a whole. The consolidating information included in this report on pages 62 to 73, inclusive, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the balance sheet and statement of excess revenues (expenses) of the individual companies, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to Phoebe Putney Indemnity, LLC, is based on the report of other auditors, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Draffin & Tucker, LLP*  
Albany, Georgia  
December 3, 2014

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET

July 31, 2014

	Phoebe Putney Health <u>System, Inc.</u>	Phoebe Putney Memorial <u>Hospital, Inc.</u>	Phoebe Putney Health <u>Ventures, Inc.</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,412,611	\$ 69,240,194	\$ 417,269
Patient accounts receivable, net	-	90,848,637	-
Supplies, at lower of cost (first-in, first-out) or market	-	10,538,133	-
Estimated third-party payor settlements	-	1,514,037	-
Other current assets	<u>1,421,464</u>	<u>11,647,392</u>	<u>428,591</u>
Total current assets	<u>4,834,075</u>	<u>183,788,393</u>	<u>845,860</u>
Assets limited as to use:			
Internally designated for capital improvements	324,553,447	373,107	-
Internally designated for self-insurance	-	-	-
Externally designated by donors	<u>-</u>	<u>-</u>	<u>-</u>
Total assets limited as to use	<u>324,553,447</u>	<u>373,107</u>	<u>-</u>
Property and equipment, net	<u>50,280,516</u>	<u>289,915,355</u>	<u>4,573,477</u>
Other assets:			
Due from related parties	38,544,500	-	1,380,000
Deferred financing cost	-	3,045,923	-
Goodwill	4,330,000	124,991,769	-
Other assets	<u>38,371,249</u>	<u>15,404,520</u>	<u>1,213,279</u>
Total other assets	<u>81,245,749</u>	<u>143,442,212</u>	<u>2,593,279</u>
Total assets	<u>\$ 460,913,787</u>	<u>\$ 617,519,067</u>	<u>\$ 8,012,616</u>



PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued  
July 31, 2014

<u>Phoebe Physician Group, Inc.</u>	<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, LLC</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 5,301,383	\$ 2,595,500	\$ 10,882,096	\$ 5,214,604	\$ 2,014,896	\$ -	\$ 99,078,553
11,480,991	1,919,257	8,489,508	-	-	-	112,738,393
-	141,742	783,346	-	-	-	11,463,221
-	( 569,215)	55,880	-	-	-	1,000,702
<u>914,933</u>	<u>182,170</u>	<u>2,499,461</u>	<u>8,750</u>	<u>48,611</u>	<u>-</u>	<u>17,151,372</u>
<u>17,697,307</u>	<u>4,269,454</u>	<u>22,710,291</u>	<u>5,223,354</u>	<u>2,063,507</u>	<u>-</u>	<u>241,432,241</u>
-	-	4,070,041	-	3,626,009	-	332,622,604
-	-	-	71,112,670	-	-	71,112,670
-	-	-	-	9,238,241	-	9,238,241
-	-	<u>4,070,041</u>	<u>71,112,670</u>	<u>12,864,250</u>	<u>-</u>	<u>412,973,515</u>
<u>1,338,269</u>	<u>4,336,637</u>	<u>48,290,539</u>	<u>-</u>	<u>187,648</u>	<u>-</u>	<u>398,922,441</u>
-	-	-	-	-	(39,924,500)	-
-	-	-	-	-	-	3,045,923
1,413,018	-	-	-	-	-	130,734,787
<u>147,700</u>	<u>-</u>	<u>3,627,601</u>	<u>-</u>	<u>89,350</u>	<u>(47,818,607)</u>	<u>11,035,092</u>
<u>1,560,718</u>	<u>-</u>	<u>3,627,601</u>	<u>-</u>	<u>89,350</u>	<u>(87,743,107)</u>	<u>144,815,802</u>
\$ <u>20,596,294</u>	\$ <u>8,606,091</u>	\$ <u>78,698,472</u>	\$ <u>76,336,024</u>	\$ <u>15,204,755</u>	\$ <u>(87,743,107)</u>	\$ <u>1,198,143,999</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued  
July 31, 2014

	Phoebe Putney Health <u>System, Inc.</u>	Phoebe Putney Memorial <u>Hospital, Inc.</u>	Phoebe Putney Health <u>Ventures, Inc.</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Current portion of long-term debt	\$ -	\$ 6,003,553	\$ -
Accounts payable	2,031,351	17,329,340	4,134
Accrued expenses	<u>3,558,745</u>	<u>23,833,721</u>	<u>185,472</u>
Total current liabilities	5,590,096	47,166,614	189,606
Due to related parties	-	19,778,683	1,056,840
Long-term debt, net of current portion	-	297,589,914	-
Accrued pension cost	-	68,031,420	-
Accrued self-insurance cost	-	-	-
Derivative financial instruments	<u>-</u>	<u>8,087,979</u>	<u>-</u>
Total liabilities	<u>5,590,096</u>	<u>440,654,610</u>	<u>1,246,446</u>
Net assets:			
Unrestricted	455,323,691	167,626,216	6,766,170
Temporarily restricted	-	7,274,971	-
Permanently restricted	<u>-</u>	<u>1,963,270</u>	<u>-</u>
Total net assets	<u>455,323,691</u>	<u>176,864,457</u>	<u>6,766,170</u>
Total liabilities and net assets	\$ <u>460,913,787</u>	\$ <u>617,519,067</u>	\$ <u>8,012,616</u>

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued  
July 31, 2014

<u>Phoebe Physician Group, Inc.</u>	<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, LLC</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,003,553
2,949,786	415,400	1,309,206	-	39,128	-	24,078,345
<u>18,804,675</u>	<u>1,023,471</u>	<u>2,780,971</u>	<u>53,857</u>	<u>-</u>	<u>-</u>	<u>50,240,912</u>
21,754,461	1,438,871	4,090,177	53,857	39,128	-	80,322,810
502,684	11,844,248	6,742,045	-	-	(39,924,500)	-
-	-	-	-	-	-	297,589,914
-	-	-	-	-	-	68,031,420
-	-	-	45,717,258	-	-	45,717,258
-	-	-	-	-	-	8,087,979
<u>22,257,145</u>	<u>13,283,119</u>	<u>10,832,222</u>	<u>45,771,115</u>	<u>39,128</u>	<u>(39,924,500)</u>	<u>499,749,381</u>
( 1,660,851)	( 4,677,028)	67,866,250	30,564,909	5,927,386	(38,580,366)	689,156,377
-	-	-	-	7,274,971	( 7,274,971)	7,274,971
-	-	-	-	<u>1,963,270</u>	<u>( 1,963,270)</u>	<u>1,963,270</u>
( <u>1,660,851</u> )	( <u>4,677,028</u> )	<u>67,866,250</u>	<u>30,564,909</u>	<u>15,165,627</u>	<u>(47,818,607)</u>	<u>698,394,618</u>
\$ <u>20,596,294</u>	\$ <u>8,606,091</u>	\$ <u>78,698,472</u>	\$ <u>76,336,024</u>	\$ <u>15,204,755</u>	\$ <u>(87,743,107)</u>	\$ <u>1,198,143,999</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET

July 31, 2013

	Phoebe Putney Health <u>System, Inc.</u>	Phoebe Putney Memorial <u>Hospital, Inc.</u>	Phoebe Putney Health <u>Ventures, Inc.</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,449,447	\$ 51,192,263	\$ 444,450
Patient accounts receivable, net	-	101,079,896	-
Supplies, at lower of cost (first-in, first-out) or market	-	11,454,190	-
Estimated third-party payor settlements	-	8,250,252	-
Other current assets	<u>1,193,446</u>	<u>12,858,260</u>	<u>403,735</u>
Total current assets	<u>7,642,893</u>	<u>184,834,861</u>	<u>848,185</u>
Assets limited as to use:			
Internally designated for capital improvements	286,015,439	3,412,161	-
Internally designated for self-insurance	-	-	-
Externally designated by donors	<u>-</u>	<u>-</u>	<u>-</u>
Total assets limited as to use	<u>286,015,439</u>	<u>3,412,161</u>	<u>-</u>
Property and equipment, net	<u>44,079,550</u>	<u>313,040,999</u>	<u>4,762,555</u>
Other assets:			
Due from related parties	43,608,512	-	500,000
Deferred financing cost	-	3,188,380	-
Goodwill	4,330,000	124,991,769	-
Other assets	<u>50,582,081</u>	<u>11,847,639</u>	<u>1,225,746</u>
Total other assets	<u>98,520,593</u>	<u>140,027,788</u>	<u>1,725,746</u>
Total assets	<u>\$ 436,258,475</u>	<u>\$ 641,315,809</u>	<u>\$ 7,336,486</u>

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued  
July 31, 2013

<u>Phoebe Physician Group, Inc.</u>	<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, LLC</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 5,830,411	\$ 4,141,663	\$ 16,665,678	\$ 8,304,102	\$ 835,341	\$ -	\$ 93,863,355
10,986,704	1,985,286	6,962,621	-	-	-	121,014,507
-	137,791	748,245	-	-	-	12,340,226
-	( 140,795)	( 187,610)	-	-	-	7,921,847
<u>1,864,277</u>	<u>196,077</u>	<u>1,747,540</u>	<u>8,751</u>	<u>16,143</u>	<u>( 3,818,644)</u>	<u>14,469,585</u>
<u>18,681,392</u>	<u>6,320,022</u>	<u>25,936,474</u>	<u>8,312,853</u>	<u>851,484</u>	<u>( 3,818,644)</u>	<u>249,609,520</u>
-	-	4,050,520	-	4,129,882	-	297,608,002
-	-	-	65,437,556	-	-	65,437,556
-	-	-	-	<u>6,277,296</u>	-	<u>6,277,296</u>
-	-	<u>4,050,520</u>	<u>65,437,556</u>	<u>10,407,178</u>	-	<u>369,322,854</u>
<u>1,977,607</u>	<u>4,843,653</u>	<u>52,825,075</u>	<u>-</u>	<u>209,412</u>	<u>-</u>	<u>421,738,851</u>
-	-	-	-	-	(44,108,512)	-
-	-	-	-	-	-	3,188,380
1,342,618	-	-	-	-	-	130,664,387
<u>121,746</u>	<u>-</u>	<u>3,700,118</u>	<u>-</u>	<u>89,350</u>	<u>(35,990,349)</u>	<u>31,576,331</u>
<u>1,464,364</u>	<u>-</u>	<u>3,700,118</u>	<u>-</u>	<u>89,350</u>	<u>(80,098,861)</u>	<u>165,429,098</u>
\$ <u>22,123,363</u>	\$ <u>11,163,675</u>	\$ <u>86,512,187</u>	\$ <u>73,750,409</u>	\$ <u>11,557,424</u>	\$ <u>(83,917,505)</u>	\$ <u>1,206,100,323</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued  
July 31, 2013

	Phoebe Putney Health <u>System, Inc.</u>	Phoebe Putney Memorial <u>Hospital, Inc.</u>	Phoebe Putney Health <u>Ventures, Inc.</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Current portion of long-term debt	\$ -	\$ 5,423,553	\$ -
Accounts payable	6,557,257	13,227,078	-
Accrued expenses	<u>1,689,588</u>	<u>30,969,364</u>	<u>180,632</u>
Total current liabilities	8,246,845	49,619,995	180,632
Due to related parties	-	14,515,863	958,075
Long-term debt, net of current portion	-	303,593,467	-
Accrued pension cost	-	103,153,525	-
Accrued self-insurance cost	-	-	-
Derivative financial instruments	<u>-</u>	<u>6,795,221</u>	<u>-</u>
Total liabilities	<u>8,246,845</u>	<u>477,678,071</u>	<u>1,138,707</u>
Net assets:			
Unrestricted	428,011,630	157,360,442	6,197,779
Temporarily restricted	-	4,496,165	-
Permanently restricted	<u>-</u>	<u>1,781,131</u>	<u>-</u>
Total net assets	<u>428,011,630</u>	<u>163,637,738</u>	<u>6,197,779</u>
Total liabilities and net assets	\$ <u>436,258,475</u>	\$ <u>641,315,809</u>	\$ <u>7,336,486</u>

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued  
July 31, 2013

<u>Phoebe Physician Group, Inc.</u>	<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, LLC</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,423,553
3,121,809	387,489	1,209,386	-	52,943	-	24,555,962
<u>20,059,175</u>	<u>1,342,215</u>	<u>3,764,013</u>	<u>3,863,360</u>	<u>-</u>	<u>( 3,818,644)</u>	<u>58,049,703</u>
23,180,984	1,729,704	4,973,399	3,863,360	52,943	( 3,818,644)	88,029,218
603,231	12,368,396	15,662,947	-	-	(44,108,512)	-
-	-	-	-	-	-	303,593,467
-	-	-	-	-	-	103,153,525
-	-	-	48,660,145	-	-	48,660,145
-	-	-	-	-	-	6,795,221
<u>23,784,215</u>	<u>14,098,100</u>	<u>20,636,346</u>	<u>52,523,505</u>	<u>52,943</u>	<u>(47,927,156)</u>	<u>550,231,576</u>
( 1,660,852)	( 2,934,425)	65,875,841	21,226,904	5,585,922	(30,071,790)	649,591,451
-	-	-	-	4,338,228	( 4,338,228)	4,496,165
-	-	-	-	<u>1,580,331</u>	<u>( 1,580,331)</u>	<u>1,781,131</u>
<u>( 1,660,852)</u>	<u>( 2,934,425)</u>	<u>65,875,841</u>	<u>21,226,904</u>	<u>11,504,481</u>	<u>(35,990,349)</u>	<u>655,868,747</u>
\$ <u>22,123,363</u>	\$ <u>11,163,675</u>	\$ <u>86,512,187</u>	\$ <u>73,750,409</u>	\$ <u>11,557,424</u>	\$ <u>(83,917,505)</u>	\$ <u>1,206,100,323</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES)  
July 31, 2014

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.
Unrestricted revenues, gains and other support:			
Patient service revenue (net of contractuales and discounts)	\$ -	\$ 542,620,927	\$ -
Provision for bad debts	<u>-</u>	<u>( 75,589,368)</u>	<u>-</u>
Net patient service revenue	-	467,031,559	-
Other revenue	<u>26,232,592</u>	<u>21,020,112</u>	<u>3,086,918</u>
Total revenues, gains, and other support	<u>26,232,592</u>	<u>488,051,671</u>	<u>3,086,918</u>
Expenses:			
Salaries and wages	10,539,425	177,436,590	764,678
Employee health and welfare	1,622,466	49,326,169	226,985
Medical supplies and other	40,418	189,204,231	1,016,298
Provision for bad debts - Dorminy	22,683,706	-	-
Purchased services	5,874,894	46,761,953	332,546
Depreciation and amortization	1,779,575	36,876,756	198,552
Interest	<u>13,721</u>	<u>7,322,538</u>	<u>-</u>
Total expenses	<u>42,554,205</u>	<u>506,928,237</u>	<u>2,539,059</u>
Operating income (loss)	<u>(16,321,613)</u>	<u>( 18,876,566)</u>	<u>547,859</u>
Nonoperating gains (losses):			
Investment income (loss)	43,633,677	( 602,183)	20,532
Loss on impairment of goodwill	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating gains (losses)	<u>43,633,677</u>	<u>( 602,183)</u>	<u>20,532</u>
Excess revenues (expenses)	<u>\$ 27,312,064</u>	<u>\$ ( 19,478,749)</u>	<u>\$ 568,391</u>



PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES), Continued  
July 31, 2014

<u>Phoebe Physician Group, Inc.</u>	<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, LLC</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 88,806,184	\$ 17,206,830	\$ 71,498,093	\$ -	\$ -	\$ -	\$ 720,132,034
( 17,643,187)	( 3,758,012)	(15,410,381)	-	-	-	(112,400,948)
71,162,997	13,448,818	56,087,712	-	-	-	607,731,086
4,990,500	672,418	2,749,713	13,467,099	660,145	(33,498,378)	39,381,119
<u>76,153,497</u>	<u>14,121,236</u>	<u>58,837,425</u>	<u>13,467,099</u>	<u>660,145</u>	<u>(33,498,378)</u>	<u>647,112,205</u>
107,713,770	6,335,737	16,601,653	-	-	(23,518,315)	295,873,538
14,284,310	1,715,104	4,401,810	-	-	-	71,576,844
( 35,269,054)	3,487,432	21,685,041	9,834,864	688,907	(16,089,638)	174,598,499
-	-	-	-	-	-	22,683,706
( 10,893,089)	3,596,641	8,988,796	-	-	6,109,575	60,771,316
344,197	708,571	4,945,715	-	21,765	-	44,875,131
-	-	-	-	-	-	7,336,259
<u>76,180,134</u>	<u>15,843,485</u>	<u>56,623,015</u>	<u>9,834,864</u>	<u>710,672</u>	<u>(33,498,378)</u>	<u>677,715,293</u>
( 26,637)	( 1,722,249)	2,214,410	3,632,235	( 50,527)	-	( 30,603,088)
26,637	( 20,353)	86,195	5,705,771	-	( 8,163,793)	40,686,483
-	-	-	-	-	-	-
<u>26,637</u>	<u>( 20,353)</u>	<u>86,195</u>	<u>5,705,771</u>	<u>-</u>	<u>( 8,163,793)</u>	<u>40,686,483</u>
\$ -	\$ ( 1,742,602)	\$ 2,300,605	\$ 9,338,006	\$ ( 50,527)	\$ ( 8,163,793)	\$ 10,083,395

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES)  
July 31, 2013

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.
Unrestricted revenues, gains and other support:			
Patient service revenue (net of contractuales and discounts)	\$ -	\$ 574,437,910	\$ -
Provision for bad debts	<u>-</u>	<u>( 79,064,262)</u>	<u>-</u>
Net patient service revenue	-	495,373,648	-
Other revenue	<u>22,026,099</u>	<u>20,313,993</u>	<u>3,027,652</u>
Total revenues, gains, and other support	<u>22,026,099</u>	<u>515,687,641</u>	<u>3,027,652</u>
Expenses:			
Salaries and wages	9,726,128	184,058,632	839,792
Employee health and welfare	1,408,820	73,858,218	243,482
Medical supplies and other	( 710,516)	189,558,888	1,301,051
Purchased services	8,637,174	44,469,008	232,703
Depreciation and amortization	1,731,084	32,778,369	198,740
Interest	<u>5,015</u>	<u>7,468,176</u>	<u>-</u>
Total expenses	<u>20,797,705</u>	<u>532,191,291</u>	<u>2,815,768</u>
Operating income (loss)	<u>1,228,394</u>	<u>( 16,503,650)</u>	<u>211,884</u>
Nonoperating gains (losses):			
Investment income (loss)	53,416,157	9,294,831	80,213
Loss on impairment of goodwill	<u>-</u>	<u>( 43,929,294)</u>	<u>-</u>
Total nonoperating gains (losses)	<u>53,416,157</u>	<u>( 34,634,463)</u>	<u>80,213</u>
Excess revenues (expenses)	<u>\$ 54,644,551</u>	<u>\$ ( 51,138,113)</u>	<u>\$ 292,097</u>

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES), Continued  
July 31, 2013

<u>Phoebe Physician Group, Inc.</u>	<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, LLC</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 90,020,967	\$ 16,138,073	\$ 62,963,986	\$ -	\$ -	\$ -	\$ 743,560,936
( 16,462,250)	( 2,600,757)	(10,965,989)	-	-	-	(109,093,258)
73,558,717	13,537,316	51,997,997	-	-	-	634,467,678
3,712,072	1,726,133	4,008,315	13,497,726	1,333,878	(34,863,043)	34,782,825
<u>77,270,789</u>	<u>15,263,449</u>	<u>56,006,312</u>	<u>13,497,726</u>	<u>1,333,878</u>	<u>(34,863,043)</u>	<u>669,250,503</u>
106,196,526	6,888,118	17,712,107	-	-	(20,457,695)	304,963,608
16,372,705	2,205,746	5,289,435	-	-	-	99,378,406
( 36,470,814)	3,862,020	21,361,268	2,040,889	609,143	(15,720,674)	165,831,255
( 9,070,651)	3,183,175	7,969,123	-	-	1,315,326	56,735,858
280,230	707,517	5,416,210	-	1,200	-	41,113,350
1,040	-	-	-	-	-	7,474,231
<u>77,309,036</u>	<u>16,846,576</u>	<u>57,748,143</u>	<u>2,040,889</u>	<u>610,343</u>	<u>(34,863,043)</u>	<u>675,496,708</u>
( 38,247)	( 1,583,127)	( 1,741,831)	11,456,837	723,535	-	( 6,246,205)
38,247	-	131,587	4,770,067	-	(14,934,872)	52,796,230
-	-	-	-	-	-	( 43,929,294)
<u>38,247</u>	<u>-</u>	<u>131,587</u>	<u>4,770,067</u>	<u>-</u>	<u>(14,934,872)</u>	<u>8,866,936</u>
\$ <u>-</u>	\$ ( 1,583,127)	\$ ( 1,610,244)	\$ 16,226,904	\$ 723,535	\$ (14,934,872)	\$ 2,620,731

See accompanying auditor's report on consolidating information.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors  
Phoebe Putney Health System, Inc.  
Albany, Georgia

We have audited the consolidated financial statements of Phoebe Putney Health System, Inc. and subsidiaries as of and for the years ended July 31, 2014 and 2013 and our report thereon dated December 3, 2014, 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 consolidated financial statements as a whole. The information included in this report on pages 75 to 88, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

*Driffin & Tucker, LLP*

Albany, Georgia  
December 3, 2014

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY

July 31, 2014

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Phoebe Putney Health System (Corporation) is a not-for-profit health care organization that was formed to serve as the parent organization of a group of affiliated entities and as such, its primary purpose is to plan, coordinate, and direct the group and to provide centralized administrative and management services to the exempt entities in the group. Corporation is recognized as exempt under Section 501(c)(3) of the Code and is classified as a public charity under Section 509(a)(3) of the Code. Currently, the affiliated entities comprising the group include: Phoebe Putney Memorial Hospital, Inc. (PPMH), Phoebe Foundation, Inc. (Foundation), Phoebe Putney Health Ventures, Inc. (Health Ventures), Phoebe Physician Group (PPG), Phoebe Putney Indemnity (PPI), Phoebe Sumter Medical Center (PSMC) and Phoebe Worth Medical Center (PWMC).

As a tax exempt organization, the Corporation has no stockholders or owners. All revenue after expenses is reinvested in our mission to care for the citizens of the communities served by the System and its affiliated entities and includes clinical care, health programs, state-of-the-art technology and facilities, research and teaching and training of medical professionals to meet current and future needs.

Phoebe Putney Health System 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. 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. Corporation demonstrates a continued and expanding commitment to meeting our mission 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.

Through its affiliated group of hospitals, the Corporation improves the health and wellbeing of Southwest Georgia through clinical services, education, research and partnerships that build health capacity in the community. Each hospital provides community benefits for every citizen in its service area as well as for the medically underserved. The hospitals conduct community needs assessments and pay close attention to the needs of low income and other vulnerable persons and the community at large. The organization often works with community groups to identify needs, strengthen existing community programs and plan newly needed services. In addition to providing free and discounted services to people who are uninsured and underinsured, the organization provides a wide-ranging array of community benefit services designed to improve community and individual health and to increase access to health care. The Corporation’s excellence in community benefit programs was recognized by the prestigious Foster McGaw Prize awarded to the hospital in

See independent auditor’s report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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's affiliated hospitals participate in the Medicare and Medicaid programs and are among the leading providers of Medicaid services in Georgia.

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

	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Medicare	\$ 535,000,000	\$ 199,000,000
Medicaid	208,000,000	77,000,000
Indigent/charity	<u>76,000,000</u>	<u>28,000,000</u>
	<u>\$ 819,000,000</u>	<u>\$ 304,000,000</u>

The following is a summary of the community benefit activities and health improvement services offered by the hospitals and illustrates the activities and donations during fiscal year 2014.

**I. Community Health Improvement Services**

**A. Community Health Education**

The Corporation's affiliated hospitals provided health education services that reached 30,079 individuals in 2014 at a cost of \$730,866. These services included the following free classes and seminars:

- Prepared childbirth classes
- Refresher childbirth classes
- Pregnancy classes
- Breastfeeding classes
- Lactation consulting

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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

**A. Community Health Education, Continued**

- Baby care basics classes
- Infant massage classes
- Tours of post-partum and labor and delivery
- Special Tots classes
- Maternity coordinator visits
- Comprehensive Health Fairs
- Safe sitter classes
- Golden Key Health Seminars
- Support Groups

The hospitals are involved in many activities aimed at educating the community about health-related topics. Examples of these activities: a quarterly health information newsletter distributed to 22,000 senior citizens at a cost of \$35,238 and frequent ongoing health seminars held at Phoebe Northwest free of charge and attracting audiences ranging from 30 to 150 persons. The Teen Maze organized by Network of Trust attracts thousands of middle-school children throughout the region that simulates real life choices and their consequences.

**Men and Women's Health Conferences**

**Men's Health Conferences**

PSMC held the 5th Annual Men's Health Conference on September 15, 2013 that provided health screenings for PSA, cholesterol, blood pressure, hearing and vision, health information, speakers, and fellowship to more than 400 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.

The PPMH's Men's Conference centered on hypertension while the Women's focus was Breast Health. Supported by over 70 volunteers, these conferences 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.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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

A. Community Health Education, Continued

*Men and Women's Health Conferences, Continued*

*Women's Health Conferences*

PSMC held its 5th Annual Women's Health Conference on May 17, 2014 that provided screenings for glucose and cholesterol, blood pressure, BMI, Zumba, speakers and fellowship for more than 300 attendees. This year's theme was "Stroke Is No Joke", which stressed the seriousness of the fact that more than 795,000 people have strokes each year, and stroke is the 4th leading cause of death in Georgia. 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.

PPMH Men's and Women's Conferences attracted approximately 700 participants.

*Kid's Conference*

PSMC held its 2nd Annual Kids Conference on August 9, 2013 and provided screenings for glucose and cholesterol, blood pressure, BMI for more than 250 children. The theme was once again "Get Fit, Get Active, Get Healthy", and there were free health screenings, vendors from across South Georgia and a number of agencies that were geared towards children and their overall health. School supplies and other items were given away, and the children had an opportunity to partake in a number of games and activities, including basketball, Zumba and football drills with the Americus Sumter varsity football team. The Sumter County Sheriff Department & Fire Department, as well as the Sumter County Health Department & DFACS, were also on hand to provide services to both the children and their parents.

*Golden Key*

This is a membership organization for people age 55 and older. With 22,000 members, Golden Key offers programs that encourage healthy lifestyles, including the privilege of walking at Hospital's Physical Medicine complex. To its members, it provided a bi-monthly newsletter (Key Notes). In 2014, the unreimbursed cost was \$61,931.

See independent auditor's report on supplemental information.



PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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

A. Community Health Education, Continued

*Men and Women's Health Conferences, Continued*

*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 134 teen parents during the 2013/2014 school year at a cost of \$295,460. 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 2014, the Corporation administered 717 flu shots at an unreimbursed cost of \$13,929. The Corporation also provides free health screenings to individuals in Southwest Georgia. In 2014, the Corporation administered 438 health screenings at an unreimbursed cost of \$174,405.

*School Nurse Program*

PPMH and PSMC provide nurses in 20 elementary schools, eight middle schools, and seven high schools in Dougherty and Sumter Counties 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 the Eighth Grade Health Fairs. During the 2013/2014 school year, the school nurse program covered 80,000 student visits. These programs operated at a loss of \$828,316 in 2014.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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

C. Health Care Support Services

*New Foundation*

The Corporation offers New Foundation Breast Forms and Fashion Boutique. New Foundations caters to the physical and mental well-being of women and their families. They provide one-on-one post mastectomy consultation to help women overcome their anxieties and feel better about their appearance. They carry a large variety of prosthesis and also have a wide selection of clothing. They conduct support groups, seminars and exercise classes and help patients with breast cancer issues. This department saw 2,777 patients and operated at an unreimbursed cost in 2014 of \$19,910.

*Lights of Love Vans*

Lights of Love donated vans to the Corporation to transport cancer patients to and from the hospital for their treatments. In 2014, Phoebe Lights of Love provided 1,763 trips at a cost of \$242,779.

*Government Sponsored Eligibility Applications to the Poor and Needy*

Phoebe contracts with 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 2014, the Corporation paid \$786,558 to Chamberlain Edmonds to process Medicaid applications.

- Indigent Financial Assistance

Patients whose income is below 125% of the Federal Poverty Levels are classified as indigent and receive care at no cost.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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

C. Health Care Support Services, Continued

Government Sponsored Eligibility Applications to the Poor and Needy, Continued

- Charity Financial Assistance

Patients whose income level is between 126% - 200% of the Federal Poverty Levels will be classified as charity. These patients will be responsible for a percentage of the Hospital charges. This percentage will be based on calculations using the Federal Poverty Levels that are published in the "Federal Register" each year. If it is determined the patient responsibility will be an undue hardship on the patient/guarantor, these cases will be reviewed on an individual basis with the Phoebe Cares Supervisor for possible catastrophic charity based on sliding scale guidelines.

- Catastrophic Financial Assistance

Patients whose income exceeds 200% of the Federal Poverty Levels and whose hospital charges exceed 25% of their annual income, resulting in excessive hardship, are eligible for a discount up to 75% of the patient balance. The patient may pay the remaining balance over 24 months.

**II. Health Professions Education**

The organization recognizes that to continuously improve the company'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. The organization also provides non-employees financial support in pursuing healthcare related degrees. In fiscal year 2014, the Corporation provided \$1,161,006 in clinical supervision and training of nursing students, and an additional \$240,031 in clinical supervision and training to pharmacy, pharmacy techs and other allied health professionals. In all, approximately 684 students received clinical instruction from one of our facilities.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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**III. Subsidized Health Services**

A. Hospital Outpatient Services

Phoebe Family Medical Centers

The Corporation has a strong commitment to primary care for the Southwest Georgia region. Our family medical centers in our surrounding counties are a network of care that serves the entire family closest to where people live. In 2014, the rural clinics operated at a net loss of \$120,543 and the Pelham clinic operated at a net loss of \$71,536.

Convenient Cares

Phoebe's Convenient Care provides treatment for minor injuries and ailments in a more timely fashion and at a more reasonable cost than an emergency center. In 2014, the clinics operated at a net loss of \$1,483,928.

Phoebe Specialty Clinics

- Phoebe Gastroenterology Associates has been a part of providing exceptional patient care for more than 30 years and treats virtually every kind of gastrointestinal related healthcare problem. In 2014, the Corporation incurred a net loss of \$409,708.
- The Behavioral Health Clinic at Phoebe provides treatment for adults and adolescents with addictive diseases and/or psychiatric disorders. In 2014, this Clinic operated at a net loss of \$1,235,029.
- The Corporation operates a specialty clinic encompassing Endocrinology, Rheumatology, and Physiatry. The clinic offers medical care on a referral basis to inpatients and outpatients with endocrine or rheumatoid problems or with physical medicine or rehabilitation needs. The clinic operated at a net loss of \$329,771 in 2014.
- Maternal/Fetal Medicine program is for high risk mothers and pregnant women who need specialized care. It serves this perinatal region. In 2014, this Clinic operated at a net loss of \$369,464.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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**III. Subsidized Health Services, Continued**

A. Hospital Outpatient Services, Continued

Phoebe Specialty Clinics, Continued

- The Corporation operates Neurosurgery and neurology practices that provide two neurosurgeons and two neurologists to our community, improving access to care in several settings, including trauma care in the Emergency Department and community health forums. This department operated at a net loss of \$1,223,347.
- The Corporation offers an Infectious Disease Clinic. This Clinic is primarily directed at providing treatment to those who have chronic and acute infectious diseases and to terminally ill persons in need of pain management. In 2014, this Clinic operated at a net loss of \$326,958.
- The Corporation operates a Surgical Oncology Department in its Cancer Center. This practice surgically treats and manages cancers primarily of the esophagus, stomach, liver, pancreas, colon, breast and skin, and soft tissues. The surgical oncologist also serves as a distinguished scholar for the Georgia Cancer Coalition and conducts clinical research and is working on elevating the level of cancer care in the region. The clinic operated at a loss of \$386,391.
- The Corporation provides palliative care to patients in Southwest Georgia with a limited life expectancy. In FY 2014, the service operated at a net loss of \$62,797.
- The Corporation provides a comprehensive array of heart services and employed physicians to patients throughout South Georgia. In FY 2014, heart services reported a net loss of \$2,469,451.
- Phoebe Wound Care and Hyperbaric Center specializes in healing chronic wounds caused by diabetes, poor circulation or other conditions. In FY 2014, the Wound Care Center operated at a net loss of \$178,567.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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**III. Subsidized Health Services, Continued**

A. Hospital Outpatient Services, Continued

Phoebe Sumter Specialty Clinics

- Internal Medicine provides primary and consultative medical care of adults, with emphasis on diagnosis, preventive health and continuity of care in both outpatient and inpatient settings. In 2014, these clinics operated at a net loss of \$95,598.
- Phoebe Sumter Emergency Center, the best equipped in its Primary Service Area, operated at a net loss of \$1,063.
- Sumter Surgery Clinic, the only provider of General Surgery in the region, operated at a loss of \$409,066.
- Phoebe Sumter Orthopedic is the only provider of orthopedic services in the PSMC's service area. It operated at a loss of \$247,968.

Residency Program

The Southwest Georgia Family Medicine Residency Program is an award winning facility continuously addressing the shortage of health care professionals in the region. Their primary mission is to train family physicians to practice in rural Southwest Georgia.

Established in 1993, this program offers a rich opportunity for physicians to develop as strong clinicians capable of delivering high-quality primary care in any setting. The need for medical services in this rural region is great. The region has high incidences of cancer, heart attack, stroke and other diseases, and the need for medical and outreach services are tremendous. The program has successfully diverted persons without access from costly emergency rooms to appropriate primary care settings. In 2014, the Corporation showed a net loss of \$1,492,917.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

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B. Other Subsidized Services

Inmate Care

The Corporation provides care to persons in jail for Dougherty County. In 2014 the Corporation provided \$744,344 of unreimbursed medical and drug treatment to 273 inmates.

Indigent Drug Pharmacy

Indigent Drug Pharmacy provides medication upon discharge to patients that are either indigent or uninsured. In 2014, the pharmacy assisted 1,843 unique patients at a cost of \$281,767.

**IV. Clinical Research**

Phoebe offers clinical trials to cancer patients who are residents of Southwest Georgia. In 2014, patient participation in the trials cost \$449,668. Phoebe is also a regional site for the collection of tissue for the statewide Tumor, Tissue and Serum Bio-repository at an additional cost of \$233,420.

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

In 2014, The Corporation provided \$256,365 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 \$152,500 for staff support and various projects centered on prevention, screening and early detection.
- Graceway Recovery for Women received a cash donation of \$1,000 for its substance abuse program.
- Albany Marathon received a \$20,000 donation to raise funds for hospice services.
- In-kind support of Foregone Rent to 17 non-profit organizations at an estimated cost of \$32,246.
- Phoebe Worth Medical Center gave \$45,619 to the Worth County Health Department for heart health and diabetes.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

**VI. Community Building Activities**

A. Economic Development

As a corporate citizen, the Corporation is involved in various economic development activities throughout the year. In 2014, the Corporation contributed \$118,000 to various economic development initiatives in the community highlighted by a \$100,000 pledge to the Chamber of Commerce for Economic Development and in-kind support of \$18,000 to host a Sign-up Fair for the Affordable Care Act.

**VII. Community Benefit Obligations**

The Corporation incurred \$136,728 to support staff and community health needs assessment costs and included \$32,000 renewal of Healthy Communities Institute's dashboard feature on our website:

<http://phoebeputney.com/phoebeccontentpage.aspx?nd=1660>

Summary

	<u>2014</u>
<b>Community Health Improvement Services:</b>	
Community Health Education	\$ 730,866
Community Based Clinical Services	1,016,650
Healthcare Support Services	<u>1,049,247</u>
<b>Total community health improvement services</b>	<b><u>2,796,763</u></b>
<b>Health Professions Education:</b>	
Nurses/nursing students	1,161,006
Other health professional education	<u>240,031</u>
<b>Total health professional education</b>	<b><u>1,401,037</u></b>

See independent auditor's report on supplemental information.



PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued  
July 31, 2014

**VII. Community Benefit Obligations, Continued**

**Summary, Continued**

	<b><u>2014</u></b>
<b>Subsidized Health Services:</b>	
Hospital outpatient services	\$ 9,679,073
Behavioral health services	1,235,029
Other subsidized health services	<u>1,026,111</u>
<b>Total subsidized health services</b>	<b><u>11,940,213</u></b>
<b>Clinical Research:</b>	
Clinical research	<u>683,088</u>
<b>Total clinical research</b>	<b><u>683,088</u></b>
<b>Financial and In-Kind Support:</b>	
Cash donations	224,119
In-kind donations	<u>32,246</u>
<b>Total financial and in-kind support</b>	<b><u>256,365</u></b>
<b>Community Building Activities:</b>	
Economic development activities	<u>118,000</u>
<b>Total community building activities</b>	<b><u>118,000</u></b>
<b>Community Benefit Operations:</b>	
Dedicated staff and other resources	<u>136,728</u>
<b>Total community benefit operations</b>	<b><u>136,728</u></b>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2014

**VII. Community Benefit Obligations, Continued**

**Summary, Continued**

	<b><u>2014</u></b>
<b>Other:</b>	
Traditional charity care – estimated unreimbursed cost of charity services	\$ 28,000,000
Unpaid cost of Medicare services – estimated unreimbursed cost of Medicare services	199,000,000
Unpaid cost of Medicaid services – estimated unreimbursed cost of Medicaid services	<u>77,000,000</u>
<b>Total other</b>	<b><u>304,000,000</u></b>
<b>Total summary</b>	<b><u>\$ 321,332,194</u></b>

This report has been prepared in accordance with the community benefit reporting guidelines established by Catholic Health Association (CHA) and VHA, Inc. known formally as Voluntary Hospitals of America. 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.