

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

FINANCIAL STATEMENTS

for the years ended July 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Phoebe Putney Memorial Hospital, Inc. (Corporation), which comprise the balance sheets as of July 31, 2013 and 2012, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoebe Putney Memorial Hospital, Inc. as of July 31, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Corporation changed its presentation of revenues and provision for doubtful accounts as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Healthcare Entities*.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2013, on our consideration of Phoebe Putney Memorial Hospital, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Phoebe Putney Memorial Hospital, Inc.'s internal control over financial reporting and compliance.

Driffin & Tucker, LLP

Albany, Georgia
December 4, 2013

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

BALANCE SHEETS, July 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 51,192,263	\$ 70,939,255
Assets limited as to use – current	-	1,664,022
Patient accounts receivable, net of allowance for doubtful accounts of \$36,000,000 in 2013 and \$21,000,000 in 2012	101,079,896	78,551,918
Supplies, at lower of cost (first-in, first-out) or market	11,454,190	7,120,264
Estimated third-party payor settlements	8,250,252	6,545,126
Other current assets	<u>12,858,260</u>	<u>3,401,266</u>
Total current assets	<u>184,834,861</u>	<u>168,221,851</u>
Assets limited as to use:		
Internally designated for capital improvements	3,412,161	16,145,491
Under bond indenture agreement	<u>-</u>	<u>1,664,022</u>
Total assets limited as to use	3,412,161	17,809,513
Less amount required to meet current obligations	<u>-</u>	<u>1,664,022</u>
Assets limited as to use – long-term	<u>3,412,161</u>	<u>16,145,491</u>
Property and equipment, net	<u>313,040,999</u>	<u>278,233,195</u>
Other assets:		
Interest in net assets of Phoebe Foundation, Inc.	11,504,481	11,357,360
Deferred financing cost	3,188,380	3,029,453
Goodwill	124,991,769	11,340,057
Related party receivables	-	184,257,320
Other assets	<u>343,158</u>	<u>3,305,250</u>
Total other assets	<u>140,027,788</u>	<u>213,289,440</u>
Total assets	\$ <u>641,315,809</u>	\$ <u>675,889,977</u>

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

BALANCE SHEETS, July 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 5,423,553	\$ 4,715,000
Short-term debt	-	100,000,000
Accounts payable	13,227,078	15,927,169
Accrued expenses	<u>30,969,364</u>	<u>25,309,608</u>
Total current liabilities	49,619,995	145,951,777
Long-term debt, net of current portion	303,593,467	209,064,518
Accrued pension cost	103,153,525	138,899,342
Related party payables	14,515,863	-
Derivative financial instruments	<u>6,795,221</u>	<u>14,035,472</u>
Total liabilities	<u>477,678,071</u>	<u>507,951,109</u>
Net assets:		
Unrestricted	157,360,442	161,324,123
Temporarily restricted	4,496,165	5,033,647
Permanently restricted	<u>1,781,131</u>	<u>1,581,098</u>
Total net assets	<u>163,637,738</u>	<u>167,938,868</u>
 Total liabilities and net assets	 \$ <u>641,315,809</u>	 \$ <u>675,889,977</u>

See accompanying notes to financial statements.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
for the years ended July 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 574,437,910	\$ 510,591,675
Provision for bad debts	(79,064,262)	(43,996,875)
Net patient service revenue	495,373,648	466,594,800
Other revenue	<u>20,313,993</u>	<u>13,321,929</u>
Total revenues, gains and other support	<u>515,687,641</u>	<u>479,916,729</u>
Expenses:		
Salaries and wages	184,058,632	163,271,798
Employee health and welfare	73,858,218	46,536,787
Medical supplies and other	189,558,888	164,153,830
Professional fees	2,775,816	2,545,433
Purchased services	41,693,192	56,901,202
Depreciation and amortization	32,778,369	25,425,813
Interest	<u>7,468,176</u>	<u>5,660,312</u>
Total expenses	<u>532,191,291</u>	<u>464,495,175</u>
Operating income (loss)	(16,503,650)	<u>15,421,554</u>
Nonoperating gains (losses):		
Investment income (loss)	9,294,831	(6,361,479)
Loss on impairment of goodwill	(43,929,294)	<u>-</u>
Total nonoperating gains (losses)	(34,634,463)	(6,361,479)
Excess revenues (expenses)	(51,138,113)	9,060,075

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued
for the years ended July 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Change in interest in net assets of Phoebe Foundation, Inc.	\$(723,870)	\$ 256,496
Net assets released from restrictions	1,208,440	42,782
Net actuarial gain (loss)	39,447,559	(62,349,691)
Amortization of prior service cost	181,422	181,422
Amortization of net gain	7,064,269	3,276,175
Other changes in unrestricted net assets	(3,388)	(127,922)
Increase (decrease) in unrestricted net assets	(3,963,681)	(49,660,663)
Temporarily restricted net assets:		
Change in interest in net assets of Phoebe Foundation, Inc.	670,958	306,702
Net assets released from restriction	(1,208,440)	(42,782)
Increase (decrease) in temporarily restricted net assets	(537,482)	263,920
Permanently restricted net assets:		
Change in interest in net assets of Phoebe Foundation, Inc.	200,033	154,569
Increase (decrease) in net assets	(4,301,130)	(49,242,174)
Net assets, beginning of year	167,938,868	217,181,042
Net assets, end of year	\$ <u>163,637,738</u>	\$ <u>167,938,868</u>

See accompanying notes to financial statements.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS
for the years ended July 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$(4,301,130)	\$(49,242,174)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	32,778,369	25,425,813
Change in interest in net assets of Phoebe Foundation, Inc.	(147,121)	(717,767)
Loss on impairment of goodwill	43,929,294	-
Changes in:		
Receivables	(13,435,212)	496,867
Supplies	(1,121,813)	37,332
Estimated third-party payor settlements	(2,596,196)	(4,707,885)
Other assets	(6,653,829)	1,613,160
Accounts payable and accrued expenses	(3,684,035)	(11,801,037)
Accrued pension cost	(35,745,817)	55,833,352
Related party receivables/payables	33,551,103	83,255,295
Derivative financial instruments	(7,240,251)	9,428,915
Net cash provided by operating activities	<u>35,333,362</u>	<u>109,621,871</u>
Cash flows from investing activities:		
Purchase of property and equipment	(26,686,179)	(38,661,415)
Purchase of assets limited as to use	(3,735,961)	(5,134,929)
Sale of assets limited as to use	18,133,313	4,885,676
Payments from related parties	23,977,541	-
Payments to related parties	(62,006,570)	(328,306,994)
Net cash used by investing activities	<u>(50,317,856)</u>	<u>(367,217,662)</u>

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS, Continued
for the years ended July 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from financing activities:		
Payments on short-term debt	\$(100,000,000)	\$ -
Payments on long-term debt	(116,074,091)	(5,184,509)
Proceeds from issuance of short-term debt	-	100,000,000
Proceeds from issuance of long-term debt	<u>211,311,593</u>	<u>-</u>
Net cash provided (used) by financing activities	(<u>4,762,498</u>)	<u>94,815,491</u>
Decrease in cash and cash equivalents	(19,746,992)	(162,780,300)
Cash and cash equivalents, beginning of year	<u>70,939,255</u>	<u>233,719,555</u>
Cash and cash equivalents, end of year	\$ <u>51,192,263</u>	\$ <u>70,939,255</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ <u>7,700,000</u>	\$ <u>5,800,000</u>

- In 2013, the Corporation acquired certain assets and liabilities as a result of leasing the hospital formerly known as Palmyra Park Hospital, LLC from the Hospital Authority of Albany-Dougherty County, Georgia. See Note 8 for additional information related to the lease.

See accompanying notes to financial statements.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

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

Reorganization

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

Effective August 1, 2012, the Lease and Transfer Agreement between the Corporation and the Authority was amended and restated. The amendment was made for the transfer and inclusion of the hospital formerly known as Palmyra Park Hospital, LLC (Palmyra) which was acquired by the Hospital Authority of Albany-Dougherty County, Georgia. The amendment included the extension of the lease for a term of forty years from the date of the current amendment.

Use of Estimates

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

Cash and Cash Equivalents

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

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts

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

The Corporation's allowance for doubtful accounts for fiscal year 2013 increased approximately 3% as a percentage of self-pay accounts receivable compared to fiscal year 2012. The increase was due to several factors, including an increase in accounts receivable due in part to the leasing of Palmyra which began August 1, 2012. The accounts receivable related to Palmyra included in the initial lease are significantly aged and therefore require a higher allowance for doubtful accounts. In addition, the Corporation experienced an increase in self-pay volume during fiscal year 2013. Another factor that led to the increase is the result of negative trends related to the collectability of amounts due from self-pay patients during fiscal year 2013. The healthcare industry is also experiencing a movement of more patients favoring the high deductible insurance plans with lower premium costs. Although these patients are insured, collection is often difficult when the patient is left with the responsibility of the account balance after insurance has paid the claim. The Corporation has not changed its charity care or uninsured discount policies during fiscal years 2012 or 2013.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Supplies

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

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 (expenses) unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess revenues (expenses) 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 arrangements are accounted for under the provisions of FASB ASC 815 *Derivatives and Hedging*. FASB ASC 815 establishes accounting and reporting standards requiring that derivative instruments be recorded at fair value as either an asset or liability.

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

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently, use for other purposes. Amounts required to meet current liabilities of the Corporation have been reclassified in the balance sheet at July 31, 2013 and 2012.

Property and Equipment

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess revenues (expenses), unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Beneficial Interest in Net Assets of Foundation

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

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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 MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Excess Revenues (Expenses)

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

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 MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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 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 Cost

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

Income Taxes

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

The Corporation applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the 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.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2013 and 2012 or for the years then ended. The Corporation's open audit periods are for tax years ended 2010-2012.

Impairment of Long-Lived Assets

The Corporation evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Corporation has not recorded any impairment charges of long-lived assets in the accompanying statements of operations and changes in net assets for the years ended July 31, 2013 and 2012.

Fair Value Measurements

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

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

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncement

In 2013, the Corporation adopted the provisions of FASB Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The ASU requires health care entities to change the presentation of the statement of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues. Additionally, the guidance requires enhanced disclosures about the policies for recognizing revenue, assessing bad debts and qualitative and quantitative information about the changes in the allowance for doubtful accounts. All periods presented in these financial statements and notes to financial statements have been reclassified in accordance with the ASU.

In 2013, the Corporation adopted the provisions of FASB Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement*. This new guidance was issued to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. The adoption of this ASU resulted in additional disclosure and did not have a material impact on the Corporation's financial position or results of operations.

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through December 4, 2013, the date the financial statements were issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2012 financial statements to conform to the fiscal year 2013 presentation. The reclassifications had no impact on the change in net assets in the accompanying financial statements.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Net Patient Service Revenue

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

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, 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, 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>168,769,995</u>	\$ <u>72,231,998</u>	\$ <u>249,337,345</u>	\$ <u>84,098,572</u>	\$ <u>574,437,910</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 34% and 15%, respectively, of the Corporation's net patient revenue for the year ended July 31, 2013 and 35% and 17%, respectively, of the Corporation's net patient revenue for the year ended July 31, 2012. 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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Net Patient Service Revenue

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

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

- Medicare

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

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

The Corporation is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare Administrative Contractor (MAC). The Corporation's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Corporation. The Corporation's Medicare cost reports have been audited by the MAC through July 31, 2008.

- 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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Net Patient Service Revenue

- Medicaid, Continued

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 has also entered into contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diems.

The 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 \$5,205,000 and \$5,480,000 for the years ended July 31, 2013 and 2012, respectively.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$2,782,000 and \$1,455,000 for the years ended July 31, 2013 and 2012, respectively.

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (the Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately \$7,138,000 and \$5,665,000 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, 2013 and 2012, respectively.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Net Patient Service Revenue

• 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.

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2013 and 2012 were approximately \$906,000,000 and \$736,000,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$72,000,000 and \$62,000,000 in 2013 and 2012, respectively. The cost of charity and indigent care services provided during 2013 and 2012 was approximately \$27,000,000 and \$24,000,000, 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 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Gross patient charges	\$ <u>1,401,362,344</u>	\$ <u>1,202,451,005</u>
Uncompensated services:		
Charity and indigent care	71,946,310	62,005,935
Medicare	462,541,602	375,743,112
Medicaid	181,779,312	143,715,250
Other allowances	110,657,210	110,395,033
Bad debts	<u>79,064,262</u>	<u>43,996,875</u>
Total uncompensated care	<u>905,988,696</u>	<u>735,856,205</u>
Net patient service revenue	\$ <u>495,373,648</u>	\$ <u>466,594,800</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

4. Investments

Assets Limited as to Use

The composition of assets limited as to use at July 31, 2013 and 2012 is set forth in the following table. Assets limited as to use are trading and are stated at fair value.

	<u>2013</u>	<u>2012</u>
By board for capital improvements:		
Money market funds	\$ 34,061	\$ 44,435
Certificates of deposit	371,246	366,170
Mutual funds – index funds	-	2,404,188
Mutual funds – fixed income funds	-	1,959,875
Mutual funds – total return funds	-	1,600,000
Alternative investments in hedge funds	3,006,854	8,926,349
Common collective trusts invested in equity securities	<u>-</u>	<u>844,474</u>
Total board restricted for capital improvements	3,412,161	16,145,491
Under bond indenture agreement:		
Government debt securities	<u>-</u>	<u>1,664,022</u>
Total assets limited as to use	\$ <u>3,412,161</u>	\$ <u>17,809,513</u>

The Corporation has classified all marketable securities as trading securities. These trading securities are bought and held for the purpose of selling them in the near term and are reported at fair value, with unrealized gains and losses recognized in earnings. The estimated fair value of substantially all securities is based on similar types of securities that are traded in the market. Gains and losses on securities sold are based on the specific identification method.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

4. Investments, Continued

Assets Limited as to Use, Continued

Investment income and gains and losses for assets limited as to use are comprised of the following for the years ending July 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Dividend income	\$ 67,199	\$ 60,229
Interest income	466,535	791,298
Realized gains on sales of securities	1,748,768	226,859
Investment expenses	(10,533)	(54,942)
Unrealized gains (losses)	<u>23,981</u>	<u>(82,178)</u>
Total	\$ <u>2,295,950</u>	\$ <u>941,266</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 financial statements.

5. Property and Equipment

A summary of property and equipment at July 31, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 13,136,197	\$ 7,471,578
Land improvements	2,655,285	2,403,512
Building	333,162,366	278,719,449
Equipment	<u>315,490,625</u>	<u>263,605,208</u>
	664,444,473	552,199,747
Less accumulated depreciation	<u>365,938,265</u>	<u>330,603,541</u>
	298,506,208	221,596,206
Construction in progress	<u>14,534,791</u>	<u>56,636,989</u>
Net property and equipment	\$ <u>313,040,999</u>	\$ <u>278,233,195</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

5. Property and Equipment, Continued

Depreciation expense for the years ended July 31, 2013 and 2012 amounted to approximately \$32,778,000 and \$25,426,000, respectively.

Construction contracts exist for various projects at year end with a total commitment of \$786,000. At July 31, 2013, the remaining commitment on these contracts approximated \$392,000.

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, 2013 and 2012 amounted to approximately \$1,235,000 and \$619,000, respectively.

7. Goodwill and Other Assets

A summary of goodwill and other assets at July 31, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
Goodwill	\$ <u>124,991,769</u>	\$ <u>11,340,057</u>
Long-term receivables	\$ -	\$ 3,006,703
Other investment	<u>343,158</u>	<u>298,547</u>
Total other assets	\$ <u>343,158</u>	\$ <u>3,305,250</u>

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

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 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 approximately \$43,929,000 for fiscal year 2013.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

7. Goodwill and Other Assets, Continued

The changes in the carrying amount of goodwill for the years ended July 31, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year:		
Goodwill	\$ 11,340,057	\$ 11,340,057
Accumulated impairment losses	-	-
	<u>11,340,057</u>	<u>11,340,057</u>
Goodwill acquired during the year	157,581,006	-
Impairment losses	<u>(43,929,294)</u>	<u>-</u>
Balance at end of year:		
Goodwill	168,921,063	11,340,057
Accumulated impairment losses	<u>(43,929,294)</u>	<u>-</u>
Total	\$ <u>124,991,769</u>	\$ <u>11,340,057</u>

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

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

8. Hospital Authority of Albany-Dougherty County, Georgia Lease Amendment, Continued

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	(7,534,770)
 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.

The amounts of Palmyra's revenue and earnings included in the consolidated statements of operations and changes in net assets (from the inception of the lease) for 2013 are approximately \$73,869,000 and \$14,202,000, respectively. The following pro forma information is based on the assumption that the lease occurred on August 1, 2011.

	<u>2013</u>	<u>2012</u>
Operating revenue	\$ <u>515,687,641</u>	\$ <u>540,299,433</u>
Excess revenues (expenses)	\$ (<u>51,138,113</u>)	\$ <u>11,970,620</u>

9. Short-Term Debt

The Corporation entered into a loan agreement with Bank of America for an amount of \$100,000,000 bearing interest at LIBOR plus 0.29% with a maturity date of December 15, 2012 and collateralized by the executed loan agreement. The outstanding balance on the loan at July 31, 2012 was \$100,000,000. The purpose of the loan agreement was to provide funds to the Authority for the purchase of Palmyra. The loan was repaid in full during 2013.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

10. Long-Term Debt

	<u>2013</u>	<u>2012</u>
1993 Series Revenue Anticipation Certificates, paid off in January 2013.	\$ -	\$ 15,680,000
2008A Series Revenue Anticipation Certificates, payable in varying annual amounts from \$1,565,000 in 2014 to \$3,795,000 in 2033; bearing interest at a daily rate to be adjusted by the Remarketing Agent, refunded in December 2012.	-	49,840,000
2008B Series Revenue Anticipation Certificates, payable in varying annual amounts from \$1,565,000 in 2014 to \$3,790,000 in 2033; bearing interest at a daily rate to be adjusted by the Remarketing Agent, refunded in December 2012.	-	49,750,000
2008A Series Refunding Revenue Anticipation Certificates, payable in varying annual amounts from \$1,565,000 in 2014 to \$3,795,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread.	48,545,000	-
2008B Series Refunding Revenue Anticipation Certificates, payable in varying annual amounts from \$1,565,000 in 2014 to \$3,790,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread.	48,460,000	-

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

10. Long-Term Debt, Continued

	<u>2013</u>	<u>2012</u>
2010A Series Revenue Anticipation Certificates, payable in varying annual amounts from \$355,000 in 2014 to \$11,355,000 in 2040; bearing interest at a monthly rate to be adjusted by the Remarketing Agent.	\$ 97,830,000	\$ 98,560,000
2012 Series Revenue Anticipation Certificates, payable in varying annual amounts from \$1,725,000 in 2014 to \$16,285,000 in 2043; bearing interest at a variable rate to be adjusted annually.	107,900,000 302,735,000	- 213,830,000
Less current portion	5,423,553 297,311,447	4,715,000 209,115,000
Add unamortized premium	6,282,020	-
Less unamortized discount	-	50,482
	<u>\$ 303,593,467</u>	<u>\$ 209,064,518</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 MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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 a variable rate adjusted annually.

Series 1993, 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.

Under the terms of the 1993 Certificate 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>
2014	\$ 1,565,000	\$ 1,565,000	\$ 355,000	\$ 1,725,000	\$ 5,210,000
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
Thereafter	<u>39,915,000</u>	<u>39,855,000</u>	<u>96,985,000</u>	<u>96,465,000</u>	<u>273,220,000</u>
Total	\$ <u>48,545,000</u>	\$ <u>48,460,000</u>	\$ <u>97,830,000</u>	\$ <u>107,900,000</u>	\$ <u>302,735,000</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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>2013</u>	<u>2012</u>
Notional amount	\$ 22,650,926	\$ 22,905,687
Fair market value	\$(3,945,119)	\$(6,894,910)
Life remaining on swap	13 Years	14 Years

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

	<u>2013</u>	<u>2012</u>
Notional amount	\$ 22,650,926	\$ 22,905,686
Fair market value	\$(4,290,406)	\$(7,291,224)
Life remaining on swap	13 Years	14 Years

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

	<u>2013</u>	<u>2012</u>
Notional amount	\$ 19,158,152	\$ 19,373,629
Fair market value	\$(3,335,782)	\$(5,831,714)
Life remaining on swap	13 Years	14 Years

Constant Maturity LIBOR Swap – Non-Hedge

	<u>2013</u>	<u>2012</u>
Notional amount	\$ 39,370,090	\$ 40,432,590
Fair market value	\$ 3,063,717	\$ 3,091,820
Life remaining on swap	19 Years	20 Years

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

11. Derivative Financial Instruments, Continued

Constant Maturity LIBOR Swap – Non-Hedge

	<u>2013</u>	<u>2012</u>
Notional amount	\$ 39,370,091	\$ 40,432,590
Fair market value	\$ 3,150,006	\$ 3,249,267
Life remaining on swap	19 Years	20 Years

Constant Maturity LIBOR Swap – Non-Hedge

	<u>2013</u>	<u>2012</u>
Notional amount	\$ -	\$ 80,865,180
Fair market value	\$ -	\$ (358,711)
Life remaining on swap	-	1 Year

Constant Maturity LIBOR Swap – Non-Hedge

	<u>2013</u>	<u>2012</u>
Notional amount	\$ 22,650,926	\$ -
Fair market value	\$ (763,544)	\$ -
Life remaining on swap	19 Years	-

Constant Maturity LIBOR Swap – Non-Hedge

	<u>2013</u>	<u>2012</u>
Notional amount	\$ 22,650,926	\$ -
Fair market value	\$ (822,719)	\$ -
Life remaining on swap	19 Years	-

Constant Maturity LIBOR Swap – Non-Hedge

	<u>2013</u>	<u>2012</u>
Notional amount	\$ 19,158,152	\$ -
Fair market value	\$ (695,856)	\$ -
Life remaining on swap	19 Years	-

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

11. Derivative Financial Instruments, Continued

	<u>Constant Maturity LIBOR Swap – Non-Hedge</u>	
	<u>2013</u>	<u>2012</u>
Notional amount	\$ 78,740,181	\$ -
Fair market value	\$ 844,482	\$ -
Life remaining on swap	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, 2013 and 2012, the Corporation deemed the capacity to perform on the part of the derivative counterparty to be of little or no concern; and no adjustment was applied to standard market valuation practices.

The swap results are included in excess revenues (expenses). For the years ending July 31, 2013 and 2012, this earnings impact totaled approximately \$6,882,000 and \$(7,404,000), respectively.

12. Temporarily and Permanently Restricted Net Assets

A summary of the restricted net assets at July 31, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
<u>Temporarily Restricted Net Assets</u>		
Restricted by Phoebe Foundation, Inc.	\$ <u>4,496,165</u>	\$ <u>5,033,647</u>
<u>Permanently Restricted Net Assets</u>		
Restricted investments to be held in perpetuity by Phoebe Foundation, Inc.	\$ <u>1,781,131</u>	\$ <u>1,581,098</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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 January 1, 2012 and 2011. 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 following table sets forth the defined benefit pension plan funded status and amounts recognized in the financial statements at July 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Plan assets at fair value at July 31	\$ 165,003,768	\$ 150,375,259
Projected benefit obligation at July 31	<u>268,157,293</u>	<u>289,274,601</u>
Funded status	<u>\$(103,153,525)</u>	<u>\$(138,899,342)</u>
Amounts recognized in the consolidated balance sheet consist of:		
Noncurrent liabilities	<u>\$(103,153,525)</u>	<u>\$(138,899,342)</u>
Amounts recognized in unrestricted net assets:		
Net actuarial loss	\$(74,314,252)	\$(120,826,080)
Prior service cost not yet recognized in net periodic pension cost	<u>(477,964)</u>	<u>(659,386)</u>
Deferred pension cost	<u>\$(74,792,216)</u>	<u>\$(121,485,466)</u>
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	5.30%	4.57%
Rate of compensation increase	4.00%	4.00%

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

13. Pension Plan, Continued

	<u>2013</u>	<u>2012</u>
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.57%	5.41%
Expected long-term return on plan assets	8.75%	8.75%
Rate of compensation increase	4.00%	4.00%

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Service cost	\$ 14,356,617	\$ 11,688,062
Interest cost	13,248,662	12,361,171
Expected return on plan assets	(14,168,537)	(12,182,271)
Amortization of prior service cost	181,422	181,422
Amortization of recognized net actuarial loss	<u>7,064,269</u>	<u>3,276,175</u>
Net periodic benefit cost	<u>20,682,433</u>	<u>15,324,559</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial (gain) loss	(39,447,559)	62,349,691
Amortization of prior service cost	(181,422)	(181,422)
Amortization of net actuarial loss	(<u>7,064,269</u>)	(<u>3,276,175</u>)
Total recognized in unrestricted net assets	<u>(46,693,250)</u>	<u>58,892,094</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$(26,010,817)</u>	<u>\$ 74,216,653</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

13. Pension Plan, Continued

The change in projected benefit obligation for the defined benefit pension plan for the years ended July 31, 2013 and 2012 included the following components:

	<u>2013</u>	<u>2012</u>
Projected benefit obligation, beginning of year	\$ 289,274,601	\$ 222,867,378
Service cost	14,356,617	11,688,062
Interest cost	13,248,662	12,361,171
Actuarial (gain) or loss	(31,803,450)	46,967,870
Benefits paid	(16,919,137)	(4,609,880)
 Projected benefit obligation, end of year	 \$ <u>268,157,293</u>	 \$ <u>289,274,601</u>
 Accumulated benefit obligation	 \$ <u>217,525,690</u>	 \$ <u>225,276,957</u>

The change in fair value of plan assets for the years ended July 31, 2013 and 2012 included the following components:

	<u>2013</u>	<u>2012</u>
Plan assets at fair value, beginning of year	\$ 150,375,259	\$ 139,801,388
Actual return on assets	21,812,646	(3,199,550)
Employer contributions	9,735,000	18,383,301
Benefits paid	(16,919,137)	(4,609,880)
 Plan assets at fair value, end of year	 \$ <u>165,003,768</u>	 \$ <u>150,375,259</u>

The Corporation anticipates making a contribution during fiscal year 2014 of \$13,690,840.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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>
2014	\$ 7,101,000
2015	\$ 7,770,000
2016	\$ 8,483,000
2017	\$ 9,380,000
2018	\$ 10,424,000
2019 – 2023	\$ 71,184,000

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at July 31, 2013.

The actuarial loss and prior service cost to be recognized during the next 12 months beginning August 1, 2013 is as follows:

Amortization of net actuarial loss	\$ 3,606,570
Amortization of prior year service costs	<u>181,422</u>
Total	\$ <u>3,787,992</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

13. Pension Plan, Continued

Plan Assets

The composition of plan assets at July 31, 2013 and 2012 is as follows:

	Target	Pension Benefits	
	<u>Allocation</u>	<u>2013</u>	<u>2012</u>
Asset category:			
Cash and cash equivalents	0%	6%	6%
U.S. equity securities	20%	24%	22%
Fixed income	20%	20%	23%
Real assets	13%	4%	4%
Opportunistic	5%	5%	5%
Hedge funds	20%	19%	20%
Non U.S. equity securities	16%	17%	15%
Emerging markets	<u>6%</u>	<u>5%</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 MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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, 2013 and 2012, by asset category are as follows:

Fair Value Measurements at July 31, 2013				
<u>Asset Category</u>	<u>Total</u>	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 9,261,130	\$ 11,400	\$ 9,249,730	\$ -
U.S. equity securities	39,911,652	11,349,551	13,809,829	14,752,272
Fixed income	33,231,334	-	33,231,334	-
Real assets	7,086,831	4,800,583	1,951,498	334,750
Opportunistic	8,099,923	-	8,099,923	-
Hedge funds	30,086,473	-	21,216,876	8,869,597
Non U.S. equity securities	28,518,363	-	17,241,033	11,277,330
Emerging markets	<u>8,808,062</u>	<u>-</u>	<u>8,808,062</u>	<u>-</u>
Total	\$ <u>165,003,768</u>	\$ <u>16,161,534</u>	\$ <u>113,608,285</u>	\$ <u>35,233,949</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

13. Pension Plan, Continued

Fair Value Measurements at July 31, 2012				
<u>Asset Category</u>	<u>Total</u>	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 9,652,969	\$ 1,500,000	\$ 8,152,969	\$ -
U.S. equity securities	33,529,046	8,847,122	14,009,501	10,672,423
Fixed income	33,954,690	-	33,954,690	-
Real assets	6,079,495	3,767,073	2,016,982	295,440
Opportunistic	7,058,785	-	7,058,785	-
Hedge funds	30,139,157	-	20,441,992	9,697,165
Non U.S. equity securities	23,130,814	-	11,973,041	11,157,773
Emerging markets	<u>6,830,303</u>	<u>-</u>	<u>6,830,303</u>	<u>-</u>
Total	\$ <u>150,375,259</u>	\$ <u>14,114,195</u>	\$ <u>104,438,263</u>	\$ <u>31,822,801</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

13. Pension Plan, Continued

The following table sets forth additional information for assets valued at NAV which are greater than 5% of total investments.

as of July 31, 2013				
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
U.S. equity securities	\$ <u>14,752,272</u>	10% Gate	Quarterly	60 Days
Hedge funds	\$ 1,843,056	15% Share Class H	Annually	45 Days
Hedge funds	1,989,574	None	Annually	90 Days
Hedge funds	2,053,682	None	Annually	90 Days
Hedge funds	1,587,105	25% Share Class A	Annually	90 Days
Hedge funds	<u>1,396,180</u>	25% Share Class A	Annually	90 Days
	\$ <u>8,869,597</u>			
Non U.S. equity securities	\$ 5,687,254	None	Monthly	15 Business Days
Non U.S. equity securities	<u>5,590,076</u>	None	Bi-monthly	5 Days
	\$ <u>11,277,330</u>			

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

13. Pension Plan, Continued

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)				
	<u>Non U.S. Equities</u>	<u>U.S. Equities</u>	<u>Real Assets</u>	<u>Hedge Funds</u>	<u>Total</u>
July 31, 2011	\$ 12,717,273	\$ 9,398,412	\$ 195,540	\$ 10,582,540	\$ 32,893,765
Realized and unrealized gains (losses) included in other nonoperating revenue	(1,779,362)	1,274,011	900	17,197	(487,254)
Purchases	260,680	-	99,000	-	359,680
Sales	(40,818)	-	-	(902,572)	(943,390)
July 31, 2012	11,157,773	10,672,423	295,440	9,697,165	31,822,801
Realized and unrealized gains (losses) included in other nonoperating revenue	1,974,776	3,329,849	8,060	1,463,515	6,776,200
Purchases	198,955	750,000	31,250	300,000	1,280,205
Sales	(2,054,174)	-	-	(2,591,083)	(4,645,257)
July 31, 2013	\$ <u>11,277,330</u>	\$ <u>14,752,272</u>	\$ <u>334,750</u>	\$ <u>8,869,597</u>	\$ <u>35,233,949</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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

13. Pension Plan, Continued

The Corporation has 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, 2013 and 2012 totaled approximately \$2,312,000 and \$1,215,000, respectively. For 2013 and 2012, the total discretionary contributions paid totaled approximately \$-0- and \$1,129,000, respectively.

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 \$33,421,000 and \$17,741,000 for 2013 and 2012, respectively.

15. Malpractice Insurance

The Corporation is covered by a claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis through the parent's wholly owned subsidiary, Phoebe Putney Indemnity, LLC (PPI), located in South Carolina.

Effective August 1, 2006, PPI 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. Effective August 1, 2011 and renewing annually, PPI issued a policy with limits of \$5,000,000 per occurrence, with an annual aggregate of \$23,000,000.

PPI also provides excess liability coverage to the Corporation, which covers \$25,000,000 per occurrence in excess of the underlying insurance coverage of \$30,000,000 for the policy years ending July 31, 2013 and 2012. The excess policy has an annual aggregate limit of \$25,000,000. All of the risk related to this coverage has been ceded to unrelated reinsurers via a contract of reinsurance.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

15. Malpractice Insurance, Continued

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 is located in Albany, Georgia. The Corporation grants credit without collateral to its patients, most of whom are residents of Southwest Georgia and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at July 31, 2013 and 2012 was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	41 %	28 %
Medicaid	18 %	23 %
Blue Cross	16 %	21 %
Commercial	13 %	19 %
Patients	<u>12 %</u>	<u>9 %</u>
Total	<u>100 %</u>	<u>100 %</u>

At July 31, 2013, the Corporation has 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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

17. Related Party Transactions

	<u>2013</u>	<u>2012</u>
Due from Phoebe Putney Health Ventures, Inc.	\$ 97,861	\$ 117,095
Due from (to) Phoebe Putney Health System, Inc.	(14,613,724)	184,140,225
Net related party transactions	\$(14,515,863)	\$ 184,257,320

The related party transactions that affect the above receivables and payables arise from the sharing of services. During 2012, the Corporation transferred approximately \$200 million to the System. The System subsequently transferred approximately \$200 million to the Authority for the purchase of Palmyra Park Hospital, LLC.

18. Related Organization

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

	<u>2013</u>	<u>2012</u>
Assets:		
Cash and cash equivalents	\$ 835,341	\$ 929,930
Investments	10,407,178	10,186,826
Other assets	314,905	334,943
Total assets	\$ 11,557,424	\$ 11,451,699

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

18. Related Organization, Continued

	<u>2013</u>	<u>2012</u>
Liabilities and net assets:		
Accounts payable	\$ 52,943	\$ 94,339
Net assets	<u>11,504,481</u>	<u>11,357,360</u>
Total liabilities and net assets	\$ <u>11,557,424</u>	\$ <u>11,451,699</u>
Revenue and support	\$ 1,333,878	\$ 1,023,641
Expenses	<u>610,343</u>	<u>383,373</u>
Excess of revenue and support	723,535	640,268
Transfer to PPMH Gift Shop	(649,865)	-
Other changes in net assets	73,451	77,499
Net assets, beginning of year	<u>11,357,360</u>	<u>10,639,593</u>
Net assets, end of year	\$ <u>11,504,481</u>	\$ <u>11,357,360</u>

19. 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>2013</u>	<u>2012</u>
Patient care services	\$ 343,217,181	\$ 293,432,756
General and administrative	148,727,565	139,976,294
Depreciation and amortization	32,778,369	25,425,813
Interest expense	<u>7,468,176</u>	<u>5,660,312</u>
Total	\$ <u>532,191,291</u>	\$ <u>464,495,175</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

20. 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: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.
- 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.
- 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 approximates its fair value. 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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

21. Fair Value Measurement

Following is a description of the valuation methodologies used for assets and liabilities at fair value. There have been no changes in the methodologies used at July 31, 2013 and 2012.

- Money market funds and certificates of deposit: Valued at amortized cost, which approximates fair value.
- 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.
- 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.
- Derivatives: Valued using forward LIBOR curves. Values are then verified against counterparty mark-to-market valuations.
- Goodwill: Valued 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.

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 MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

21. Fair Value Measurement, Continued

The following table sets forth additional information for assets valued at NAV:

as of July 31, 2013				
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternative investments in hedge funds	\$ 3,006,854	None – 10% Share Class A	Quarterly – Annually	60 Days
as of July 31, 2012				
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds – fixed income funds	\$ 1,959,875	None	No Restrictions	3 Days
Mutual funds – index funds	\$ 2,404,188	None	No Restrictions	3 Days
Mutual funds – return funds	\$ 1,600,000	None	Daily	Daily
Alternative investments in hedge funds	\$ 8,926,349	None – 20% Share Class A	Monthly – Annually	45 – 90 Days
Common collective trusts invested in equity securities	\$ 844,474	None	Monthly	30 Days

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

21. Fair Value Measurement, Continued

Fair values of assets and liabilities measured on a recurring basis at July 31, 2013 and 2012 is as follows:

		<u>Fair Value Measurements at Reporting Date Using</u>		
	<u>Fair Value</u>	Quoted Prices in Active Markets For Identical Assets/Liabilities (<u>Level 1</u>)	Significant Other Observable Inputs (<u>Level 2</u>)	Significant Unobservable Inputs (<u>Level 3</u>)
<u>July 31, 2013</u>				
Assets:				
Money market funds	\$ 34,061	\$ -	\$ 34,061	\$ -
Certificates of deposit	371,246	-	371,246	-
Alternative investments in hedge funds	3,006,854	-	3,006,854	-
Goodwill (nonrecurring)	<u>124,991,769</u>	<u>-</u>	<u>-</u>	<u>124,991,769</u>
Total assets	\$ <u>128,403,930</u>	\$ <u>-</u>	\$ <u>3,412,161</u>	\$ <u>124,991,769</u>
Liabilities:				
Derivatives	\$ <u>6,795,221</u>	\$ <u>-</u>	\$ <u>6,795,221</u>	\$ <u>-</u>

In accordance with the provisions of FASB ASC 350, *Intangibles – Goodwill and Other*, goodwill, with a carrying amount of approximately \$168,921,000, was written down to its implied fair value of approximately \$124,992,000. This resulted in an impairment loss of approximately \$43,929,000, which was included in excess revenues (expenses) for 2013. See Note 7 for additional information related to goodwill.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

21. Fair Value Measurement, Continued

		<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>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>July 31, 2012</u>				
Assets:				
Money market funds	\$ 44,435	\$ -	\$ 44,435	\$ -
Certificates of deposit	366,170	-	366,170	-
Government debt securities	1,664,022	-	1,664,022	-
Mutual funds:				
Index funds	2,404,188	-	2,404,188	-
Fixed income funds	1,959,875	-	1,959,875	-
Total return funds	1,600,000		1,600,000	
Alternative investments in hedge funds	8,926,349	-	7,192,055	1,734,294
Common collective trusts invested in equity securities	<u>844,474</u>	<u>-</u>	<u>844,474</u>	<u>-</u>
Total assets	\$ <u>17,809,513</u>	\$ <u>-</u>	\$ <u>16,075,219</u>	\$ <u>1,734,294</u>
Liabilities:				
Derivatives	\$ <u>14,035,472</u>	\$ <u>-</u>	\$ <u>14,035,472</u>	\$ <u>-</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

21. Fair Value Measurement, Continued

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	<u>Alternative Investments in Hedge Funds</u>
July 31, 2011	\$ 1,729,464
Realized and unrealized gains (losses) included in nonoperating revenue	<u>4,830</u>
July 31, 2012	1,734,294
Sales	(1,600,000)
Unrealized gains (losses) included in nonoperating revenue	(<u>134,294</u>)
July 31, 2013	\$ <u>-</u>

22. 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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

22. Commitments and Contingencies, Continued

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. See malpractice insurance disclosures in Note 15.

23. Electronic Health Record Incentive Payments

The Health Information Technology for Economic and Clinical Health Act (the 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 MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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.

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

The Corporation successfully demonstrated meeting meaningful use of its certified EHR technology prior to July 31, 2013. The Hospital applied for and received approval from Medicare and Medicaid notifying the Hospital qualified for approximately \$2,500,000 from the two programs. As of July 31, 2013, all of these funds had been received and recorded in other revenue.

INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION

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

We have audited the financial statements of Phoebe Putney Memorial Hospital, Inc. as of and for the years ended July 31, 2013 and 2012 and our report thereon dated December 4, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in this report on pages 55 to 66, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Draffin & Tucker, LLP

Albany, Georgia
December 4, 2013

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY

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

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

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

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

See independent auditor’s report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

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

	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Medicare	\$ 463,000,000	\$ 176,000,000
Medicaid	182,000,000	69,000,000
Indigent/charity	<u>72,000,000</u>	<u>27,000,000</u>
	\$ <u>717,000,000</u>	\$ <u>272,000,000</u>

The following is a summary of the community benefit activities and health improvement services offered by the Corporation and illustrates the activities and donations during fiscal year 2013.

I. Community Health Improvement Services

A. Community Health Education

Phoebe Putney Memorial Hospital provides health education services that reached 37,064 individuals in 2013 at a cost of \$796,025. These services included the following free classes and seminars:

- Prepared childbirth classes
- Refresher childbirth classes
- Pregnancy classes
- Breastfeeding classes
- Lactation consulting
- Teen Maze
- Health Teacher Training
- Nutrition and Diabetes Education
- Breast Cancer Awareness
- K-12 Health Fairs
- Cancer Prevention
- Sun Safety
- Golden Key Health Seminars
- Support Groups including Camp Good Grief

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

The Corporation is involved in many activities aimed at educating the community about health-related topics; a quarterly health information newsletter distributed to 22,000 senior citizens at a cost of \$35,777 and frequent ongoing health seminars held at Phoebe Northwest free of charge and attracting audiences ranging from 30 to 150 persons.

Camp Good Grief

This is an annual event and this year was held at Hospice. This event is for children who have experienced the loss of a loved one and is free. The event provides a host of activities designed to help the participants deal with their grief. The event concludes with a memorial service. This year 14 children attended the half-day event at a cost of \$4,255.

Men and Women's Health Conferences

The Men's and Women's Health Conferences attracted approximately 800 participants. The men's conference centered on hypertension, while the women's focus was on breast health. Supported by over 70 volunteers, these conferences provided blood pressure, glucose, and cholesterol and BMI screenings for each participant and were made possible by a broad coalition of providers such as the faith-based initiative, heart and cancer society, SWGA Cancer Coalition, and public health among others.

Golden Key

This is a membership organization for people age 55 and older. With 23,535 members, Golden Key offers programs that encourage healthy lifestyles including the privilege of walking at the Corporation's Physical Medicine complex. To its members, it provided a bi-monthly newsletter (Key Notes). In 2013, the unreimbursed cost was \$67,312.

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 195 unduplicated teen parents during the 2012/2013 school year at a cost of \$332,775.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

I. Community Health Improvement Services, Continued

B. Community Based Clinical Services

Flu Shots and Health Screenings

The Corporation provides free flu shots to volunteers. In 2013, the Corporation administered 419 flu shots at an unreimbursed cost of \$5,093. The Corporation also provides free health screenings to individuals in Southwest Georgia. In 2013, the Corporation administered 706 health screenings at a unreimbursed cost of \$1,426.

School Nurse Program

The Corporation places nurses in sixteen elementary schools, six middle schools, and five high schools in Dougherty County with a goal of creating access to care for students and staff, 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 2012/2013 school year, the school nurse program covered 51,645 student visits. This program is operated at a cost of \$1,384,585 in 2013.

C. Health Care Support Services

New Foundations

The Corporation offers New Foundations 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 themselves. 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 1,675 patients and operated at an unreimbursed cost in 2013 of \$41,539.

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 2013, Lights of Love provided transport to 83 patients covering a total of 918 trips at a cost of \$110,539.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

I. Community Health Improvement Services, Continued

C. Health Care Support Services, Continued

Government Sponsored Eligibility Applications to the Poor and Needy

The Corporation 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 2013 the Corporation paid \$1,361,331 to Chamberlain Edmonds to process 1,377 applications for 744 unique patients.

- Indigent Financial Assistance

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

- Charity Financial Assistance

Patients whose income level is between 126% - 200% of the Federal Poverty Levels are classified as charity. These patients will be responsible for a percentage of their 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.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

II. Health Professions Education

The Corporation recognizes that to continuously improve its long-term value to the community and customers, to encourage life-long learning among employees and to achieve a world-class employer status, it is in the Corporation's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. The Corporation also provides non-employees financial support in pursuing healthcare related degrees. In fiscal year 2013, the Corporation provided \$831,146 in clinical supervision and training of 481 nursing students, and an additional \$353,929 in clinical supervision and training to pharmacy, pharmacy technicians and other health professionals.

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. The family medical centers in the surrounding counties are a network of care that serves the entire family closest to where people live. In 2013, the rural clinics operated at a net loss of \$142,600 and the Pelham clinic operated at a net loss of \$89,684.

Convenient Cares

The Corporation'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 2013, the clinics operated at a net loss of \$1,166,497.

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 2013, the Corporation incurred a net loss of \$511,638.
- The Behavioral Health Clinic provides treatment for adults and adolescents with addictive diseases and/or psychiatric disorders. In 2013, this Clinic operated at a net loss of \$469,984.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

III. Subsidized Health Services, Continued

A. Hospital Outpatient Services, Continued

Phoebe Specialty Clinics, Continued

- 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 \$369,019 in 2013.
- Maternal/Fetal Medicine program is for high risk mothers and pregnant women who need specialized care. It serves this perinatal region. In 2013, this clinic operated at a net loss of \$1,070,582.
- The Corporation operates neurosurgery and neurology practices that provide two neurosurgeons and two neurologists to the community, improving access to care in several settings, including trauma care in the Emergency Department and community health forums. These practices operated at a net loss of \$790,021.
- 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 2013, this clinic operated at a net loss of \$296,089.
- The Corporation operates a special senior's clinic at the Camilla Senior Center, set up for this population to have a comfortable atmosphere in which to access physician care, including a kitchen area and gathering places. The Center operated at a net loss of \$17,948 for 2013.
- Lee QuickCare Clinic provides walk-in treatment for common illnesses and conditions after hours, 6 p.m. to 10 p.m. Mondays through Fridays. The staff serves non-urgent patients and can prescribe medications when indicated. The clinic operated at a net loss of \$14,876.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

III. Subsidized Health Services, Continued

A. Hospital Outpatient Services, Continued

Phoebe Specialty Clinics, Continued

- The Corporation operates a Surgical Oncology Department in its Cancer Center. This department 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 department operated at a loss of \$207,935.
- The Corporation provides palliative care to patients in Southwest Georgia with a limited life expectancy. In 2013, the service operated at a net loss of \$79,764.

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 2013, the Corporation showed a net loss of \$277,147.

B. Other Subsidized Services

Inmate Care

The Corporation provides care to persons in jail for Dougherty County. In 2013, the Corporation provided \$770,543 of unreimbursed medical and drug treatment to 245 inmates.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

III. Subsidized Health Services, Continued

B. Other Subsidized Services, Continued

Indigent Drug Pharmacy

Indigent Drug Pharmacy provides medication upon discharge to patients that are either indigent or uninsured. In 2013, the pharmacy assisted 6,974 patients at a cost of \$288,868.

IV. Clinical Research

The Corporation offers clinical trials to cancer patients who are residents of Southwest Georgia. In 2013, patient participation in the trials cost \$470,922. The Corporation is also a regional site for the collection of tissue for the statewide Tumor, Tissue and Serum Biorepository at an additional cost of \$258,960.

V. Financial and In-Kind Support

In 2013, the Corporation provided \$820,809 in cash donations and in-kind support to non-profit organizations in Southwest Georgia. Listed are some highlights:

- The Southwest Georgia Cancer Coalition received \$187,500 for staff support and various projects, and partnered with the Corporation on a colonoscopy program that provided 457 free colonoscopies to those who could not afford one. This was estimated at a cost of \$691,008 of which \$521,000 was captured in the clinic loss section.
- Albany Area Primary Health Care received \$167,000 to fund its midwifery program.
- The Corporation provided at a reduced cost mammographies to Dougherty County Health Department women at an estimated cost of \$20,621.
- Graceway Recovery for Women received a cash donation of \$11,000 for its substance abuse program.
- 100 Black Men of Albany, GA received a \$10,000 donation for its mentoring program.
- Albany Marathon received a \$20,000 donation to raise funds for hospice services.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

V. Financial and In-Kind Support, Continued

- In-kind support of foregone rent was provided to 17 non-profit organizations at an estimated cost of \$148,497.
- Albany Advocacy Resource Center received \$20,000 to build a training room for children with autism.
- SOWEGA Council on Aging received \$11,800 to fund its On Balance program, a fall prevention activity.

VI. Community Building Activities

A. Economic Development

As a corporate citizen, the Corporation is involved in various economic development activities throughout the year. In 2013, the Corporation contributed \$84,126 to various economic development initiatives in the community highlighted by a \$50,000 contribution to Move the Mountain and a \$30,000 contribution to Strive to Thrive, both anti-poverty programs.

VII. Community Benefit Operations

The Corporation incurred costs of \$249,095 to support staff and community health needs assessment, which included a \$32,000 renewal of Healthy Communities Institute's dashboard feature on the website:

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

Summary

	<u>2013</u>
Community Health Improvement Services:	
Community Health Education	\$ 796,025
Community Based Clinical Services	1,391,104
Healthcare Support Services	<u>1,513,409</u>
Total community health improvement services	<u>3,700,538</u>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

VII. Community Benefit Operations, Continued

Summary, Continued

	<u>2013</u>
Health Professions Education:	
Nurses/nursing students	\$ 831,146
Other health professional education	<u>353,929</u>
Total health professions education	<u>1,185,075</u>
Subsidized Health Services:	
Hospital outpatient services	5,033,800
Behavioral health services	469,984
Other subsidized health services	<u>1,059,411</u>
Total subsidized health services	<u>6,563,195</u>
Clinical Research:	
Clinical research	<u>729,882</u>
Total clinical research	<u>729,882</u>
Financial and In-Kind Support:	
Cash donations	491,730
In-kind donations	<u>329,079</u>
Total financial and in-kind support	<u>820,809</u>
Community Building Activities:	
Economic development	<u>84,126</u>
Total community building activities	<u>84,126</u>
Community Benefit Operations:	
Dedicated staff and other resources	<u>249,095</u>
Total community benefit operations	<u>249,095</u>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued

VII. Community Benefit Operations, Continued

Summary, Continued

	<u>2013</u>
Other:	
Traditional charity care – estimated unreimbursed cost of charity services	\$ 27,000,000
Unpaid cost of Medicare services – estimated unreimbursed cost of Medicare services	176,000,000
Unpaid cost of Medicaid services – estimated unreimbursed cost of Medicaid services	<u>69,000,000</u>
Total other	<u>272,000,000</u>
Total summary	<u>\$ 285,332,720</u>

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

See independent auditor's report on supplemental information.