

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

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

We have audited the consolidated financial statements of Phoebe Putney Health System, Inc. as of and for the years ended July 31, 2016 and 2015 and our report thereon dated November 16, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information included in this report on pages 64 to 72, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Draffin & Tucker, LLP
Albany, Georgia
November 16, 2016

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY

July 31, 2016

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

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

Phoebe Putney Health System, Inc. 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 our mission by providing community benefits. A community benefit is a planned, managed, organized, and measured approach to meeting identified community health needs, requiring a partnership between the healthcare organization and the community to benefit residents through programs and services that improve health status and quality of life.

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

See independent auditor’s report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2016

2003 for its broad-based outreach in building collaboratives that make measurable improvements in health status, expand access to care and build community capacity, so that patients receive care closest to their own neighborhoods. Drawing on a dynamic and flexible structure, the community benefit programs are designed to respond to assessed needs and are focused on upstream prevention.

As Southwest Georgia's leading provider of cost-effective, patient-centered health care, the Corporation's affiliated hospitals participate in the Medicare and Medicaid programs and are among the leading providers of Medicaid services in Georgia.

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

	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Medicare	\$ 574,000,000	\$ 202,000,000
Medicaid	216,000,000	76,000,000
Indigent/charity	<u>65,000,000</u>	<u>23,000,000</u>
	<u>\$ 855,000,000</u>	<u>\$ 301,000,000</u>

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

I. Community Health Improvement Services

A. Community Health Education

The Corporation's affiliated hospitals provided health education services that reached 4,651 individuals in 2016 at a cost of \$372,696. These services included the following free classes and seminars:

- Nutrition and Diabetes Awareness Classes
- CPR training for 500 health care workers
- Comprehensive Health Fairs
- Camp Good Grief

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2016

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

- Teen Maze
- Various School Based Health Fairs
- Go Noodle Activity Programs

Men's and Women's Health Conferences

Men's Health Conferences

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

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

Women's Health Conferences

PSMC held its Annual Women's Health Conference that provided screenings for glucose and cholesterol, blood pressure, and BMI, as well as speakers and fellowship for 200 attendees. The health conference programs provide outreach, health screenings, educational programs, and health conferences and events. These programs target women at risk of poor health status. The programs target uninsured or underinsured women without a primary care physician or knowledge of recommended preventive health care services.

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

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2016

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

Network of Trust

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

B. Community Based Clinical Services

Flu Shots and Health Screenings

The Corporation provides free flu shots to volunteers. In 2016, the Corporation administered 1,310 flu shots at an unreimbursed cost of \$22,537. The Corporation also provides free health screenings to individuals in Southwest Georgia. In 2016, the Corporation administered 417 health screenings at an unreimbursed cost of \$171,634.

School Nurse Program

PPMH and PSMC provide nurses in 20 elementary schools, eight middle schools, and seven high schools in Dougherty and Sumter Counties with a goal of creating access to care for students, assessing the health care status of each population represented and effectively establishing referrals for all health care needs. Nurses also conducted various school-based health fairs throughout the school year. During the 2015/2016 school year, the school nurse program covered 32,321 student visits. These programs operated at a loss of \$426,545 in 2016.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2016

I. Community Health Improvement Services, Continued

C. Health Care Support Services

Government Sponsored Eligibility Applications to the Poor and Needy

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

- Indigent Financial Assistance

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

- Charity Financial Assistance

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

- Catastrophic Financial Assistance

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

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2016

II. Health Professions Education

The organization recognizes that to continuously improve the Corporation's long-term value to our community and our customers, to encourage life-long learning among employees and to achieve a world-class employer status, it is in the organization's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. The organization also provides non-employees financial support in pursuing healthcare related degrees. In fiscal year 2016, the Corporation provided \$493,559 in clinical supervision and training of nursing students, and an additional \$860,004 in clinical supervision and training to pharmacy, pharmacy techs and other allied health professionals. In all, approximately 661 students received clinical instruction from one of our facilities.

III. Subsidized Health Services

A. Other Subsidized Services

Inmate Care

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

Indigent Drug Pharmacy

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

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2016

IV. Financial and In-Kind Support

In 2016, the Corporation provided \$203,422 in cash donations and in-kind support to non-profit organizations in Southwest Georgia. Listed are some highlights:

- The Cancer Coalition of South Georgia received \$76,000 for staff support and various projects centered on prevention, screening and early detection.
- Albany Marathon received a \$20,000 donation to raise funds for hospice services.
- United Way received a \$20,305 donation for their community-based efforts.
- In-kind support of Foregone Rent to non-profit organizations at an estimated cost of \$33,141.
- Phoebe Worth Medical Center gave \$45,619 to the Worth County Health Department for heart health and diabetes.

V. Community Benefit Obligations

The Corporation incurred \$225,712 to support staff and community health needs assessment costs that included \$32,000 renewal of Healthy Communities Institute’s dashboard feature on our website:

<http://www.phoebehealth.com/health-matters/building-healthy-communities>

Summary

	<u>2016</u>
Community Health Improvement Services:	
Community Health Education	\$ 372,696
Community Based Clinical Services	620,716
Healthcare Support Services	<u>668,197</u>
Total community health improvement services	<u>1,661,609</u>

See independent auditor’s report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2016

V. **Community Benefit Obligations, Continued**

Summary, Continued

	<u>2016</u>
Health Professions Education:	
Nurses/nursing students	\$ 493,559
Other health professional education	<u>860,004</u>
Total health professional education	<u>1,353,563</u>
Subsidized Health Services:	
Other subsidized health services	<u>571,290</u>
Total subsidized health services	<u>571,290</u>
Financial and In-Kind Support:	
Cash donations	170,281
In-kind donations	<u>33,141</u>
Total financial and in-kind support	<u>203,422</u>
Community Benefit Operations:	
Dedicated staff and other resources	<u>225,712</u>
Total community benefit operations	<u>225,712</u>
Other:	
Traditional charity care – estimated unreimbursed cost of charity services	23,000,000
Unpaid cost of Medicare services – estimated unreimbursed cost of Medicare services	202,000,000
Unpaid cost of Medicaid services – estimated unreimbursed cost of Medicaid services	<u>76,000,000</u>
Total other	<u>301,000,000</u>
Total summary	<u>\$ 305,015,596</u>

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2016

V. Community Benefit Obligations, Continued

Summary, Continued

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

See independent auditor's report on supplemental information.