

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.



FINANCIAL STATEMENTS

for the years ended July 31, 2019 and 2018

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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, 2019 and 2018, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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.

Continued

Let's Think Together.

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, 2019 and 2018, 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.

Changes in Accounting Principle

As discussed in Note 1 of the financial statements, the Corporation adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to that matter.

As discussed in Note 1 of the financial statements, the Corporation adopted new accounting guidance, FASB ASC ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Draffin & Tucker, LLP
Albany, Georgia
December 4, 2019

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

BALANCE SHEETS, July 31, 2019 and 2018

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 94,752	\$ 84,866
Patient accounts receivable, net	83,358	76,281
Supplies	14,865	13,252
Estimated third-party payor settlements	-	2,869
Other current assets	<u>14,274</u>	<u>16,516</u>
Total current assets	<u>207,249</u>	<u>193,784</u>
Assets limited as to use:		
Internally designated for capital improvements	<u>386</u>	<u>381</u>
Property and equipment, net	<u>276,633</u>	<u>278,539</u>
Other assets:		
Interest in net assets of Phoebe Foundation, Inc.	17,612	16,688
Deferred financing cost	1,019	1,094
Goodwill and other assets	<u>125,248</u>	<u>125,299</u>
Total other assets	<u>143,879</u>	<u>143,081</u>
 Total assets	 <u>\$ 628,147</u>	 <u>\$ 615,785</u>

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

BALANCE SHEETS, July 31, 2019 and 2018

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 7,134	\$ 6,859
Accounts payable	18,218	19,287
Accrued expenses	34,485	25,499
Estimated third-party payor settlements	<u>743</u>	<u>-</u>
Total current liabilities	60,580	51,645
Long-term debt, net of current portion	263,127	270,194
Accrued pension cost	110,251	79,185
Related party payables	21,746	21,698
Derivative financial instruments	<u>10,699</u>	<u>8,565</u>
Total liabilities	<u>466,403</u>	<u>431,287</u>
Net assets:		
Without donor restrictions	151,700	175,836
With donor restrictions:		
Purpose restrictions	8,020	6,638
Perpetual in nature	<u>2,024</u>	<u>2,024</u>
Total net assets	<u>161,744</u>	<u>184,498</u>
Total liabilities and net assets	<u>\$ 628,147</u>	<u>\$ 615,785</u>

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

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
for the years ended July 31, 2019 and 2018

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Revenues, gains and other support:		
Net patient service revenue	\$ 558,131	\$ 509,989
Other revenue	<u>22,008</u>	<u>20,791</u>
Total revenues, gains and other support	<u>580,139</u>	<u>530,780</u>
Expenses:		
Salaries and wages	152,891	146,517
Employee health and welfare	47,593	37,774
Medical supplies and other	235,015	220,473
Purchased services	101,193	90,014
Depreciation and amortization	22,920	26,246
Interest	<u>9,130</u>	<u>7,829</u>
Total expenses	<u>568,742</u>	<u>528,853</u>
Operating income	11,397	1,927
Nonoperating income:		
Investment and other nonoperating income	<u>69</u>	<u>1,072</u>
Excess revenues	11,466	2,999
Net assets without donor restrictions:		
Change in beneficial interest in net assets of Phoebe Foundation, Inc.	(458)	270
Capital contributions	1,527	440
Change in net actuarial gain	(38,985)	8,677
Amortization of net loss	2,314	2,816
Equity transfer from Phoebe Putney Health System, Inc.	<u>-</u>	<u>47,138</u>
Increase (decrease) in net assets without donor restrictions	(24,136)	62,340

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued
for the years ended July 31, 2019 and 2018

	<u>(Dollars in Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions:		
Change in interest in net assets of Phoebe Foundation, Inc.	\$ <u>1,382</u>	\$ <u>483</u>
Increase (decrease) in net assets	(22,754)	62,823
Net assets, beginning of year	<u>184,498</u>	<u>121,675</u>
Net assets, end of year	\$ <u>161,744</u>	\$ <u>184,498</u>

The accompany notes are an integral part to these financial statements.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS
for the years ended July 31, 2019 and 2018

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$(22,754)	\$ 62,823
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
(Gain) loss on disposal of property and equipment	(551)	1,586
Depreciation and amortization	22,920	26,246
Change in interest in net assets of Phoebe Foundation, Inc.	(924)	(753)
Change in derivative financial instruments	2,134	(1,827)
Equity transfer from Phoebe Putney Health System, Inc.	-	(47,138)
Changes in:		
Receivables	(7,077)	(5,719)
Supplies	(1,613)	(861)
Estimated third-party payor settlements	3,612	5,366
Other assets	2,368	(5,023)
Accounts payable and accrued expenses	7,917	3,218
Accrued pension cost	<u>31,066</u>	<u>(20,286)</u>
Net cash provided by operating activities	<u>37,098</u>	<u>17,632</u>
Cash flows from investing activities:		
Purchase of property and equipment	(20,463)	(17,715)
Purchases of assets limited as to use	<u>(5)</u>	<u>(2)</u>
Net cash used by investing activities	<u>(20,468)</u>	<u>(17,717)</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS, Continued
for the years ended July 31, 2019 and 2018

	<u>(Dollars in Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Cash flows from financing activities:		
Payments on long-term debt	\$(179,657)	\$(6,531)
Proceeds from issuance of long-term debt	172,865	-
Advances (to) from related parties	<u>48</u>	<u>(434)</u>
Net cash used by financing activities	<u>(6,744)</u>	<u>(6,965)</u>
Increase (decrease) in cash and cash equivalents	9,886	(7,050)
Cash and cash equivalents, beginning of year	<u>84,866</u>	<u>91,916</u>
Cash and cash equivalents, end of year	\$ <u>94,752</u>	\$ <u>84,866</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ <u>9,210</u>	\$ <u>7,735</u>

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

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Organization

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

Reorganization

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

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in money market mutual funds.

Supplies

Supplies, which consist primarily of drugs, food, and medical supplies, are valued at the lower of cost and net realizable value, as determined on a first-in, first-out basis.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

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 net assets without donor restrictions. The ineffective component, if any, is recorded in excess revenues in the period in which the hedge transaction affects earnings. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains or losses on the derivative are recorded in excess revenues. For derivative instruments not designated as hedging instruments, the unrealized gain or loss is recognized in nonoperating gains during the period of change.

Assets Limited as to Use

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

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 increases in net assets without donor restrictions, and are excluded from excess revenues, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Beneficial Interest in Net Assets of Foundation

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

Goodwill

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

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 an impairment loss for the amount by which the carrying amount exceeds the reporting unit's fair value is recorded.

As of July 31, 2019 and 2018, the Corporation has goodwill of approximately \$124,992,000. The Corporation has elected March 31st as its annual impairment assessment date. The Corporation completed its annual impairment assessment and concluded that no goodwill or indefinite lived intangible asset impairment charge was necessary. See Note 6 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. Debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. Costs related to the issuance of derivative financial instruments were deferred and are being amortized. The unamortized derivative financing costs are included with other assets in the balance sheets.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – net assets available for use in the general operations and not subject to donor-imposed restrictions. The Board of Directors have discretionary control over these resources. Designated amounts represent those net assets that the Board has set aside for a particular purpose. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net assets with donor restrictions – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Excess Revenues

The statement of operations and changes in net assets includes excess revenues. Changes in net assets without donor restrictions which are excluded from excess revenues, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, adjustments to pension obligations, 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).

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are included in the determination of the estimated transaction price and adjusted in future periods as settlements are determined.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as increases in the appropriate categories of net assets in accordance with donor restrictions.

Estimated Malpractice and Other Self-Insurance Cost

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

Income Taxes

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

The 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

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

sustained. Based on that evaluation, the Corporation only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2019 and 2018 or for the years then ended. The Corporation's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Impairment of Long-Lived Assets

The Corporation evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Corporation has not recorded any impairment charges of long-lived assets in the accompanying statements of operations and changes in net assets for the years ended July 31, 2019 and 2018.

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.

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

- *Level 2:* Observable prices that are based on inputs not quoted on active markets but corroborated by market data.
- *Level 3:* Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Pension Plan

The Corporation sponsors a frozen defined benefit pension plan. The Corporation recognizes the overfunded and underfunded status of the defined benefit pension plan in its balance sheets. Changes in the funded status are recorded in the year in which the changes occurred in the statements of operations and changes in net assets. See Note 10 for additional information.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new comprehensive revenue recognition standard. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation adopted ASU No. 2014-09 on August 1, 2018 using the full retrospective method of transition with practical expedients in FASB ASC 606-10-65-1(f) with no significant impact. The Corporation performed an analysis of revenue streams and transactions under ASU No. 2014-09. In particular, for net patient service revenue, the Corporation performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts (representing approximately \$106,000,000 for the year ended July 31, 2018) and presented as a reduction to net patient service revenue on the statements of operations and changes in net assets is now treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. Changes in credit issues not assessed at the date of service, are recognized as bad debt expense and included as a component of operating expenses on the statement of operations. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The adoption of this guidance did not materially impact total operating revenues, excess revenues, or net assets.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expense and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. The Corporation has adjusted the presentation of these financial statements for all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expense by nature and function. Those disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 is intended to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The Corporation’s prospective early adoption did not have a material effect on the financial statements.

Accounting Pronouncement Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is a new comprehensive lease accounting model. The new standard clarifies the definition of a lease and requires lessees to recognize right-of-use assets and related lease liabilities for all leases with terms greater than twelve months. The new guidance, including subsequent amendments, is effective for the Corporation as of August 1, 2019. The Corporation is continuing to evaluate the impact the guidance will have on the financial statements. As of August 1, 2019, management has estimated that the recognized right-of-use assets and related lease liabilities will approximate \$6,000,000.

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through December 4, 2019, the date the financial statements were issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2018 financial statements to conform to the fiscal year 2019 presentation. These 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
July 31, 2019 and 2018

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient and outpatient services.

The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation and have a duration of less than one year. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Corporation does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Corporation accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Corporation has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

2. Net Patient Service Revenue, Continued

The Corporation has arrangements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by the Corporation.

The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent the difference between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare

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

The 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, 2015.

- 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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Corporation is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. The Corporation's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through July 31, 2015.

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 \$4,729,000 and \$6,898,000 for the years ended July 31, 2019 and 2018, 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 \$3,821,000 and \$5,511,000 for the years ended July 31, 2019 and 2018, 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 of medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in an increase in the hospital payments on Medicaid services of 11.88%. Approximately \$6,460,000 and \$6,375,000 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, 2019 and 2018, respectively.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

2. Net Patient Service Revenue, Continued

- Other Arrangements

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

- Uninsured Patients

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

2. Net Patient Service Revenue, Continued

(that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2019 or 2018.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the years ending July 31, 2019 and 2018. Subsequent changes that are determined to be the result of an adverse change in the patient’s ability to pay are recorded as bad debt expense. Bad debt expense for the years ended July 31, 2019 and 2018 was not significant.

Consistent with the Corporation’s mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles).

Patients who meet the Corporation’s criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Net patient service revenue by major payor sources for the years ended July 31, 2019 and 2018 is as follows:

(Dollars in Thousands)					
Net Patient Service Revenue					
	<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
2019	\$ <u>221,326</u>	\$ <u>67,272</u>	\$ <u>266,356</u>	\$ <u>3,177</u>	\$ <u>558,131</u>
2018	\$ <u>189,095</u>	\$ <u>57,044</u>	\$ <u>260,952</u>	\$ <u>2,898</u>	\$ <u>509,989</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

2. Net Patient Service Revenue, Continued

Net patient service revenue by facility, line of business, and timing of revenue recognition for the years ended July 31, 2019 and 2018 is as follows:

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Service lines:		
Hospital	\$ 550,445	\$ 497,618
Home health	1,825	6,994
Hospice	<u>5,861</u>	<u>5,377</u>
Timing of revenue recognition:		
Services transferred over time	\$ <u>558,131</u>	\$ <u>509,989</u>

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the Corporation’s diagnostic and surgical equipment, and emergency care services. Performance obligations for the hospital, home health and hospice are satisfied over time as the patient simultaneously receives and consumes the benefits the Corporation performs. Requirements to recognize revenue for inpatient services are generally satisfied over periods that average approximately five days and for outpatient services are generally satisfied over a period of less than one day. Retail and employee pharmacy, cafeteria, gift shop, and other point-of-sale performance obligations are satisfied at a point in time when the goods are provided. These revenues are recorded in other revenue on the statements of operations and changes in net assets.

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation’s expectation that the period between the time the service is provided to a patient and the time that the patient or third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Corporation has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. The charges for uncompensated services for 2019 and 2018 were approximately \$1,379,000,000 and \$1,153,000,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$75,000,000 and \$56,000,000 in 2019 and 2018, respectively. The cost of charity and indigent care services provided during 2019 and 2018 were approximately \$22,000,000 and \$18,000,000, 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 2019 and 2018.

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Gross patient charges	\$ <u>1,936,721</u>	\$ <u>1,662,990</u>
Uncompensated services:		
Charity and indigent care	74,664	56,031
Medicare	732,299	636,650
Medicaid	243,786	194,561
Other third-party payors	206,172	160,078
Price concessions	<u>121,669</u>	<u>105,681</u>
Total uncompensated care	<u>1,378,590</u>	<u>1,153,001</u>
Net patient service revenue	\$ <u>558,131</u>	\$ <u>509,989</u>

4. Investments

Assets Limited as to Use

The composition of assets limited as to use at July 31, 2019 and 2018 is set forth in the following table. Assets limited as to use are classified as trading. See Note 18 for valuation methodologies.

	Dollars in Thousands	
	<u>2019</u>	<u>2018</u>
By board for capital improvements:		
Certificates of deposit	\$ <u>386</u>	\$ <u>381</u>

Interest income for cash and cash equivalents and assets limited as to use are recorded in investment and other nonoperating income on the statements of operations and changes in net assets.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

5. Property and Equipment

A summary of property and equipment at July 31, 2019 and 2018 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Land	\$ 12,379	\$ 12,345
Land improvements	3,644	4,053
Building	316,668	323,531
Equipment	<u>389,779</u>	<u>386,533</u>
	722,470	726,462
Less accumulated depreciation	<u>455,785</u>	<u>457,368</u>
	266,685	269,094
Construction in progress	<u>9,948</u>	<u>9,445</u>
Net property and equipment	\$ <u>276,633</u>	\$ <u>278,539</u>

Depreciation expense for the years ended July 31, 2019 and 2018 amounted to approximately \$22,920,000 and \$26,246,000, respectively. Construction contracts exist for various projects at year end with a total commitment of \$18,730,000. At July 31, 2019, the remaining commitment on these contracts approximated \$11,934,000.

6. Goodwill and Other Assets

A summary of goodwill and other assets at July 31, 2019 and 2018 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Goodwill	\$ 124,992	\$ 124,992
Other assets	<u>256</u>	<u>307</u>
Total goodwill and other assets	\$ <u>125,248</u>	\$ <u>125,299</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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

6. Goodwill and Other Assets, Continued

The changes in the carrying amount of goodwill for the years ended July 31, 2019 and 2018, are as follows:

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Balance at beginning of year:		
Goodwill	\$ 168,921	\$ 168,921
Accumulated impairment losses	(43,929)	(43,929)
	124,992	124,992
Goodwill acquired during the year	-	-
Impairment losses	-	-
	-	-
Balance at end of year:		
Goodwill	168,921	168,921
Accumulated impairment losses	(43,929)	(43,929)
Total	\$ <u>124,992</u>	\$ <u>124,992</u>

7. Long-Term Debt

Long-term debt consists of the following:

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
2012 Series Revenue Anticipation Certificates, payable in varying annual amounts from \$940,000 to \$16,285,000 in 2043; bearing interest at fixed rates from 3.00% to 5.00%.	\$ 93,710	\$ 96,465

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

7. Long-Term Debt, Continued

<p>2008A Series Refunding Revenue Anticipation Certificates, payable in varying annual amounts from \$2,020,000 to \$3,795,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread. Refinanced with 2018A Revenue Anticipation Certificates during FY 2019.</p>	<p>\$ -</p>	<p>\$ 39,915</p>
<p>2008B Series Refunding Revenue Anticipation Certificates, payable in varying annual amounts from \$2,020,000 to \$3,790,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread. Refinanced with 2018A Revenue Anticipation Certificates during FY 2019.</p>	<p>-</p>	<p>39,855</p>
<p>2010A-1 Revenue Anticipation Certificates, payable in varying annual amounts from \$861,000 to \$7,010,000 in 2040; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread. Refinanced with 2018B Revenue Anticipation Certificates during FY 2019.</p>	<p>-</p>	<p>59,873</p>
<p>2010A-2 Revenue Anticipation Certificates, payable in varying annual amounts from \$534,000 to \$4,345,000 in 2040; bearing interest at a variable rate based on a percentage of LIBOR plus a credit spread. Refinanced with 2018B Revenue Certificates during FY19.</p>	<p>-</p>	<p>37,112</p>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

7. Long-Term Debt, Continued

	<u>(Dollars in Thousands)</u>	
	<u>2019</u>	<u>2018</u>
2018A Revenue Anticipation Certificates, payable in varying annual amounts from \$4,040,000 to \$7,585,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus the applicable spread.	\$ 76,100	\$ -
2018B Revenue Anticipation Certificates, payable in varying annual amounts from \$1,395,000 to \$11,355,000 in 2040; bearing interest at a variable rate based on a percentage of LIBOR plus the applicable spread.	96,765	-
Less unamortized debt issuance cost	<u>1,315</u>	<u>1,381</u>
	265,260	271,839
Less current portion	<u>7,134</u>	<u>6,859</u>
	258,126	264,980
Add unamortized premium	<u>5,001</u>	<u>5,214</u>
	<u>\$ 263,127</u>	<u>\$ 270,194</u>

The Series 2008A and 2008B Refunding Revenue Certificates were issued on October 30, 2008 for the purposes of refunding certain revenue certificates which financed the costs of making certain additions, extensions, and capital improvements to the Corporation’s health care system. The Series 2008A and 2008B Refunding Revenue Certificates were reissued on December 7, 2012 and the interest rates were converted from a daily variable rate with security provided by bank letters of credit to a variable rate based on a percentage of LIBOR plus a credit spread. The Series 2008A and 2008B Refunding Revenue Certificates were reissued again on February 2, 2015 and the interest rates were converted from a variable rate based on a percentage of LIBOR plus a credit spread to a new variable rate based on a percentage of LIBOR plus a credit spread. As of November 1, 2018, the Series 2008A and 2008B Refunding Revenue Certificates were paid in full and are no longer outstanding.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

7. Long-Term Debt, Continued

The Series 2010A Revenue Certificates were issued on July 9, 2010 for the purpose of reimbursing the Corporation for prior additions, extensions and improvements to the Corporation's facilities. The Series 2010A Revenue Certificates were reissued on February 2, 2015 as Series 2010A-1 Revenue Certificates and Series 2010A-2 Revenue Certificates, and the interest rate was converted from a variable rate based on a percentage of LIBOR plus a credit spread to a new variable rate based on a percentage of LIBOR plus a credit spread. As of November 1, 2018, the Series 2010A-1 and 2010A-2 Revenue Certificates were paid in full and are no longer outstanding.

The Series 2018A Refunding Revenue Certificates were issued on November 1, 2018 in the amount of \$76,100,000 for the purpose of refunding all of the Series 2008A and 2008B Refunding Revenue Certificates. The Series 2018B Refunding Revenue Certificates were issued on November 1, 2018 in the amount of \$96,765,000 for the purpose of refunding all of the Series 2010A Revenue Certificates. The interest rate on each of the Series 2018A Refunding Revenue Certificates and Series 2018B Refunding Revenue Certificates will be reset monthly at a variable rate equal to LIBOR plus a credit spread. The Corporation may convert the interest rate upon compliance with the terms and provisions of the related indenture.

The Series 2012 Revenue Certificates were issued on December 1, 2012 for the purposes of financing the costs of making certain additions, extensions, and capital improvements to its health care system. The Series 2012 Revenue Certificates bear interest at fixed rates from 3.00% to 5.00%.

Series 2008A, 2008B, 2010A-1, 2010A-2, 2012, 2018A and 2018B Revenue Certificates are secured by all receipts of, and revenue, income and money derived from the Corporation's operation of the Hospital premises.

The outstanding notes securing the Series 2008A, 2008B, 2010A-1, 2010A-2, 2012, 2018A and 2018B Revenue Certificates were issued pursuant to the Master Trust Indenture dated as of March 1, 2002, as amended, among the Corporation, Phoebe Putney Memorial Hospital, Inc. and U.S. Bank National Association, as master trustee. Under the terms of the Master Trust Indenture, the Corporation is limited on the incurrence of additional borrowings and requires that the Corporation satisfy certain measures of financial performance as long as the notes are outstanding.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

7. Long-Term Debt, Continued

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

(Dollars in Thousands)

<u>Year</u>	<u>2012</u>	<u>2018A</u>	<u>2018B</u>	<u>Total</u>
2020	\$ 2,790	\$ 4,130	\$ -	\$ 6,920
2021	2,600	4,570	-	7,170
2022	940	4,040	2,455	7,435
2023	1,050	4,275	2,410	7,735
2024	1,145	4,510	2,380	8,035
Thereafter	<u>85,185</u>	<u>54,575</u>	<u>89,520</u>	<u>229,280</u>
Total	<u>\$ 93,710</u>	<u>\$ 76,100</u>	<u>\$ 96,765</u>	<u>\$ 266,575</u>

8. 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 is reported in noncurrent liabilities on the balance sheet. The critical terms of the swaps are as follows:

(Dollars in Thousands)

\$25MM Fixed Pay LIBOR Swap – Non-Hedge		
	<u>2019</u>	<u>2018</u>
Notional amount	\$ 21,156	\$ 21,375
Fair market value	\$(4,249)	\$(3,208)
Life remaining	13 Years	14 Years
\$25MM Fixed Pay LIBOR Swap – Non-Hedge		
	<u>2019</u>	<u>2018</u>
Notional amount	\$ 21,156	\$ 21,375
Fair market value	\$(4,026)	\$(2,973)
Life remaining	13 Years	14 Years

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

8. Derivative Financial Instruments, Continued

(Dollars in Thousands)

\$21.145MM Fixed Pay LIBOR Swap – Non-Hedge		
	<u>2019</u>	<u>2018</u>
Notional amount	\$ 17,894	\$ 18,079
Fair market value	\$(3,405)	\$(2,516)
Life remaining	13 Years	14 Years
Constant Maturity LIBOR Swap – Non-Hedge		
	<u>2019</u>	<u>2018</u>
Notional amount	\$ 32,173	\$ 33,448
Fair market value	\$ 506	\$ 90
Life remaining	13 Years	14 Years
Constant Maturity LIBOR Swap – Non-Hedge		
	<u>2019</u>	<u>2018</u>
Notional amount	\$ 32,173	\$ 33,448
Fair market value	\$ 475	\$ 42
Life remaining	13 Years	14 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. The Corporation deemed the capacity to perform on the part of the derivative counterparty to be of little or no concern; and no adjustment was applied to standard market valuation practices.

The swap results are included in excess revenues. For the years ending July 31, 2019 and 2018, this earnings impact totaled a loss of approximately \$2,133,000 and a gain of approximately \$1,827,000, respectively.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

9. Net Assets with Donor Restrictions

A summary of the net assets with donor restrictions at July 31, 2019 and 2018 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions that are subject to expenditure for a specified purpose	\$ <u>8,020</u>	\$ <u>6,638</u>
Net assets with donor restrictions that are perpetual in nature	\$ <u>2,024</u>	\$ <u>2,024</u>

10. Pension Plan

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

The measurement dates were July 31, 2019 and 2018. 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.

Effective December 31, 2014, the Corporation amended the pension plan to freeze all benefit accruals except for participants whose combined age and credited service equaled or exceeded 70 by the effective date. On July 28, 2016, the Corporation executed an amendment to permit vested terminated participants with an accrued benefit of \$150,000 or less to make an election during the period September 2, 2016 through November 1, 2016 to receive a lump sum distribution. This amendment was effective December 1, 2016 and eligibility was based on the benefit accruals as of December 1, 2016. Such distributions were made during the period December 1, 2016 through December 31, 2016. Effective December 31, 2016, the Corporation amended the pension plan to freeze all benefit accruals for all remaining participants. On November 16, 2017, the Corporation purchased annuity contracts totaling approximately \$5,373,000 to settle a portion of the pension obligations, as part of a small benefit annuity lift out plan.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

10. Pension Plan, Continued

The following table sets forth the defined benefit pension plan funded status and amounts recognized in the financial statements at July 31, 2019 and 2018:

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Plan assets at fair value at July 31	\$ 209,826	\$ 207,399
Projected benefit obligation at July 31	<u>320,077</u>	<u>286,584</u>
Funded status	\$(<u>110,251</u>)	\$(<u>79,185</u>)
Amounts recognized in the balance sheet consist of:		
Noncurrent liabilities	\$(<u>110,251</u>)	\$(<u>79,185</u>)
Amounts recognized in net assets without donor restrictions:		
Net actuarial loss	\$(<u>128,096</u>)	\$(<u>91,425</u>)
Deferred pension cost	\$(<u>128,096</u>)	\$(<u>91,425</u>)
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	3.66%	4.32%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.32%	4.05%
Expected long-term return on plan assets	6.75%	7.00%
Rate of compensation increase	N/A	N/A

Mortality table assumptions used to determine pension benefit obligations were RP-2006 Employee and Healthy Annuitant Mortality Tables with Fully Generational Projections using MP2018 and MP2017 for 2019 and 2018, respectively.

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

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

10. Pension Plan, Continued

The following table sets forth the components of net periodic cost and other amounts recognized in net assets without donor restrictions for the years ended July 31, 2019 and 2018:

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Interest cost	\$ 11,452	\$ 10,323
Expected return on plan assets	(13,776)	(13,867)
Amortization of recognized net actuarial loss	<u>2,314</u>	<u>2,816</u>
Net periodic benefit cost	(<u>10</u>)	(<u>728</u>)
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial (gain) loss	38,985	(8,677)
Amortization of net actuarial loss	(<u>2,314</u>)	(<u>2,816</u>)
Total recognized in net assets without donor restrictions	<u>36,671</u>	(<u>11,493</u>)
Total recognized in net periodic benefit cost and net assets without donor restrictions	\$ <u>36,661</u>	\$(<u>12,221</u>)

The change in projected benefit obligation for the defined benefit pension plan for the years ended July 31, 2019 and 2018 included the following components:

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Projected benefit obligation, beginning of year	\$ 286,584	\$ 299,809
Interest cost	11,452	10,323
Actuarial (gain) loss	31,609	(7,844)
Benefits paid	(<u>9,568</u>)	(<u>15,704</u>)
Projected benefit obligation, end of year	\$ <u>320,077</u>	\$ <u>286,584</u>
Accumulated benefit obligation	\$ <u>320,077</u>	\$ <u>286,584</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

10. Pension Plan, Continued

The change in fair value of plan assets for the years ended July 31, 2019 and 2018 included the following components:

	<u>(Dollars in Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Plan assets at fair value, beginning of year	\$ 207,399	\$ 200,338
Actual return on assets	6,400	14,699
Employer contributions	5,595	8,066
Benefits paid	<u>(9,568)</u>	<u>(15,704)</u>
 Plan assets at fair value, end of year	 \$ <u>209,826</u>	 \$ <u>207,399</u>

The Corporation anticipates making a contribution during fiscal year 2020 of \$8,346,000.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

<u>(Dollars in Thousands)</u>	
<u>Year Ending July 31</u>	<u>Pension Benefits</u>
2020	\$ 11,852
2021	\$ 12,483
2022	\$ 13,372
2023	\$ 14,217
2024	\$ 14,873
2025 – 2029	\$ 82,466

The expected benefits to be paid are based on the same assumptions used to measure the Corporation’s benefit obligation at July 31, 2019.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

10. Pension Plan, Continued

Estimated Future Benefit Payments, Continued

The actuarial loss and prior service cost to be recognized during the next 12 months beginning August 1, 2019 are as follows:

	<u>(Dollars in Thousands)</u>
Amortization of net actuarial loss	\$ 2,816
Amortization of prior year service costs	<u>-</u>
Total	\$ <u>2,816</u>

Plan Assets

The composition of plan assets at July 31, 2019 and 2018 is as follows:

Asset category:	Target <u>Allocation</u>	<u>Plan Assets</u>	
		<u>2019</u>	<u>2018</u>
U.S. equities	30%	21%	22%
Non U.S. equities	20%	16%	20%
Emerging markets	5%	6%	6%
Hedge funds	15%	20%	18%
Real assets	5%	9%	9%
Opportunistic funds	5%	5%	5%
Fixed income	20%	21%	15%
Cash and cash equivalents	<u>0%</u>	<u>2%</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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

10. Pension Plan, Continued

Plan Assets, Continued

Pension assets are invested in various classes as summarized in the table below for 2019 and 2018. 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.

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, 2019 and 2018, by asset category are as follows:

(Dollars in Thousands)				
Fair Value Measurements at July 31, 2019				
<u>Asset Category</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Money market funds	\$ 3,503	\$ -	\$ 3,503	\$ -
Equity securities	4,937	4,930	7	-
Real estate investment trusts	<u>6,379</u>	<u>6,379</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	14,819	\$ <u>11,309</u>	\$ <u>3,510</u>	\$ <u>-</u>
Investments measured at net asset value	<u>195,007</u>			
Total assets at fair value	\$ <u>209,826</u>			

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

10. Pension Plan, Continued

Plan Assets, Continued

(Dollars in Thousands)

Fair Value Measurements at July 31, 2018

<u>Asset Category</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Money market funds	\$ 9,601	\$ 1,659	\$ 7,942	\$ -
Equity securities	4,956	4,947	9	-
Real estate investment trusts	<u>5,526</u>	<u>5,526</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	20,083	\$ <u>12,132</u>	\$ <u>7,951</u>	\$ <u>-</u>
Investments measured at net asset value	<u>187,316</u>			
Total assets at fair value	\$ <u>207,399</u>			

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

as of July 31, 2019

	<u>(Dollars in Thousands)</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds – fixed income funds	\$ 6,777	None	Monthly	30 Days
Mutual funds – index funds	\$ 46,546	None	Daily	15 Days
Mutual funds – growth and other funds	\$ 4,565	None	Daily	None
Alternative investments:				
Credit opportunities	\$ 5,697	None	Annually	90 Days
Multi-strategy	\$ 16,628	None	Monthly – Annually	5 – 92 Days
Equity securities	\$ 105,099	\$ 296	Semi-monthly – Annually	10 – 180 Days
Other	\$ 9,695	None	Monthly	3 Business Days

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

10. Pension Plan, Continued

	as of July 31, 2018			
	(Dollars in Thousands)			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds – fixed income funds	\$ 6,848	None	Monthly	30 Days
Mutual funds – index funds	\$ 33,825	None	Daily	15 Days
Mutual funds – growth and other funds	\$ 4,249	None	Daily	None
Alternative investments:				
Credit opportunities	\$ 5,510	None	Annually	90 Days
Multi-strategy	\$ 15,754	None	Monthly – Annually	5 – 95 Days
Equity securities	\$ 111,279	\$ 279	Semi-monthly – Annually	7 – 180 Days
Other	\$ 9,851	None	Monthly	3 Business Days

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Financial assets using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. See Note 18 for valuation methodologies.

Defined Contribution Pension Plan

The Corporation maintains defined contribution pension plans covering substantially all eligible employees. Employees may deposit a portion of their earnings for each pay period on a pre-tax basis and the Corporation matches 50% of each participant's voluntary contributions up to a maximum of 6% of the employee's annual salary. At its discretion, the Corporation may make additional contributions to the Plan. Matching and discretionary contribution expenses for the years ended July 31, 2019 and 2018 totaled approximately \$3,132,000 and \$1,585,000, respectively.

11. Employee Health Insurance

The Corporation has a self-insurance program under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator for claims incurred and paid. In addition, the Corporation participates in a shared group financing layer agreement with other Georgia hospitals through a program offered by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims. Effective January 1, 2016, the parameters of the program changed to include covered claims between \$225,000 and \$650,000. Each participant in the program is responsible for a portion of the shared claims based on their percentage of the total claims for the group. Additional insurance has been obtained to provide coverage for claims exceeding \$650,000. Total expenses related to this plan were approximately \$26,802,000 and \$20,483,000 for 2019 and 2018, respectively.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

12. Malpractice Insurance

Phoebe Putney Indemnity, LLC, located in South Carolina, is a wholly-owned subsidiary of the System organized on August 1, 2006 as a single parent captive under the captive insurance laws of the state of South Carolina to insure the risks of the System, including the Corporation. Phoebe Putney Indemnity, Ltd. (PPI), located in the Cayman Islands, is a wholly-owned subsidiary of the System, that was incorporated on November 14, 2018 as an exempted company under the Companies Law of the Cayman Islands. Effective January 31, 2019, Phoebe Putney Indemnity, Ltd. merged with Phoebe Putney Indemnity, LLC, with Phoebe Putney Indemnity, Ltd. remaining as the surviving entity. Upon merger, the rights, property, benefits, immunities, and powers and privileges of Phoebe Putney Indemnity, LLC immediately vested to PPI. PPI continued the business of Phoebe Putney Indemnity, LLC to provide insurance coverage to the System, including the Corporation.

PPI issues a claims-made policy covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability of the Corporation. Under the policy, the limit of liability is \$5,000,000 per occurrence, with an annual aggregate of \$27,000,000 at July 31, 2019 and 2018.

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

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

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

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

13. 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, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	23%	16%
Medicaid	15%	18%
Blue Cross	24%	30%
Commercial	37%	35%
Patients	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

At July 31, 2019, the Corporation had deposits at major financial institutions which exceeded the \$250,000 Federal Deposit Insurance Corporation limits. Management believes the credit risks related to these deposits is minimal.

14. Related Party Payables

	<u>(Dollars in Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Due to Phoebe Putney Health System, Inc.	\$(23,096)	\$(21,712)
Due from other related parties	<u>1,350</u>	<u>14</u>
Net related party payables	\$(<u>21,746</u>)	\$(<u>21,698</u>)

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

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

14. Related Party Payables, Continued

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) was enacted into law in 2009. In compliance with the HITECH Act, effective October 1, 2015, the System adopted a new health system-wide integrated Electronic Medical Record (EHR) system known as Meditech 6.1. The System incurred the cost of planning, purchasing, training and implementing the new EHR system at the Corporation.

During fiscal year 2018 the System had a related party payable due from the Corporation of \$47,138,000, in relation to the Meditech 6.1 system implementation for the Corporation's cost of the 2015 EHR project.

Effective March 8, 2018 the System's Board of Directors approved action to provide mission support to the Corporation in the amount of \$47,138,000 for the benefit of the Corporation in accordance with its charitable mission to support, promote, advance and strengthen, within the meaning of Section 509(a)(3) of the Internal Revenue Code of 1986, as amended, the Corporation and other charitable health care providers, forgiving any amount still due from the Corporation to the System for the new EHR system. The amounts forgiven are reported as an equity transfer from Phoebe Putney Health System, Inc. in the statements of operations and changes in net assets of the Corporation.

15. 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 undesignated 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.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

15. Related Organization, Continued

	(Dollars in Thousands)	
	<u>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents	\$ 4,641	\$ 3,715
Investments	13,275	12,682
Other assets	<u>1,080</u>	<u>330</u>
Total assets	\$ <u>18,996</u>	\$ <u>16,727</u>
Liabilities and net assets:		
Accounts payable	\$ 38	\$ 27
Due to related parties	<u>1,346</u>	<u>12</u>
Total liabilities	1,384	39
Net assets	<u>17,612</u>	<u>16,688</u>
Total liabilities and net assets	\$ <u>18,996</u>	\$ <u>16,727</u>
Revenue and support	\$ 2,785	\$ 2,037
Expenses	<u>3,243</u>	<u>1,767</u>
Excess (deficit) of revenue and support	(458)	270
Restricted contributions	1,382	483
Net assets, beginning of year	<u>16,688</u>	<u>15,935</u>
Net assets, end of year	\$ <u>17,612</u>	\$ <u>16,688</u>

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

16. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services in 2019 are as follows:

	(Dollars in Thousands)		
	Patient Care Services	General and Administrative	Total
Salaries and wages	\$ 125,133	\$ 27,758	\$ 152,891
Employee health and welfare	39,258	8,335	47,593
Medical supplies and other	175,149	59,866	235,015
Purchased services	64,858	36,335	101,193
Depreciation and amortization	9,626	13,294	22,920
Interest	3,834	5,296	9,130
	<u>\$ 417,858</u>	<u>\$ 150,884</u>	<u>\$ 568,742</u>

For 2018, the Corporation incurred expenses of approximately \$418,267,000 and \$110,586,000 for patient care services and general and administrative, respectively.

The financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest expense, and other occupancy related costs, are allocated to a function based on a square footage basis. Benefit related expenses are allocated consistent with salaries.

17. Fair Values of Financial Instruments

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

- *Cash and cash equivalents:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.
- *Assets limited as to use:* Amounts reported in the balance sheet approximate fair value. See Note 18 for fair value measurement disclosures.
- *Accounts payable and accrued expenses:* The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

17. Fair Values of Financial Instruments, Continued

- *Estimated third-party payor settlements:* The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.
- *Derivative financial instruments:* The carrying amount reported in the balance sheet for derivative financial instruments approximates its fair value. See Note 18 for fair value measurement disclosures.
- *Long-term debt:* Fair values of the Corporation's revenue notes are based on current traded value. The carrying amount reported in the balance sheet for debt totals approximately \$271,576,000 and \$278,434,000 at July 31, 2019 and 2018, respectively, with a fair value of approximately \$275,234,000 and \$280,308,000, respectively. Based on inputs used in determining the estimated fair value, the Corporation's long-term debt would be classified as Level 2 in the fair value hierarchy.

18. 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, 2019 and 2018.

- *Money market funds and certificates of deposit:* Valued at amortized cost, which approximates fair value.
- *Equity securities:* Certain equity securities are valued at the closing price reported on the active market on which the individual securities are traded. Other equity securities are valued based on quoted prices for similar investments in active or inactive markets or valued using observable market data.
- *Mutual funds and alternative investments:* Certain mutual funds are valued at closing price reported on the active market on which the individual securities are traded. Other mutual funds are valued at the net asset value (NAV) of shares held at year end. Certain investments invest in a variety of growth and value assets. Management of the funds has the ability to shift investments as they feel necessary to meet established goals.
- *Real estate investment trusts:* These exchange traded investments are valued on the basis of a discounted cash flow approach, which includes the future rental receipts, expenses, and residual values as the highest and best use of the real estate from a market participant view as rental property.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
 July 31, 2019 and 2018

18. Fair Value Measurement, Continued

- *Derivatives:* Valued using forward LIBOR curves. Values are then verified against counterparty mark-to-market valuations.

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

Fair values of liabilities measured on a recurring basis at July 31, 2019 and 2018 are as follows:

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in</u>	<u>Significant</u>	<u>Significant</u>
		<u>Active Markets</u>	<u>Other</u>	<u>Unobservable</u>
		<u>For Identical</u>	<u>Observable</u>	<u>Inputs</u>
		<u>Liabilities</u>	<u>Inputs</u>	<u>Inputs</u>
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>July 31, 2019</u>	<u>Fair Value</u>			
Liabilities:				
Derivatives	\$ <u>10,699</u>	\$ <u>-</u>	\$ <u>10,699</u>	\$ <u>-</u>
<u>July 31, 2018</u>				
Liabilities:				
Derivatives	\$ <u>8,565</u>	\$ <u>-</u>	\$ <u>8,565</u>	\$ <u>-</u>

Following is a description of the valuation methodologies used and investment strategies for assets measured using NAV as a practical expedient.

- *Mutual funds – fixed income funds:* The fixed income mutual funds seek to provide a high level of current income while preserving principal by primarily investing in a portfolio of domestic and international debt securities with an investment grade or better and with a dollar weighted average maturity between three and ten years.
- *Mutual funds – index funds:* The index mutual funds are invested in a variety of large cap domestic companies that are members of the indices. Members of the indices are determined each year during annual reconstruction and enhanced quarterly with the addition of initial public offerings.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

18. Fair Value Measurement, Continued

- *Mutual funds – growth and other funds:* The growth and other mutual funds seek to provide a high level of return through the allocation of investments among both small cap investments and mortgage-backed securities.
- *Alternative investments:* The objective of the alternative investments is to use leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns while maintaining minimal risk.

19. Commitments and Contingencies

Compliance Plan

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

Health Care Reform

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

Litigation

The Corporation is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results from operations. See malpractice insurance disclosures in Note 12.

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2019 and 2018

19. Commitments and Contingencies, Continued

Other

On May 18, 2017, a group submitted to the Georgia Department of Community Health, a certificate of need application for a new hospital to be located within the Corporation’s service area. On November 15, 2017, the Georgia Department of Community Health granted Lee County Medical Center a certificate of need to build a 60-bed hospital in Lee County, Georgia. No consideration has been given in the financial statements to the certificate of need granted to Lee County Medical Center.

20. Liquidity and Availability

As of July 31, 2019, the Corporation has working capital of approximately \$146,669,000.

Financial assets available for general expenditures within one year of the balance sheet date, consists of the following at July 31, 2019:

	<u>(Dollars in Thousands)</u>
Cash and cash equivalents	\$ 94,752
Patient accounts receivable, net	83,358
Other current assets – other receivables	6,003
Internally designated for capital improvements	<u>386</u>
Total financial assets available	\$ <u>184,499</u>

None of the financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Corporation estimates that approximately 100% of the internally designated funds for capital improvements are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.



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, 2019 and 2018 and our report thereon dated December 4, 2019, 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 49 to 55, 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, 2019

Let's Think Together.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY

July 31, 2019

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

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

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

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

See independent auditor’s report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2019

The following table summarizes the amounts of charges foregone (i.e., contractual adjustments) and estimates the losses (computed by applying a total cost factor to charges foregone) 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	\$ 732,000,000	\$ 215,000,000
Medicaid	244,000,000	72,000,000
Indigent/Charity	<u>75,000,000</u>	<u>22,000,000</u>
	<u>\$ 1,051,000,000</u>	<u>\$ 309,000,000</u>

Indigent/Charity Care by County

The Corporation provided care to a total of 8,117 Indigent/Charity patients during 2019. These patients came from numerous counties throughout Georgia and surrounding states. The following table summarizes the amounts of charges foregone and estimates the losses incurred by the Corporation by county.

<u>County</u>	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Dougherty	\$ 41,000,000	\$ 12,000,000
Lee	8,600,000	2,500,000
Worth	4,900,000	1,400,000
Terrell	4,700,000	1,400,000
Mitchell	3,800,000	1,100,000
Sumter	2,500,000	700,000
Randolph	1,200,000	400,000
Crisp	1,000,000	300,000
Calhoun	1,000,000	300,000
Colquitt	1,000,000	300,000
Other Georgia	4,600,000	1,400,000
Out of State	<u>700,000</u>	<u>200,000</u>
Total	<u>\$ 75,000,000</u>	<u>\$ 22,000,000</u>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2019

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 2019.

I. Community Health Improvement Services

A. Community Health Education

The Corporation provided health education services in 2019 including the following free classes and seminars:

- Teen Maze
- Health Teacher Training
- CPR Training
- Safe Sitter Classes
- Opioid Community Task Force Meetings and Campaign Launch
- School-based Opioid Prevention Program
- School Staff Education in Elementary Schools
- Diabetes Awareness Seminars
- Participated in Community Garden activities at all the public schools in Dougherty County
- Various Support Groups

Men's and Women's Health Conferences

The Men's and Women's Conferences attracted approximately 700 participants. These conferences provided blood pressure, glucose, cholesterol, PSA for men 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, Horizons Community Solutions, and Public Health among others. The total costs for all health fairs was \$25,106. Other community health education expenses totaled \$455 for the year.

Network of Trust

This is a nationally recognized program aimed at teen mothers to provide parenting skills, attempt to reduce repeat pregnancies, and complete high school. This program also includes a teen father program along with other teenaged children programs. Internal evaluation shows teens participating in the program are less likely to repeat a pregnancy prior to graduation. Network of Trust enrolled 78 teen parents during the 2018/2019 school year at a cost of \$260,658. Project results demonstrate teens that graduate from the two-semester program are less likely to have a second pregnancy prior to age 21. 22 of the 30 Network of Trust seniors graduated. In addition, Network of Trust and the school nurse program provided health fairs to children at various public schools with 586 students participating and an additional 7,734 students participating in the Opioid Prevention Project.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2019

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

B. Community Based Clinical Services

Flu Shots

The Corporation provides free flu shots to volunteers and students. In 2019, the Corporation administered 354 flu shots at an unreimbursed cost of \$6,814.

School Nurse Program

The Corporation places nurses in sixteen elementary schools, six middle schools, and four high schools in Dougherty County with a goal of creating access to care for students 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 2018/2019 school year, the school nurse program covered 18,000 student lives. This program is operated at a cost of \$356,592 in 2019.

Mammography Screening Program

The Corporation provided 244 Mammograms to uninsured residents residing in its primary service area at a cost of \$34,502. Two suspicious screens led to a breast cancer diagnosis.

C. Health Care Support Services

Government Sponsored Eligibility Applications to the Poor and Needy

The Corporation contracts for 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 2019, the Corporation paid \$976,580 to process those applications.

- Financial Assistance Policy (FAP)

PPHS Hospital Facilities will extend free or discounted care to eligible individuals for all urgent, emergent, or otherwise medically necessary services. Patients whose household income is at or below 125% of the Federal Poverty Guidelines are eligible for free care. Patients whose household income is between 126% and 400% of the Federal Poverty Guidelines qualify for discounted charges based on a sliding fee schedule in the FAP. Phoebe will not charge eligible individuals more for emergency or other medically necessary care than the Amount Generally Billed to individuals who have insurance coverage, and is compliant with the requirements for a not-for-profit charitable corporation in accordance with Internal Revenue Service Regulation §1.501(r).

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2019

II. Health Professions Education

The Corporation recognizes that to continuously improve the Corporation's long-term value to our community and our customers, to encourage life-long learning among employees and to achieve a world-class employer status, it is in the Corporation's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. In fiscal year 2019, the Corporation provided \$528,515 in clinical supervision and training of 340 nursing students, and an additional \$475,353 in clinical supervision and training to pharmacy, pharmacy techs and other allied health professionals.

III. Subsidized Health Services

A. Other Subsidized Services

Inmate Care

The Corporation provides care to persons in jail for Dougherty County. In 2019 the Corporation provided \$290,149 of unreimbursed medical and drug treatment to 195 inmates.

Indigent Drug Pharmacy

Indigent Drug Pharmacy provides medication upon discharge to patients that are either indigent or uninsured. In 2019, the pharmacy issued 4,214 prescriptions at a cost of \$141,454.

IV. Financial and In-Kind Support

In 2019, The Corporation provided \$312,426 in cash donations and in-kind support to non-profit organizations in Southwest Georgia. Listed are some highlights:

- The Horizons Community Solutions, formerly known as Southwest Georgia Cancer Coalition, received \$114,429 for staff support and various projects.
- Gave AAPHC \$106,256 for renovation cost to open two more school health clinics.
- In-kind support of foregone rent to non-profit organizations at an estimated cost of \$58,174.
- Gave \$50,000 to Andrew College for their Respiratory Therapy Program and to Georgia Southwestern State University for their Nursing Program.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2019

V. Community Building Activities

A. Economic Development

The Corporation supports the Economic Development Commission of Dougherty County with funding to support improved employment and health coverage as a way to improve the overall health of the residents of the region. The Corporation also hosted a SWGA workforce meeting December 15, 2018 with 25 attendees and provided refreshments at a cost of \$164.

VI. Community Benefit Obligations

The Corporation incurred \$126,432 to support staff and community health needs assessment costs and included \$32,000 renewal of Healthy Communities Institute's dashboard feature on our website:

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

Summary

	<u>2019</u>
Community Health Improvement Services:	
Community Health Education	\$ 286,219
Community Based Clinical Services	397,908
Healthcare Support Services	<u>976,580</u>
Total community health improvement services	<u>1,660,707</u>
Health Professional Education:	
Nurses/nursing students	528,515
Other health professional education	<u>475,353</u>
Total health professional education	<u>1,003,868</u>
Subsidized Health Services:	
Other subsidized health services	<u>431,603</u>
Total subsidized health services	<u>431,603</u>
Financial and In-Kind Support:	
Cash donations	254,252
In-kind donations	<u>58,174</u>
Total financial and in-kind support	<u>312,426</u>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

SERVICE TO THE COMMUNITY, Continued
 July 31, 2019

V. Community Benefit Obligations, Continued

Summary, Continued

	<u>2019</u>
Community Building Activities:	
Economic development	\$ <u>164</u>
Total community building activities	<u>164</u>
Community Benefit Operations:	
Dedicated staff and other resources	<u>126,432</u>
Total community benefit operations	<u>126,432</u>
Other:	
Traditional charity care – estimated unreimbursed cost of charity services	22,000,000
Unpaid cost of Medicare services – estimated unreimbursed cost of Medicare services	215,000,000
Unpaid cost of Medicaid services – estimated unreimbursed cost of Medicaid services	<u>72,000,000</u>
Total other	<u>309,000,000</u>
Total summary	\$ <u>312,535,200</u>

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.