

PHOEBE PUTNEY HEALTH SYSTEM, INC.



CONSOLIDATED FINANCIAL STATEMENTS

for the years ended July 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Phoebe Putney Health System, Inc. (Corporation), which comprise the consolidated balance sheets as of July 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the 2020 financial statements of Phoebe Putney Indemnity, Ltd., a wholly-owned subsidiary, which statements reflect approximately \$104,613,000 of consolidated total assets as of July 31, 2020, and approximately \$10,467,000 of consolidated total revenues, gains, and other support, for the year then ended. We also did not audit the 2019 financial statements of Phoebe Putney Indemnity, Ltd., which statements reflect approximately \$103,726,000 of consolidated total assets as of July 31, 2019, and approximately \$4,843,000 of consolidated total revenues, gains, and other support, for the period from inception (November 14, 2018) to July 31, 2019. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Phoebe Putney Indemnity, Ltd., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. For the year ended July 31, 2020, we also conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phoebe Putney Health System, Inc. as of July 31, 2020 and 2019, 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.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Corporation adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* on August 1, 2019, using a modified retrospective approach. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2020, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Albany, Georgia
November 18, 2020

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS, July 31, 2020 and 2019

	(Dollars in Thousands)	
	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 301,069	\$ 163,315
Patient accounts receivable, net	104,354	106,630
Supplies	21,747	16,347
Other current assets	<u>35,842</u>	<u>27,008</u>
Total current assets	<u>463,012</u>	<u>313,300</u>
Assets limited as to use:		
Internally designated for capital improvements	448,063	424,990
Internally designated for self-insurance	86,288	83,063
Externally designated by donors	<u>12,858</u>	<u>14,044</u>
Total assets limited as to use	<u>547,209</u>	<u>522,097</u>
Property and equipment, net	<u>385,468</u>	<u>369,602</u>
Other assets:		
Deferred financing cost	943	1,019
Operating lease right-of-use assets	50	-
Goodwill	130,296	130,510
Other assets	<u>6,921</u>	<u>6,764</u>
Total other assets	<u>138,210</u>	<u>138,293</u>
Total assets	<u>\$ 1,533,899</u>	<u>\$ 1,343,292</u>

(Dollars in Thousands)

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 9,032	\$ 7,134
Current portion of operating lease liabilities	29	-
Accounts payable	33,718	25,175
Accrued expenses	65,427	71,929
Estimated third-party payor settlements	1,013	1,414
CARES Act refundable advance	92,800	-
Current portion of Medicare accelerated and advance payments	<u>9,393</u>	<u>-</u>
Total current liabilities	211,412	105,652
Medicare accelerated and advance payments, net of current portion	46,964	-
Long-term debt, net of current portion	262,062	263,127
Operating lease liabilities, net of current portion	21	-
Accrued pension cost	140,970	110,251
Accrued self-insurance cost	65,953	63,409
Derivative financial instruments	<u>13,907</u>	<u>10,699</u>
Total liabilities	<u>741,289</u>	<u>553,138</u>
Net assets:		
Without donor restrictions	775,358	776,110
With donor restrictions:		
Purpose restrictions	15,228	12,020
Perpetual in nature	<u>2,024</u>	<u>2,024</u>
Total net assets	<u>792,610</u>	<u>790,154</u>
Total liabilities and net assets	<u>\$ 1,533,899</u>	<u>\$ 1,343,292</u>

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

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
for the years ended July 31, 2020 and 2019

	(Dollars in Thousands)	
	<u>2020</u>	<u>2019</u>
Revenues, gains, and other support:		
Net patient service revenue	\$ 746,339	\$ 733,791
Other revenue	36,122	29,708
CARES Act funding	16,566	-
	<u>799,027</u>	<u>763,499</u>
Total revenues, gains, and other support		
Expenses:		
Salaries and wages	323,474	317,114
Employee health and welfare	79,507	78,995
Medical supplies and other	232,489	211,868
Purchased services	107,050	101,758
Depreciation and amortization	31,809	28,161
Interest	8,139	9,170
	<u>782,468</u>	<u>747,066</u>
Total expenses		
Operating income	16,559	16,433
Nonoperating income:		
Investment and other nonoperating income	19,302	15,642
	<u>19,302</u>	<u>15,642</u>
Excess revenues	35,861	32,075
Net assets without donor restrictions:		
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	182	(135)
Net actuarial loss	(39,905)	(38,985)
Amortization of net loss	3,621	2,314
Capital contributions	263	1,737
	<u>22</u>	<u>(2,994)</u>
Increase (decrease) in net assets without donor restrictions		

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
 CHANGES IN NET ASSETS, Continued
 for the years ended July 31, 2020 and 2019

	(Dollars in Thousands)	
	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions:		
Restricted donations	\$ <u>3,208</u>	\$ <u>1,382</u>
Increase (decrease) in net assets	3,230	(1,612)
Net assets, beginning of year, as previously reported	790,154	791,766
Implementation of ASU No. 2016-02	<u>(774)</u>	<u>-</u>
Net assets, end of year	<u>\$ 792,610</u>	<u>\$ 790,154</u>

The accompanying notes are an integral part of these financial statements

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended July 31, 2020 and 2019

	(Dollars in Thousands)	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 3,230	\$ (1,612)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized (gain) loss and changes in unrealized (gain) loss on investments	(19,830)	(6,460)
(Gain) loss on disposal of property and equipment	175	(106)
Depreciation and amortization	31,809	28,161
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	(182)	135
Change in derivative financial instruments	3,208	2,134
Changes in:		
Patient accounts receivable	2,276	(10,318)
Supplies	(5,400)	(1,577)
Estimated third-party payor settlements	(401)	3,554
CARES Act refundable advance	92,800	-
Medicare accelerated and advance payments	56,357	-
Other assets	(8,519)	(2,380)
Accounts payable and accrued expenses	2,041	15,165
Accrued pension cost	30,719	31,066
Accrued self-insurance cost	2,544	5,826
	<u>190,827</u>	<u>63,588</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(41,546)	(31,186)
Proceeds from sale of property and equipment	1,292	874
Sale of assets limited as to use	195,324	197,859
Purchase of assets limited as to use	(199,839)	(201,707)
	<u>(44,769)</u>	<u>(34,160)</u>
Net cash used by investing activities		

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
for the years ended July 31, 2020 and 2019

	(Dollars in Thousands)	
	<u>2020</u>	<u>2019</u>
Cash flows from financing activities:		
Payments on long-term debt	\$ (7,067)	\$ (179,657)
Proceeds from issuance of long-term debt	-	172,865
Payments on finance lease liabilities	<u>(1,237)</u>	<u>-</u>
Net cash used by financing activities	<u>(8,304)</u>	<u>(6,792)</u>
Increase in cash and cash equivalents	137,754	22,636
Cash and cash equivalents, beginning of year	<u>163,315</u>	<u>140,679</u>
Cash and cash equivalents, end of year	<u>\$ 301,069</u>	<u>\$ 163,315</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 8,564</u>	<u>\$ 9,251</u>
Assets acquired through leases	<u>\$ 8,477</u>	<u>\$ -</u>

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

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies

Organization

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

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

Phoebe Putney Health Ventures, Inc. engages in healthcare and related activities for the benefit of Phoebe Putney Health System, Inc. and Phoebe Putney Memorial Hospital, Inc.

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

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

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

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

Phoebe Putney Indemnity, Ltd. (PPI) was incorporated on November 14, 2018 as an exempted company under the Companies Law of the Cayman Islands. PPI is a wholly-owned subsidiary of Phoebe Putney Health System, Inc. established to provide general liability, professional liability, personal injury liability, advertising injury liability, contractual liability, and auto physical damage coverage to Phoebe Putney Health System, Inc. Effective January 31, 2019, PPI merged with Phoebe Putney Indemnity, LLC which resulted in Phoebe Putney Indemnity, Ltd. remaining as the surviving entity.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Organization, Continued

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

Reorganization

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

Effective August 1, 2012, the lease and transfer agreement between PPMH and the Authority was amended and restated. The amendment was made for the transfer and inclusion of the hospital formerly known as Palmyra Park Hospital, LLC (Palmyra) which was acquired by the Authority on December 15, 2011, for approximately \$195,000,000. The amendment included the extension of the lease for a term of forty years from the date of the current amendment.

Effective July 1, 2009, the Americus-Sumter County Hospital Authority (Sumter Authority) implemented a reorganization plan for Sumter Regional Hospital (SRH) whereby all the assets, management and governance of SRH was transferred to Phoebe Sumter Medical Center, Inc., a not-for-profit corporation, qualified as an organization described in Section 501(c)(3) of the Internal Revenue Code, pursuant to a lease and transfer agreement. The lease term is forty years with an annual contribution of \$25,000 to the Sumter Authority. Under the lease and transfer agreement, the Sumter Authority was required to construct a new hospital facility. The new hospital facility is leased to Phoebe Sumter Medical Center, Inc. for the remainder of the lease term. This transaction was accounted for as a pooling of interest. As part of the lease and transfer agreement, the Corporation agreed to contribute up to \$25,000,000 to the construction cost of the new facility or the physician recruiting efforts of Phoebe Sumter Medical Center, Inc., as needed. The lease and transfer agreement was amended effective September 27, 2016. See Note 10 for further detail regarding the amendment.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Use of Estimates

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

Cash and Cash Equivalents

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

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.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities, which are all classified as trading securities, are measured at fair value in the consolidated balance sheets. For investments in equity securities without a readily determinable fair value that do not qualify for the net asset value (NAV) practical expedient in ASC 820-10-35-59, an entity is permitted to elect a practicability exception to fair value measurement, under which the investment will be measured at cost, less impairment, plus or minus observable price changes (in orderly transactions) of an identical or similar investment of the same issuer. Investments qualifying for the equity method are stated at quoted net asset value of shares held at year end. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in excess revenues unless the income or loss is restricted by donor or law. Effective August 1, 2019, the Corporation adopted FASB ASU No. 2016-01.

Derivative Financial Instruments

The Corporation has entered into interest rate swap agreements as part of its interest rate risk management strategy. These agreements are accounted for under the provisions of FASB ASC 815 *Derivatives and Hedging*. FASB ASC 815 establishes accounting and reporting standards requiring that derivative instruments be recorded at fair value as either an asset or liability.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Derivative Financial Instruments, Continued

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of 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 (losses) during the period of change.

Assets Limited as to Use

Assets limited as to use primarily include assets restricted by donors and held by Phoebe Foundation, Inc., and designated assets set aside by the Board of Directors for future capital improvements and self-insurance trust agreements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Finance lease assets are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as 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.

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Goodwill, Continued

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, 2020 and 2019 the Corporation has goodwill of approximately \$130,296,000 and \$130,510,000, respectively. The Corporation has elected March 31st as its annual impairment assessment date. The Corporation also considered certain factors such as whether macroeconomic conditions, industry considerations, cost factors, and the sequence of events during the COVID-19 pandemic constituted a triggering event. The Corporation's evaluation determined it is not more likely than not that the reporting unit's fair value is less than its carrying value. The Corporation completed its annual impairment assessment and concluded that no goodwill or indefinite lived intangible asset impairment charge was required.

Refundable Advance

A refundable advance arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 23 for additional information.

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 consolidated 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 consolidated balance sheets.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

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 has 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 consolidated 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 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 HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

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 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 Costs

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

Income Taxes

Phoebe Putney Health System, Inc., Phoebe Putney Memorial Hospital, Inc., Phoebe Worth Medical Center, Inc., Phoebe Sumter Medical Center, Inc., Phoebe Physician Group, Inc., and Phoebe Foundation, Inc. are not-for-profit corporations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Phoebe Putney Indemnity, LLC is not subject to federal income taxes due to its organization as a single member LLC. Phoebe Putney Indemnity, Ltd. is exempted from all local income, profit, or capital gains taxes until November 19, 2038 under the Cayman Islands Tax Concessions Law. Phoebe Putney Health Ventures, Inc. is a for-profit entity.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

The Corporation applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Corporation only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from the 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 consolidated balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2020 and 2019 or for the years then ended. The Corporation's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Impairment of Long-Lived Assets

The Corporation evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Corporation has not recorded any impairment charges of long-lived assets in the accompanying consolidated statements of operations and changes in net assets for the years ended July 31, 2020 and 2019.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Fair Value Measurements

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

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

Phoebe Sumter Medical Center, Inc. Beneficial Interest in Net Assets of Foundation

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

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 consolidated balance sheets. Changes in the funded status are recorded in the year in which the changes occurred in the consolidated statements of operations and changes in net assets. See Note 11 for additional information.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance requires equity investments (except those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values; and amends certain disclosure requirements associated with the fair value of financial instruments. The Corporation adopted ASU No. 2016-01 on August 1, 2019 using the modified retrospective method of transition. Prior to adoption, the Corporation classified equity securities with readily determinable fair values as trading, therefore, adoption did not have an impact on the recognition of income related to the Corporation's equity investments.

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. As part of the transition to the new standard, the Corporation was required to measure and recognize leases that existed at August 1, 2019 using a modified retrospective approach. The Corporation applied the new standard at the adoption date and recognized a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Corporation elected the package of practical expedients permitted under the new standard that allowed the Corporation to carry forward historical lease classification. The Corporation also elected the practical expedient that allowed the Corporation to not separate nonlease components from the associated lease components. The impact of adoption on the consolidated financial statements was an increase on August 1, 2019 in other noncurrent assets to record right-of-use assets and an increase in other current and noncurrent liabilities to record lease liabilities for current operating and finance (lease and nonlease components) leases of approximately \$9,040,000, representing the present value of remaining lease payments.

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 18, 2020, the date the financial statements were issued.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

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 patient 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 HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

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, 2016 for PPMH, PSMC, and PWMC.

PWMC is designated as a Critical Access Hospital (CAH) by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology.

- 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 HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

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, 2017 for PWMC. PPMH and PSMC's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through July 31, 2016.

The Corporation 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 \$6,312,000 and \$7,264,000 for the years ended July 31, 2020 and 2019, 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 \$3,251,000 and \$5,968,000 for the years ended July 31, 2020 and 2019, respectively.

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately \$7,589,000 and \$7,259,000 relating to the Act is included in medical supplies and other in the accompanying consolidated statements of operations and changes in net assets for the years ended July 31, 2020 and 2019, respectively.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

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-service and all private health insurance, including payments received from beneficiaries and insured patients, by the sum of the associated gross charges for those claims.

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 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 (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 2020 or 2019.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

2. Net Patient Service Revenue, Continued

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, 2020 and 2019. 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, 2020 and 2019 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 source for the years ended July 31, 2020 and 2019 is as follows:

	Net Patient Service Revenue (Dollars in Thousands)				
	<u>Medicare</u>	<u>Medicaid</u>	<u>Other</u>	<u>Self-Pay</u>	<u>Total</u>
2020	<u>\$ 285,864</u>	<u>\$ 81,118</u>	<u>\$ 375,777</u>	<u>\$ 3,580</u>	<u>\$ 746,339</u>
2019	<u>\$ 290,938</u>	<u>\$ 98,011</u>	<u>\$ 342,209</u>	<u>\$ 2,633</u>	<u>\$ 733,791</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

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, 2020 and 2019 is as follows:

July 31, 2020					
Net Patient Service Revenue					
(Dollars in Thousands)					
	<u>PPMH</u>	<u>PSMC</u>	<u>PWMC</u>	<u>PPG</u>	<u>Total</u>
Service Lines:					
Hospital	\$ 566,909	\$ 81,392	\$ 13,781	\$ -	\$ 662,082
Home Health	3,259	-	-	-	3,259
Hospice	4,829	1,161	-	-	5,990
Physician practice	-	-	-	73,291	73,291
Clinic	-	248	1,469	-	1,717
	<u>-\$ 574,997</u>	<u>\$ 82,801</u>	<u>\$ 15,250</u>	<u>\$ 73,291</u>	<u>\$ 746,339</u>
Total					
Timing of revenue and recognition:					
Services transferred over time	<u>\$ 574,997</u>	<u>\$ 82,801</u>	<u>\$ 15,250</u>	<u>\$ 73,291</u>	<u>\$ 746,339</u>
July 31, 2019					
Net Patient Service Revenue					
(Dollars in Thousands)					
	<u>PPMH</u>	<u>PSMC</u>	<u>PWMC</u>	<u>PPG</u>	<u>Total</u>
Service Lines:					
Hospital	\$ 550,445	\$ 76,658	\$ 14,052	\$ -	\$ 641,155
Home Health	1,825	-	-	-	1,825
Hospice	5,861	1,230	-	-	7,091
Physician practice	-	-	-	81,822	81,822
Clinic	-	182	1,716	-	1,898
	<u>\$ 558,131</u>	<u>\$ 78,070</u>	<u>\$ 15,768</u>	<u>\$ 81,822</u>	<u>\$ 733,791</u>
Total					
Timing of revenue and recognition:					
Services transferred over time	<u>\$ 558,131</u>	<u>\$ 78,070</u>	<u>\$ 15,768</u>	<u>\$ 81,822</u>	<u>\$ 733,791</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

2. Net Patient Service Revenue, Continued

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 hospitals, home health, hospice, physician practices, and clinics 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 consolidated 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 a 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 HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2020 and 2019 were approximately \$1,742,000,000 and \$1,764,000,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$88,000,000 and \$98,000,000 in 2020 and 2019, respectively. The cost of charity and indigent care services provided during 2020 and 2019 was approximately \$28,000,000 and \$29,000,000, 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 2020 and 2019.

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Gross patient charges	<u>\$ 2,487,942</u>	<u>\$ 2,497,433</u>
Uncompensated services:		
Charity and indigent care	88,209	98,418
Medicare	887,255	909,387
Medicaid	335,350	312,451
Other third-party payors	274,502	282,108
Price concessions	<u>156,287</u>	<u>161,278</u>
Total uncompensated care	<u>1,741,603</u>	<u>1,763,642</u>
Net patient service revenue	<u>\$ 746,339</u>	<u>\$ 733,791</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

4. Investments

Assets Limited as to Use

The composition of assets limited as to use at July 31, 2020 and 2019 is set forth in the following table. Assets limited as to use are stated at fair value.

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
By board for capital improvements:		
Money market funds	\$ 21,448	\$ 10,066
Certificates of deposit	390	386
Equity securities	30,987	27,829
Mutual funds - fixed income funds	30,640	34,024
Mutual funds - index funds	94,828	72,822
Mutual funds - growth and other funds	10,555	9,479
Real estate investment trusts	9,688	12,332
Corporate debt securities	8,229	7,004
Government debt securities	1,021	996
Alternative investments:		
Credit opportunities	5,698	10,523
Multi-strategy	27,815	30,521
Equity securities	201,716	195,615
Other	<u>5,048</u>	<u>13,393</u>
Total board designated for capital improvements	<u>448,063</u>	<u>424,990</u>
By board for self-insurance:		
Money market funds	4,561	67,987
Mutual funds - fixed income funds	14,283	-
Mutual funds - index funds	16,507	-
Mutual funds - growth and other funds	34,458	3,864
Alternative investments:		
Multi-strategy	<u>16,479</u>	<u>11,212</u>
Total board designated for self-insurance	<u>86,288</u>	<u>83,063</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

4. Investments, Continued

Assets Limited as to Use, Continued

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Externally designated by donors:		
Money market funds	\$ 1,227	\$ 1,817
Equity securities	2,347	2,683
Mutual funds - fixed income funds	468	544
Mutual funds - index funds	1,628	1,791
Mutual funds - growth and other funds	1,936	2,173
Alternative investments:		
Equity securities	323	380
Real estate investment trusts	909	188
Corporate debt securities	3,823	4,238
Government debt securities	<u>197</u>	<u>230</u>
 Total externally designated by donors	 <u>12,858</u>	 <u>14,044</u>
 Total assets limited to use	 <u>\$ 547,209</u>	 <u>\$ 522,097</u>

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

5. Property and Equipment

A summary of property and equipment at July 31, 2020 and 2019 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Land	\$ 31,458	\$ 31,316
Land improvements	7,667	7,374
Building	416,029	406,583
Equipment	446,606	430,562
Finance lease right-of-use assets	6,961	-
	<u>908,721</u>	<u>875,835</u>
Less accumulated depreciation	<u>544,562</u>	<u>521,859</u>
	364,159	353,976
Construction-in-progress	<u>21,309</u>	<u>15,626</u>
Property and equipment, net	<u>\$ 385,468</u>	<u>\$ 369,602</u>

Depreciation expense for the years ended July 31, 2020 and 2019 amounted to approximately \$30,362,000 and \$28,161,000, respectively.

Amortization expense on finance lease right-of-use assets for the year ended July 31, 2020 was approximately \$1,447,000.

Construction contracts exist for various projects at year end with a total commitment of approximately \$27,919,000. At July 31, 2020, the remaining commitment on these contracts approximated \$17,323,000.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

6. Goodwill

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

The changes in the carrying amount of goodwill for the years ended July 31, 2020 and 2019, are as follows:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year:		
Goodwill	\$ 174,664	\$ 174,664
Accumulated impairment losses	<u>(44,154)</u>	<u>(44,154)</u>
	130,510	130,510
Goodwill acquired during the year	-	-
Impairment losses	-	-
Disposal of goodwill	<u>(214)</u>	<u>-</u>
Balance at end of year:		
Goodwill	174,450	174,664
Accumulated impairment losses	<u>(44,154)</u>	<u>(44,154)</u>
Total	<u>\$ 130,296</u>	<u>\$ 130,510</u>

7. Short-Term Debt

On April 24, 2020, the Corporation entered into a revolving line-of-credit with Truist Bank for a maximum amount of \$75,000,000 bearing interest at LIBOR plus 1.10% with the rate never being less than 2.10%. The outstanding balance on the line-of-credit at July 31, 2020 was \$0.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

8. Long-Term Debt

Long-term debt consists of the following:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</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%.	\$ 90,920	\$ 93,710
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.	71,970	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	96,765
Finance lease liabilities (Note 22)	<u>7,900</u>	<u>-</u>
	267,555	266,575
Less unamortized debt issuance cost	1,248	1,315
Less current portion	9,032	7,134
Add unamortized premium	<u>4,787</u>	<u>5,001</u>
Long-term debt, net of current portion	<u>\$ 262,062</u>	<u>\$ 263,127</u>

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

8. Long-Term Debt, Continued

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 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 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.

Scheduled principal repayments on long-term debt (excluding finance lease liabilities) for the next five years are as follows:

(Dollars in Thousands)				
<u>Year</u>	<u>2012</u>	<u>2018 A</u>	<u>2018 B</u>	<u>Total</u>
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
2025	1,260	4,620	2,475	8,355
Thereafter	<u>83,925</u>	<u>49,955</u>	<u>87,045</u>	<u>220,925</u>
Total	<u>\$ 90,920</u>	<u>\$ 71,970</u>	<u>\$ 96,765</u>	<u>\$ 259,655</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

9. 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 consolidated balance sheet. The critical terms of the swaps are as follows:

(Dollars in Thousands)

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

	<u>2020</u>	<u>2019</u>
Notional amount	\$ 20,931	\$ 21,156
Fair market value	\$ (5,615)	\$ (4,249)
Life remaining	12 Years	13 Years

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

	<u>2020</u>	<u>2019</u>
Notional amount	\$ 20,931	\$ 21,156
Fair market value	\$ (5,449)	\$ (4,026)
Life remaining	12 Years	13 Years

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

	<u>2020</u>	<u>2019</u>
Notional amount	\$ 17,703	\$ 17,894
Fair market value	\$ (4,569)	\$ (3,405)
Life remaining	12 Years	13 Years

Constant Maturity LIBOR Swap - Non-Hedge

	<u>2020</u>	<u>2019</u>
Notional amount	\$ 30,843	\$ 32,173
Fair market value	\$ 870	\$ 506
Life remaining	12 Years	13 Years

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

9. Derivative Financial Instruments, Continued

(Dollars in Thousands)

Constant Maturity LIBOR Swap - Non-Hedge		
	<u>2020</u>	<u>2019</u>
Notional amount	\$ 30,843	\$ 32,173
Fair market value	\$ 856	\$ 475
Life remaining	12 Years	13 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, 2020 and 2019, this earnings impact totaled a loss of approximately \$3,208,000 and \$2,133,000, respectively.

10. Net Assets with Donor Restrictions

A summary of the net assets with donor restrictions at July 31, 2020 and 2019 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions that are subject to expenditure for a specified purpose	<u>\$ 15,228</u>	<u>\$ 12,020</u>
Net assets with donor restrictions that are perpetual in nature	<u>\$ 2,024</u>	<u>\$ 2,024</u>

During fiscal year 2007, PSMC as operated by the Sumter Authority was destroyed in a tornado. As described in Note 1, the Sumter Authority entered into a lease and transfer agreement which included the construction of a new hospital facility. The Sumter Authority has received proceeds from the Federal Emergency Management Agency (FEMA) and the Georgia Emergency Management Agency (GEMA) for a portion of the construction costs of the new hospital and intends to pursue further reimbursement from FEMA and GEMA to the fullest extent possible.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

10. Net Assets with Donor Restrictions, Continued

It is anticipated, based on guidance received from an independent consultant, that project audits are likely to be conducted by FEMA and GEMA once all outstanding claims are closed, which could result in demand(s) to recover a portion of the funds paid to Sumter Authority.

Effective with an amendment to the lease and transfer agreement (Amendment) dated September 27, 2016, the Sumter Authority transferred approximately \$11,745,000 of receipts from FEMA and GEMA to PSMC. The Amendment specifies that the FEMA and GEMA funds may be used for the following purposes:

- First, to pay FEMA and GEMA all sums determined to be owed as a result of any audits.
- Second, and only after adequate provision for the funding of the first bullet point, the funds can be used to fund physician development in PSMC's service area.
- Third, and only after adequate provision for the first two bullet points above, the funds can be used by PSMC for any purposes permitted under the lease and transfer agreement.

Also in accordance with the Amendment, PSMC agreed to establish a separate account to hold the sum of \$4,000,000 of the above funds until the conclusion of the expected FEMA and GEMA audits to ensure the immediate availability of funds to repay any amounts finally determined to be owed to FEMA and GEMA as a result of the audits. Should the \$4,000,000 not be sufficient to repay any amounts due to FEMA and GEMA, PSMC agrees that it will pay in full and fully indemnify the Sumter Authority for all related sums finally determined to be owed to FEMA and GEMA. This amount is included in net assets with donor restrictions subject to expenditure for a specified purpose above.

The Amendment states that the adequate provision of both the FEMA and GEMA fund repayment and the adequate provision to fund physician development are to be determined at the sole discretion of PSMC. Per PSMC's Board of Director's resolution dated November 1, 2016, PSMC determined \$4,000,000 to be adequate provision for the repayment of the FEMA and GEMA funds. Also, based on the current and long-term physician development plan, coupled with the requirement that the PSMC chief executive officer report on the efforts and results of physician development at each PSMC's Board of Directors meeting, and the requirement that PSMC's Board of Directors approve the budget and strategic plan each year, PSMC believes this constitutes adequate provision for the funding of physician development.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. 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, 2020 and 2019. The Corporation issues a publicly available financial report that includes financial statements and required supplementary information to 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.

The following table sets forth the defined benefit pension plan funded status and amounts recognized in the financial statements at July 31, 2020 and 2019:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Plan assets at fair value at July 31	\$ 219,136	\$ 209,826
Projected benefit obligation at July 31	<u>360,106</u>	<u>320,077</u>
Funded status	<u>\$ (140,970)</u>	<u>\$ (110,251)</u>
Amounts recognized in the consolidated balance sheets consist of:		
Noncurrent liabilities	<u>\$ (140,970)</u>	<u>\$ (110,251)</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. Pension Plan, Continued

	(Dollars in Thousands)	
	<u>2020</u>	<u>2019</u>
Amounts recognized in net assets without donor restrictions:		
Net actuarial loss	\$ <u>(164,381)</u>	\$ <u>(128,096)</u>
Deferred pension cost	\$ <u>(164,381)</u>	\$ <u>(128,096)</u>
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	2.58%	3.66%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	3.66%	4.32%
Expected long-term return on plan assets	6.50%	6.75%
Rate of compensation increase	N/A	N/A

Mortality table assumptions used to determine pension benefit obligations were PRI2012 Employee and Healthy Annuitant Mortality Tables with Fully Generational Projections using MP2019 for 2020 and RP-2006 Employee and Healthy Annuitant Mortality Tables with Fully Generational Projections using MP2018 for 2019.

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 HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. 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, 2020 and 2019:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Interest cost	\$ 10,150	\$ 11,452
Expected return on plan assets	(13,433)	(13,776)
Amortization of recognized net actuarial loss	<u>3,620</u>	<u>2,314</u>
Net periodic benefit cost	<u>337</u>	<u>(10)</u>
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial (gain) loss	39,905	38,985
Amortization of net actuarial loss	<u>(3,621)</u>	<u>(2,314)</u>
Total recognized in net assets without donor restrictions	<u>36,284</u>	<u>36,671</u>
Total recognized in net periodic benefit cost and net assets without donor restrictions	<u>\$ 36,621</u>	<u>\$ 36,661</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. Pension Plan, Continued

The change in projected benefit obligation for the defined benefit pension plan for the years ended July 31, 2020 and 2019 included the following components:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Projected benefit obligation, beginning of year	\$ 320,077	\$ 286,584
Interest cost	10,150	11,452
Actuarial (gain) loss	39,865	31,609
Benefits paid	<u>(9,986)</u>	<u>(9,568)</u>
 Projected benefit obligation, end of year	 <u>\$ 360,106</u>	 <u>\$ 320,077</u>
 Accumulated benefit obligation	 <u>\$ 360,106</u>	 <u>\$ 320,077</u>

The change in fair value of plan assets for the years ended July 31, 2020 and 2019 included the following components:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Plan assets at fair value, beginning of year	\$ 209,826	\$ 207,399
Actual return on assets	13,393	6,400
Employer contributions	5,903	5,595
Benefits paid	<u>(9,986)</u>	<u>(9,568)</u>
 Plan assets at fair value, end of year	 <u>\$ 219,136</u>	 <u>\$ 209,826</u>

The Corporation anticipates making a contribution during fiscal year 2021 of \$10,518,000.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. Pension Plan, Continued

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

(Dollars in Thousands)

<u>Year Ending July 31</u>	<u>Pension Benefits</u>
2021	\$ 12,520
2022	\$ 13,318
2023	\$ 14,119
2024	\$ 14,707
2025	\$ 15,193
2026 - 2030	\$ 81,854

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at July 31, 2020.

The actuarial loss and prior service cost to be recognized during the next 12 months beginning August 1, 2020 is as follows:

(Dollars in Thousands)

Amortization of net actuarial loss	\$ 4,987
Amortization of prior year service costs	<u>-</u>
Total	<u>\$ 4,987</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. Pension Plan, Continued

Plan Assets

The composition of plan assets at July 31, 2020 and 2019 is as follows:

Asset Category:	Target Allocations		Plan Assets	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
U.S. equities	28%	30%	30%	21%
Non U.S. equities	16%	20%	16%	16%
Emerging markets	8%	5%	8%	6%
Hedge funds	20%	15%	19%	20%
Real assets	8%	5%	5%	9%
Opportunistic funds	0%	5%	0%	5%
Fixed income	20%	20%	20%	21%
Cash and cash equivalents	<u>0%</u>	<u>0%</u>	<u>2%</u>	<u>2%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Corporation's investment strategy is to manage the portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. The portfolio is diversified by investing in multiple types of investment-grade securities. The investment policy requires assets of the plan to be primarily invested in securities with at least an investment grade rating to minimize interest rate and credit risk. The plan assets are long-term in nature and are intended to generate returns while preserving capital.

Pension assets are invested in various classes as summarized in the table below for 2020 and 2019. 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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. Pension Plan, Continued

The fair values of the Corporation's pension plan assets at July 31, 2020 and 2019, by asset category are as follows:

(Dollars in Thousands)				
<u>Fair Value Measurements at July 31, 2020</u>				
<u>Asset Category</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Money market funds	\$ 5,358	\$ 2,335	\$ 3,023	\$ -
Equity securities	6,401	6,401	-	-
Real estate investment trusts	<u>5,093</u>	<u>5,093</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	16,852	<u>\$ 13,829</u>	<u>\$ 3,023</u>	<u>\$ -</u>
Investments measured at net asset value	<u>202,284</u>			
Total assets at fair value	<u>\$ 219,136</u>			
<u>Fair Value Measurements at July 31, 2019</u>				
<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 HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. Pension Plan, Continued

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

as of July 31, 2020				
(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	\$ 4,302	None	Monthly	30 Days
Mutual Funds - index funds	\$ 64,541	None	Daily	15 Days
Mutual Funds - growth and other funds	\$ 4,858	None	Daily	None
Alternative Investments:				
Credit opportunities	\$ 5,884	None	Annually	90 Days
Multi-strategy	\$ 17,384	None	Monthly - Annually	5 - 92 Days
Equity securities	\$ 102,609	\$ 528	Weekly - Annually	4 - 180 Days
Other	\$ 2,706	None	Monthly	3 Business Days
as of July 31, 2019				
(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	\$ 6,777	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 - 95 Days
Equity securities	\$ 105,099	\$ 296	Semi-monthly - Annually	7 - 180 Days
Other	\$ 9,695	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 17 for valuation methodologies.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. Pension Plan, Continued

The Corporation maintains defined contribution pension plans covering substantially all eligible employees. Employees may deposit a portion of their earnings for each pay period on a pre-tax basis and the Corporation matches 50% of each participant's voluntary contributions up to a maximum of 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, 2020 and 2019 totaled approximately \$5,986,000 and \$5,792,000, respectively.

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

12. Employee Health Insurance

The Corporation has a self-insurance plan 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 \$54,432,000 and \$52,680,000 for 2020 and 2019, respectively.

13. Malpractice Insurance

Phoebe Putney Indemnity, LLC, located in South Carolina, was 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 Corporation in Southwest Georgia. Phoebe Putney Indemnity, Ltd. (PPI), located in the Cayman Islands, 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 Corporation.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

13. Malpractice Insurance, Continued

PPI issues a claims-made policy with a per occurrence limit of \$1,000,000 and an annual aggregate of \$1,000,000 covering medical incidents, which is in excess of a per occurrence limit of \$5,000,000 and an annual aggregate of \$27,000,000 covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability of the Corporation.

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 coverages combined shall not exceed 300% of the maximum subject premium or \$6,000,000, whichever is greater. Under the excess of limits coverage, the reinsurer shall pay up to \$5,000,000 for 2020 and up to \$4,000,000 for 2019, per loss, per insured, in excess of \$1,000,000, per loss, per insured. The maximum amount recoverable for this coverage shall not exceed \$10,000,000 for 2020 and \$8,000,000 for 2019. 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 Corporation has also purchased excess liability coverage which covers \$50,000,000 per occurrence and in aggregate in excess of the PPI coverage of \$5,000,000. All of the risk related to this coverage has been ceded to unrelated reinsurers via a contract of reinsurance.

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

14. Concentrations of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are residents of Southwest Georgia and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at July 31, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Medicare	23%	24%
Medicaid	13%	15%
Blue Cross	26%	23%
Commercial	36%	36%
Patients	<u>2%</u>	<u>2%</u>
Total	<u>100%</u>	<u>100%</u>

At July 31, 2020, 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.

15. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services in 2020 and 2019 are as follows:

	<u>(Dollars in Thousands)</u>		
<u>July 31, 2020</u>	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Consolidated Total</u>
Salaries and wages	\$ 256,707	\$ 66,767	\$ 323,474
Employee health and welfare	63,052	16,455	79,507
Medical supplies and other	166,118	66,371	232,489
Purchased services	73,408	33,642	107,050
Depreciation and amortization	14,862	16,947	31,809
Interest	<u>3,576</u>	<u>4,563</u>	<u>8,139</u>
Total	<u>\$ 577,723</u>	<u>\$ 204,745</u>	<u>\$ 782,468</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

15. Functional Expenses, Continued

	(Dollars in Thousands)		
<u>July 31, 2019</u>	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Consolidated Total</u>
Salaries and wages	\$ 235,137	\$ 81,977	\$ 317,114
Employee health and welfare	61,094	17,901	78,995
Medical supplies and other	153,000	58,868	211,868
Purchased services	71,301	30,457	101,758
Depreciation and amortization	12,122	16,039	28,161
Interest	<u>3,853</u>	<u>5,317</u>	<u>9,170</u>
Total	<u>\$ 536,507</u>	<u>\$ 210,559</u>	<u>\$ 747,066</u>

The consolidated 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.

16. 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, accounts payable, accrued expenses, estimated third-party payor settlements, Medicare accelerated and advance payments, and refundable advances:* The carrying amount reported in the consolidated balance sheets approximates its fair value due to the short-term nature of these instruments.
- *Assets limited as to use:* Amounts reported in the consolidated balance sheets are at fair value. See Note 17 for fair value measurement disclosures.
- *Derivative financial instruments:* The carrying amount reported in the consolidated balance sheets for derivative financial instruments approximates its fair value. See Note 17 for fair value measurement disclosures.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

16. Fair Values of Financial Instruments, Continued

- *Long-term debt:* Fair values of the Corporation's revenue notes are based on current traded value. The carrying amount reported in the consolidated balance sheets for debt totals approximately \$264,442,000 and \$271,576,000 at July 31, 2020 and 2019, respectively, with a fair value of approximately \$268,326,000 and \$275,234,000, 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.

17. Fair Value Measurement

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at July 31, 2020 and 2019.

- *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 HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

17. Fair Value Measurement, Continued

- *Corporate debt securities:* Certain corporate securities are valued at the closing price reported in the active market in which the security is traded. Other corporate securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- *Government debt securities:* Certain U. S. government securities are valued at the closing price reported in the active market in which the individual security is traded. Other U.S. governmental securities are based on yields currently available on comparable securities of issuers with similar credit ratings.
- *Derivatives:* Valued using forward LIBOR curves. Values are then verified against counterparty mark-to-market valuations.

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

17. Fair Value Measurement, Continued

Fair values of assets and liabilities measured on a recurring basis at July 31, 2020 and 2019 follows:

(Dollars in Thousands)				
Fair Value Measurements at Reporting Date Using				
	Fair Value	Quoted prices in Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>July 31, 2020</u>				
Assets:				
Money market funds	\$ 27,236	\$ 5,382	\$ 21,854	\$ -
Certificates of deposit	390	-	390	-
Equity securities	33,334	33,334	-	-
Mutual funds – fixed income funds	761	761	-	-
Mutual funds - growth and other funds	32,559	32,559	-	-
Real estate investment trusts	10,597	10,597	-	-
Corporate debt securities	12,052	6,725	5,327	-
Government debt securities	1,218	97	1,121	-
		<u> </u>	<u> </u>	<u> </u>
Total assets in the fair value hierarchy	118,147	<u>\$ 89,455</u>	<u>\$ 28,692</u>	<u>\$ -</u>
Investments measured at net asset value	<u>429,062</u>			
Total assets at fair value	<u>\$ 547,209</u>			
Liabilities:				
Derivatives	<u>\$ 13,907</u>	<u>\$ -</u>	<u>\$ 13,907</u>	<u>\$ -</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

17. Fair Value Measurement, Continued

(Dollars in Thousands)				
Fair Value Measurements at Reporting Date Using				
July 31, 2019	Fair Value	Quoted prices in Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds	\$ 79,870	\$ 6,386	\$ 73,484	\$ -
Certificates of deposit	386	-	386	-
Equity securities	30,512	30,512	-	-
Mutual funds – fixed income funds	718	718	-	-
Mutual funds - growth and other funds	6,358	6,358	-	-
Real estate investment trusts	12,520	12,520	-	-
Corporate debt securities	11,242	5,753	5,489	-
Government debt securities	1,226	98	1,128	-
	<u>142,832</u>	<u>\$ 62,345</u>	<u>\$ 80,487</u>	<u>\$ -</u>
Total assets in the fair value hierarchy				
Investments measured at net asset value	<u>379,265</u>			
Total assets at fair value	<u>\$ 522,097</u>			
Liabilities:				
Derivatives	<u>\$ 10,699</u>	<u>\$ -</u>	<u>\$ 10,699</u>	<u>\$ -</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

17. Fair Value Measurement, Continued

Transfers of Level 1 and Level 2 assets: Transfers of assets between Level 1 and Level 2 are recorded as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the years ended July 31, 2020 and 2019, there were no transfers from Level 1 to Level 2. There were no transfers from Level 2 to Level 1 during the years ended July 31, 2020 and 2019.

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. Redemption frequency varies based on each fund's policy and ranges from daily redemption with daily notice to monthly redemption with 30 days' notice. The fixed income mutual funds have no redemption restrictions.
- *Mutual funds – index funds:* The index mutual funds are invested in a variety of large cap domestic companies that are members of the indices. Members of the indices are determined each year during annual reconstruction and enhanced quarterly with the addition of initial public offerings. The index mutual funds have no redemption restrictions with redemption notice requirements ranging from daily to 15 days.
- *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. Redemption frequency varies based on each fund's policy and ranges from daily redemption with daily notice to annual redemption with 90 days' notice.
- *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. The alternative investments may be redeemed from a range of weekly with daily notice to annually with 180 days' notice. The limits on redemptions vary from none to a 12 month soft lock-up.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

17. Fair Value Measurement, Continued

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

	as of July 31, 2020			
	(Dollars in Thousands) <u>Fair Value</u>	(Dollars in Thousands) <u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds - fixed income funds	\$ 44,630	None	Daily - Monthly	None - 30 Days
Mutual funds - index funds	\$ 112,963	None	Daily	None - 15 Days
Mutual funds - growth and other funds	\$ 14,390	None	Daily - Annually	None - 90 Days
Alternative investments:				
Credit opportunities	\$ 5,698	None	Annually	90 Days
Multi-strategy	\$ 44,294	None	Monthly - Annually	5 Business - 92 Days
Equity securities	\$ 202,039	\$ 264	Weekly - Annually	None - 180 Days
Other	\$ 5,048	None	Monthly	3 Business Days
	as of July 31, 2019			
	(Dollars in Thousands) <u>Fair Value</u>	(Dollars in Thousands) <u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds - fixed income funds	\$ 33,850	None	Monthly	10 Business- 30 Days
Mutual funds - index funds	\$ 74,613	None	Daily	15 Days
Mutual funds - growth and other funds	\$ 9,158	None	Daily	None
Alternative investments:				
Credit opportunities	\$ 10,523	None	Annually	90 Days
Multi-strategy	\$ 41,733	None	Monthly - Annually	None - 95 Days
Equity securities	\$ 195,995	\$ 508	Semi-monthly - Annually	None - 180 Days
Other	\$ 13,393	None	Monthly - Quarterly	None - 90 Days

18. Related Party Transactions

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

18. Related Party Transactions, Continued

The owner of the hospital, upon proper advanced notice to the state licensing authority and other stakeholders, closed the hospital on October 22, 2020, and intends to sell or lease its remaining services to third parties. The Corporation's management agreement will continue for a period of time not expected to exceed ninety days to facilitate the transition.

19. Commitments and Contingencies

Health Care Reform

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

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.

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.

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 consolidated financial statements to the certificate of need granted to Lee County Medical Center.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

20. Provision for Bad Debts – Dorminy

The Corporation entered into an agreement with the Hospital Authority of Ben Hill County, D/B/A Dorminy Medical Center (Dorminy) to provide management services originating August 1, 2011. This agreement was terminated on May 31, 2014. Under the management agreement, the Corporation provided personnel and management services in excess of \$21,157,000, as well as loan advances of approximately \$2,444,000, of which substantially all remain outstanding at July 31, 2020. At the termination of the management agreement, payment of the outstanding balances was requested by the Corporation. Dorminy has contested the repayment of the amounts due the Corporation. The Corporation intends to pursue collection of the outstanding balance. Due to the opposition to repayment by Dorminy and concerns about the financial viability of small rural hospitals, an allowance has been recorded in the 2020 and 2019 financial statements.

21. Liquidity and Availability

As of July 31, 2020 and 2019, the Corporation has working capital of approximately \$251,600,000 and \$207,648,000 and average days (based on normal expenditures) cash on hand of 147 and 83 days, respectively.

Financial assets available for general expenditures within one year of the balance sheet date, consists of the following at July 31, 2020 and 2019:

	<u>(Dollars in Thousands)</u>	
	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 301,069	\$ 163,315
Patient accounts receivable, net	104,354	106,630
Other current assets - other receivables	25,079	16,086
Internally designated for capital improvements	448,063	424,990
Less: Conditional CARES Act refundable advance	<u>92,800</u>	<u>-</u>
Total financial assets available	<u>\$ 785,765</u>	<u>\$ 711,021</u>

CARES Act refundable advances restricted for healthcare-related expenses or lost revenue attributable to COVID-19 are excluded from the table above. No other 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 other assets whose use is limited for self-insurance and for donor restricted

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

21. Liquidity and Availability, Continued

purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as more fully described in Note 7, the Corporation has available an unused line of credit of \$75,000,000, which it could draw upon in the event of an unanticipated liquidity need.

22. Leases

The Corporation has operating and finance leases for buildings and equipment. The Corporation determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets.

The Corporation has lease agreements which require payments for lease and nonlease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, the Corporation elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Right-of-use assets represent the Corporation's right to use an underlying asset during the lease term, and lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. The Corporation's lease terms include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. As most of the Corporation's operating leases do not provide an implicit rate, the Corporation uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Corporation considers recent debt issuances, as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease amortization expense are recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant to total lease expense.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

22. Leases, Continued

Operating and finance lease right-of-use assets and lease liabilities as of July 31, 2020 were as follows:

	<u>(Dollars in Thousands)</u>
Operating leases:	
Right-of-use assets:	
Operating lease right-of-use assets	\$ <u>50</u>
Lease liabilities:	
Current portion	\$ 29
Long-term	<u>21</u>
Total operating lease liabilities	\$ <u>50</u>
Finance leases:	
Right-of-use assets:	
Property and equipment, net	\$ <u>6,961</u>
Lease liabilities:	
Current portion	\$ 1,649
Long-term	<u>6,251</u>
Total finance lease liabilities	\$ <u>7,900</u>

Operating expenses for the leasing activity of the Corporation as the lessee for the year ended July 31, 2020 are as follows:

	<u>(Dollars in Thousands)</u>
<u>Lease Type</u>	
Operating lease cost	\$ 24
Finance lease interest	423
Finance lease amortization	<u>1,388</u>
Total lease cost	\$ <u>1,835</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

22. Leases, Continued

Cash paid for amounts included in the measurement of lease liabilities for the year ended July 31, 2020 is as follows:

	<u>(Dollars in Thousands)</u>
Operating cash flows from operating leases	\$ 24
Operating cash flows from finance leases	406
Financing cash flows from finance leases	<u>1,237</u>
Total	<u>\$ 1,667</u>

The aggregate future lease payments for operating and finance leases as of July 31, 2020 were as follows:

	<u>(Dollars in Thousands)</u>	
<u>Year Ending July 31</u>	<u>Finance</u>	<u>Operating</u>
2021	\$ 1,752	\$ 16
2022	1,610	14
2023	1,509	14
2024	1,469	13
2025	1,008	1
Thereafter	<u>1,815</u>	<u>1</u>
Total undiscounted cash flows	9,163	59
Less: present value discount	<u>1,263</u>	<u>9</u>
Total lease liabilities	<u>\$ 7,900</u>	<u>\$ 50</u>

Average lease terms and discount rates at July 31, 2020 were as follows:

Weighted-average remaining lease term (years):	
Operating leases	4.03
Finance leases	6.05
Weighted-average discount rate:	
Operating leases	5.00%
Finance leases	5.00%

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

23. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the Corporation's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local and federal governments, and impact on the Corporation's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Corporation's financial position or results of operations is uncertain.

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding is to be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. The CARES Act funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of the funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. The Corporation reports restricted contributions, whose restrictions are met in the same period in which they are recognized (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as operating revenues in the consolidated statements of operations and changes in net assets.

PPMH received approximately \$89,726,000 in grant stimulus funding in fiscal year 2020, of which approximately \$3,631,000 was recognized as operating revenues in the consolidated statements of operations and changes in net assets. Approximately \$9,525,000 was transferred to PPG and recognized by PPG as operating revenues in the consolidated statements of operations and changes in net assets, and approximately \$76,570,000 is recorded as a CARES Act refundable advance on the consolidated balance sheets as of July 31, 2020.

PPG received approximately \$11,162,000 in grant stimulus funding in fiscal year 2020 including the transfer of approximately \$9,525,000 from PPMH. The entire amount received was recognized as operating revenues in the consolidated statements of operations and changes in net assets.

PSMC received approximately \$12,702,000 in grant stimulus funding in fiscal year 2020, all of which is recorded as a CARES Act refundable advance on the consolidated balance sheets as of July 31, 2020.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

23. Coronavirus (COVID-19), Continued

PWMC received approximately \$4,982,000 in grant stimulus funding in fiscal year 2020, of which approximately \$1,454,000 was recognized as operating revenues in the consolidated statements of operations and changes in net assets. Approximately \$3,528,000 is recorded as a CARES Act refundable advance on the consolidated balance sheets as of July 31, 2020.

CARES Act funding may be subject to single audits. While the Corporation currently believes its use of the funds is in compliance with applicable terms and conditions, there is a possibility that payments could be recouped based on changes in reporting requirements or single audit results.

On April 16, 2020, the Corporation received payments in the amount of approximately \$56,357,000 under the Accelerated and Advance Payment Program expansion as part of the CARES Act. The program provides emergency funding and addresses cash flow difficulties when there are disruptions in claims submission and/or claims processing. Centers for Medicare and Medicaid Services (CMS) expanded the program for all Medicare providers throughout the country. In October 2020, a Continuing Resolution was passed which allows providers to defer repayment of these funds for up to 29 months before interest starts accruing. The Corporation intends to repay the entire amount over the interest free period with final payment occurring in September 2022. The current portion of this amount is reported as current portion of Medicare accelerated and advance payments and the long-term portion is reported as Medicare accelerated and advance payments, net of current portion in the consolidated balance sheets as of July 31, 2020.



INDEPENDENT AUDITOR'S REPORT ON
CONSOLIDATING INFORMATION

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

We have audited the consolidated financial statements of Phoebe Putney Health System, Inc. as of and for the years ended July 31, 2020 and 2019, and our report thereon dated November 18, 2020, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in this report on pages 62 to 73, inclusive, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for Phoebe Putney Indemnity, Ltd. for the year ended July 31, 2020 and for the period from inception (November 14, 2018) to July 31, 2019, is based solely on the report of the other auditors. The consolidating information is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

A handwritten signature in black ink that reads "Driffin & Tucker, LLP".

Albany, Georgia
November 18, 2020

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET
July 31, 2020

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 10,118	\$ 212,494	\$ 4	\$ 7,866
Patient accounts receivable, net	-	82,793	-	7,834
Supplies	-	19,890	-	13
Other current assets	<u>2,510</u>	<u>19,229</u>	<u>54</u>	<u>118</u>
Total current assets	<u>12,628</u>	<u>334,406</u>	<u>58</u>	<u>15,831</u>
Assets limited as to use:				
Internally designated for capital improvements	409,099	390	-	-
Internally designated for self-insurance	-	-	-	-
Externally designated by donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets limited as to use	<u>409,099</u>	<u>390</u>	<u>-</u>	<u>-</u>
Property and equipment, net	<u>42,268</u>	<u>288,280</u>	<u>434</u>	<u>8,723</u>
Other assets:				
Due from related parties	30,382	-	10,829	-
Deferred financing cost	-	943	-	-
Operating lease right-of-use assets	-	68	-	1,277
Goodwill	4,330	124,778	-	1,188
Other assets	<u>48,017</u>	<u>21,737</u>	<u>-</u>	<u>1,134</u>
Total other assets	<u>82,729</u>	<u>147,526</u>	<u>10,829</u>	<u>3,599</u>
Total assets	<u>\$ 546,724</u>	<u>\$ 770,602</u>	<u>\$ 11,321</u>	<u>\$ 28,153</u>

PHOEBE PUTNEY HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET, Continued
July 31, 2020

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ 10,491	\$ 46,625	\$ 6,009	\$ 7,462	\$ -	\$ 301,069
1,857	11,870	-	-	-	104,354
206	1,638	-	-	-	21,747
73	1,401	12,316	141	-	35,842
<u>12,627</u>	<u>61,534</u>	<u>18,325</u>	<u>7,603</u>	<u>-</u>	<u>463,012</u>
-	33,511	-	5,063	-	448,063
-	-	86,288	-	-	86,288
-	4,000	-	8,858	-	12,858
<u>-</u>	<u>37,511</u>	<u>86,288</u>	<u>13,921</u>	<u>-</u>	<u>547,209</u>
6,711	45,680	-	1	(6,629)	385,468
-	-	-	-	(41,211)	-
-	-	-	-	-	943
1	27	-	-	(1,323)	50
-	-	-	-	-	130,296
1	3,300	-	89	(67,357)	6,921
<u>2</u>	<u>3,327</u>	<u>-</u>	<u>89</u>	<u>(109,891)</u>	<u>138,210</u>
<u>\$ 19,340</u>	<u>\$ 148,052</u>	<u>\$ 104,613</u>	<u>\$ 21,614</u>	<u>\$ (116,520)</u>	<u>\$ 1,533,899</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET, Continued
July 31, 2020

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 9,043	\$ 15	\$ 3,492
Current portion of operating lease liabilities	-	17	-	771
Account payable	1,972	25,579	33	2,736
Accrued expenses	12,027	32,119	18	16,894
Estimated third-party payor settlements	-	1,092	-	-
CARES Act refundable advance	-	76,570	-	-
Current portion of Medicare accelerated and advance payments	-	9,393	-	-
Total current liabilities	13,999	153,813	66	23,893
Due to related parties	-	17,046	-	2,987
Medicare accelerated and advance payments, net of current portion	-	46,964	-	-
Long-term debt, net of current portion	17	260,751	48	3,160
Operating lease liabilities, net of current portion	-	51	-	506
Accrued pension cost	-	140,970	-	-
Accrued self-insurance cost	-	-	-	-
Derivative financial instruments	-	13,907	-	-
Total liabilities	14,016	633,502	114	30,546
Net assets:				
Without donor restrictions	532,708	123,848	11,207	(2,393)
With donor restrictions:				
Purpose restrictions	-	11,228	-	-
Perpetual in nature	-	2,024	-	-
Total net assets	532,708	137,100	11,207	(2,393)
Total liabilities and net assets	\$ 546,724	\$ 770,602	\$ 11,321	\$ 28,153

PHOEBE PUTNEY HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET, Continued
July 31, 2020

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ 98	\$ 202	\$ -	\$ -	\$ (3,818)	\$ 9,032
-	5	-	-	(764)	29
312	3,010	31	45	-	33,718
760	3,609	-	-	-	65,427
(501)	422	-	-	-	1,013
3,528	12,702	-	-	-	92,800
-	-	-	-	-	9,393
4,197	19,950	31	45	(4,582)	211,412
18,554	2,514	107	3	(41,211)	-
-	-	-	-	-	46,964
583	1,086	-	-	(3,583)	262,062
1	22	-	-	(559)	21
-	-	-	-	-	140,970
-	-	65,953	-	-	65,953
-	-	-	-	-	13,907
23,335	23,572	66,091	48	(49,935)	741,289
(3,995)	120,480	38,522	8,314	(53,333)	775,358
-	4,000	-	11,228	(11,228)	15,228
-	-	-	2,024	(2,024)	2,024
(3,995)	124,480	38,522	21,566	(66,585)	792,610
\$ 19,340	\$ 148,052	\$ 104,613	\$ 21,614	\$ (116,520)	\$ 1,533,899

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET

July 31, 2019

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,826	\$ 94,752	\$ 18	\$ 6,095
Patient accounts receivable, net	-	83,358	-	10,891
Supplies	-	14,865	-	-
Other current assets	724	14,274	27	318
Total current assets	5,550	207,249	45	17,304
Assets limited as to use:				
Internally designated for capital improvements	395,345	386	-	-
Internally designated for self-insurance	-	-	-	-
Externally designated by donors	-	-	-	-
Total assets limited as to use	395,345	386	-	-
Property and equipment, net	39,540	276,633	392	1,909
Other assets:				
Due from related parties	34,813	-	10,901	-
Deferred financing cost	-	1,019	-	-
Operating lease right-of-use assets	-	-	-	-
Goodwill	4,330	124,992	-	1,188
Other assets	46,576	17,868	-	1,023
Total other assets	85,719	143,879	10,901	2,211
Total assets	\$ 526,154	\$ 628,147	\$ 11,338	\$ 21,424

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2019

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ 3,440	\$ 37,463	\$ 12,080	\$ 4,641	\$ -	\$ 163,315
1,951	10,430	-	-	-	106,630
212	1,270	-	-	-	16,347
80	2,936	8,583	66	-	27,008
<u>5,683</u>	<u>52,099</u>	<u>20,663</u>	<u>4,707</u>	<u>-</u>	<u>313,300</u>
-	26,028	-	3,231	-	424,990
-	-	83,063	-	-	83,063
-	4,000	-	10,044	-	14,044
<u>-</u>	<u>30,028</u>	<u>83,063</u>	<u>13,275</u>	<u>-</u>	<u>522,097</u>
<u>5,105</u>	<u>45,098</u>	<u>-</u>	<u>925</u>	<u>-</u>	<u>369,602</u>
-	-	-	-	(45,714)	-
-	-	-	-	-	1,019
-	-	-	-	-	-
-	-	-	-	-	130,510
(5)	3,120	-	89	(61,907)	6,764
<u>(5)</u>	<u>3,120</u>	<u>-</u>	<u>89</u>	<u>(107,621)</u>	<u>138,293</u>
<u>\$ 10,783</u>	<u>\$ 130,345</u>	<u>\$ 103,726</u>	<u>\$ 18,996</u>	<u>\$ (107,621)</u>	<u>\$ 1,343,292</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2019

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 7,134	\$ -	\$ -
Current portion of operating lease liabilities	-	-	-	-
Account payable	1,825	18,218	33	2,893
Accrued expenses	11,841	34,485	49	19,644
Estimated third-party payor settlements	-	743	-	-
CARES Act refundable advance				
Current portion of Medicare accelerated and advance payments	-	-	-	-
Total current liabilities	13,666	60,580	82	22,537
Due to related parties	-	21,746	-	548
Medicare accelerated and advance payments, net of current portion	-	-	-	-
Long-term debt, net of current portion	-	263,127	-	-
Operating lease liabilities, net of current portion	-	-	-	-
Accrued pension cost	-	110,251	-	-
Accrued self-insurance cost	-	-	-	-
Derivative financial instruments	-	10,699	-	-
Total liabilities	13,666	466,403	82	23,085
Net assets:				
Without donor restrictions	512,488	151,700	11,256	(1,661)
With donor restrictions:				
Purpose restrictions	-	8,020	-	-
Perpetual in nature	-	2,024	-	-
Total net assets	512,488	161,744	11,256	(1,661)
Total liabilities and net assets	\$ 526,154	\$ 628,147	\$ 11,338	\$ 21,424

PHOEBE PUTNEY HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET, Continued
July 31, 2019

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,134
-	-	-	-	-	-
245	1,856	67	38	-	25,175
882	5,028	-	-	-	71,929
(489)	1,160	-	-	-	1,414
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
638	8,044	67	38	-	105,652
13,758	4,727	3,589	1,346	(45,714)	-
-	-	-	-	-	-
-	-	-	-	-	263,127
-	-	-	-	-	-
-	-	-	-	-	110,251
-	-	63,409	-	-	63,409
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,699</u>
<u>14,396</u>	<u>12,771</u>	<u>67,065</u>	<u>1,384</u>	<u>(45,714)</u>	<u>553,138</u>
(3,613)	113,574	36,661	7,568	(51,863)	776,110
-	4,000	-	8,020	(8,020)	12,020
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,024</u>	<u>(2,024)</u>	<u>2,024</u>
<u>(3,613)</u>	<u>117,574</u>	<u>36,661</u>	<u>17,612</u>	<u>(61,907)</u>	<u>790,154</u>
<u>\$ 10,783</u>	<u>\$ 130,345</u>	<u>\$ 103,726</u>	<u>\$ 18,996</u>	<u>\$ (107,621)</u>	<u>\$ 1,343,292</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES)
July 31, 2020

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
Revenues, gains, and other support:				
Net patient service revenue	\$ -	\$ 574,997	\$ -	\$ 73,291
Other revenue	38,678	27,977	67	1,555
CARES Act funding	319	3,631	-	11,162
Total revenues, gains, and other support	<u>38,997</u>	<u>606,605</u>	<u>67</u>	<u>86,008</u>
Expenses:				
Salaries and wages	18,129	149,167	-	129,072
Employee health and welfare	4,541	44,487	-	21,932
Medical supplies and other	5,724	254,877	-	(67,988)
Purchased services	4,282	112,989	50	(866)
Depreciation and amortization	1,317	26,328	60	3,494
Interest	-	8,104	5	411
Total Expenses	<u>33,993</u>	<u>595,952</u>	<u>115</u>	<u>86,055</u>
Operating income (loss)	5,004	10,653	(48)	(47)
Nonoperating income:				
Investment and other nonoperating income	<u>15,216</u>	<u>(2,122)</u>	<u>1</u>	<u>47</u>
Excess revenues (expenses)	<u>\$ 20,220</u>	<u>\$ 8,531</u>	<u>\$ (47)</u>	<u>\$ -</u>

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES), Continued
July 31, 2020

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, LLC	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ 15,250	\$ 82,801	\$ -	\$ -	\$ -	\$ -	\$ 746,339
264	3,008	-	13,921	3,406	(52,754)	36,122
<u>1,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,566</u>
<u>16,968</u>	<u>85,809</u>	<u>-</u>	<u>13,921</u>	<u>3,406</u>	<u>(52,754)</u>	<u>799,027</u>
5,795	20,846	-	-	465	-	323,474
2,354	6,193	-	-	-	-	79,507
3,329	31,316	-	15,228	2,873	(12,870)	232,489
5,257	20,792	-	-	201	(35,655)	107,050
690	3,717	-	-	6	(3,803)	31,809
<u>40</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(421)</u>	<u>8,139</u>
<u>17,465</u>	<u>82,864</u>	<u>-</u>	<u>15,228</u>	<u>3,545</u>	<u>(52,749)</u>	<u>782,468</u>
(497)	2,945	-	(1,307)	(139)	(5)	16,559
<u>173</u>	<u>3,441</u>	<u>-</u>	<u>3,168</u>	<u>884</u>	<u>(1,506)</u>	<u>19,302</u>
<u>\$ (324)</u>	<u>\$ 6,386</u>	<u>\$ -</u>	<u>\$ 1,861</u>	<u>\$ 745</u>	<u>\$ (1,511)</u>	<u>\$ 35,861</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES)
July 31, 2019

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
Revenues, gains, and other support:				
Net patient service revenue	\$ -	\$ 558,131	\$ -	\$ 81,822
Other revenue	33,793	22,008	75	2,113
CARES Act funding	-	-	-	-
Total revenues, gains, and other support	<u>33,793</u>	<u>580,139</u>	<u>75</u>	<u>83,935</u>
Expenses:				
Salaries and wages	16,587	152,891	-	121,262
Employee health and welfare	2,863	47,593	-	19,200
Medical supplies and other	7,484	235,015	(237)	(59,173)
Purchased services	4,654	101,193	65	2,507
Depreciation and amortization	1,323	22,920	23	183
Interest	-	9,130	-	-
Total Expenses	<u>32,911</u>	<u>568,742</u>	<u>(149)</u>	<u>83,979</u>
Operating income (loss)	882	11,397	224	(44)
Nonoperating income:				
Investment and other nonoperating income	<u>10,652</u>	<u>69</u>	<u>-</u>	<u>44</u>
Excess revenues (expenses)	<u>\$ 11,534</u>	<u>\$ 11,466</u>	<u>\$ 224</u>	<u>\$ -</u>

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES), Continued
July 31, 2019

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, LLC	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ 15,768	\$ 78,070	\$ -	\$ -	\$ -	\$ -	\$ 733,791
506	3,106	7,895	4,843	2,204	(46,835)	29,708
-	-	-	-	-	-	-
<u>16,274</u>	<u>81,176</u>	<u>7,895</u>	<u>4,843</u>	<u>2,204</u>	<u>(46,835)</u>	<u>763,499</u>
5,561	20,350	-	-	463	-	317,114
2,171	7,168	-	-	-	-	78,995
3,173	26,720	8,898	3,611	2,607	(16,230)	211,868
4,981	18,790	-	-	173	(30,605)	101,758
504	3,208	-	-	-	-	28,161
-	40	-	-	-	-	9,170
<u>16,390</u>	<u>76,276</u>	<u>8,898</u>	<u>3,611</u>	<u>3,243</u>	<u>(46,835)</u>	<u>747,066</u>
(116)	4,900	(1,003)	1,232	(1,039)	-	16,433
<u>2,576</u>	<u>4,632</u>	<u>(2,037)</u>	<u>934</u>	<u>581</u>	<u>(1,809)</u>	<u>15,642</u>
<u>\$ 2,460</u>	<u>\$ 9,532</u>	<u>\$ (3,040)</u>	<u>\$ 2,166</u>	<u>\$ (458)</u>	<u>\$ (1,809)</u>	<u>\$ 32,075</u>

See accompanying auditor's report on consolidating information.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

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

We have audited the consolidated financial statements of Phoebe Putney Health System, Inc. as of and for the years ended July 31, 2020 and 2019 and our report thereon dated November 18, 2020, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information included in this report on pages 75 to 82, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Draffin & Tucker, LLP".

Albany, Georgia
November 18, 2020

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY

July 31, 2020

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

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

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

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

See independent auditor’s report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2020

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

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

	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Medicare	\$ 827,000,000	\$ 253,000,000
Medicaid	310,000,000	95,000,000
Indigent/charity	<u>85,000,000</u>	<u>26,000,000</u>
	<u>\$ 1,222,000,000</u>	<u>\$ 374,000,000</u>

The following is a summary of the community benefit activities and health improvement services offered by the hospitals and illustrates the activities and donations during fiscal year 2020.

I. Community Health Improvement Services

A. Community Health Education

The Corporation's affiliated hospitals provided health education services that reached 12,569 individuals in 2020 at a cost of \$330,177. These services included the following free classes and seminars:

- 8th Grade Wellness Events
- CPR Training
- Safe Sitter Classes
- School-based Opioid Prevention Program
- Asthma and Epi-Pen Education
- Safe Sleep Education
- COVID-19 Press Conferences and Updates to the Community

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2020

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

A. Community Health Education, Continued

COVID-19 Updates to the Media and Community

The Phoebe Command Center provided daily updates of confirmed COVID cases and hospitalizations through the media and on Phoebe's website. In addition, Phoebe physicians and administrative staff attended city and county press conferences to provide updates to the community at large. Physicians and executive staff provided numerous interviews to major news outlets such as ABC, NBC, CNN and others. The estimated cost to Phoebe was \$33,387.

Men's and Women's Health Conferences

PPMH hosted its annual Women's conference in October of 2019. There were 421 attendees at a cost of \$12,600. The Men's conference, due to COVID-19 restrictions, was held at an outside venue with approximately 370 in attendance at a cost of \$12,600.

Due to the COVID-19 pandemic, many of PSMC's annual community health education programs were cancelled. However, PSMC did host the following events:

<u>Event</u>	<u>Date</u>	<u>Number of Participants</u>
GSW Resource Fair for New Students	8/16/2019	150
Wellness Class at St Paul AME	8/21/2019	15
Men's Health Fair	9/14/2019	150
Prostate Cancer Awareness Walk	9/21/2019	25
Americus & Sumter County Fair	9/25/2019	150
Plains Community Fair	11/2/2019	200
Macon County Health Fair	11/9/2019	200
Sumter County Gov't Employee Health Fair	1/31/2020	100
Heart Walk/Run	2/8/2020	75
Sumter EMC Health Fair	<u>3/12/2020</u>	<u>100</u>
Total	<u>10</u>	<u>1,165</u>

PWMC incurred expenses of approximately \$2,800 offering health screenings and education on health and wellness topics at various community events including church gatherings, health fairs for county employees, new school system employee orientations, etc. in 2020. Expenses for these services are nominal but serve an important role within the community of Worth County.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2020

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

A. Community Health Education, Continued

Network of Trust

This is a nationally recognized program aimed at teen mothers to 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 evaluations show teens participating in the program are less likely to repeat a pregnancy prior to graduation. Network of Trust enrolled 50 teen parents during the 2019/2020 school year at a cost of \$268,790. Project results demonstrate teens that graduated from the two-semester program are less likely to have a second pregnancy prior to age 21. 24 of the 28 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 504 students participating and an additional 5,711 students participating in the Opioid Prevention Project.

B. Community Based Clinical Services

Flu Shots

The Corporation provides free flu shots to volunteers and students. In 2020, the Corporation administered 414 flu shots at an unreimbursed cost of \$8,600.

Mammography

PPMH provided 100 mammograms to the uninsured in 2020 at a cost of \$14,000.

School Nurse Program

PPMH and PSMC provide nurses in elementary schools and middle schools, and seven high schools in Dougherty with a goal of creating access to care for students, assessing the health care status of each population represented and effectively establishing referrals for all health care needs. Nurses also conducted the various school based health fairs throughout the school year. During the 2019/2020 school year, the school nurse program covered 13,000 lives. These programs operated at a loss of \$376,371 in 2020.

C. Health Care Support Services

COVID-19 Nurse Hotline

In response to an unprecedented early surge of COVID-19 cases in our community, PPMH added a Nurse Hotline. Summary documents show approximately 4,000 fielded calls covering 1,720 hours of nurse time during the surge. The cost to the organization was \$81,748.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2020

I. Community Health Improvement Services, Continued

C. Health Care Support Services, Continued

Government Sponsored Eligibility Applications to the Poor and Needy

Phoebe contracts for eligibility 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 2020 the Corporation paid \$781,419 to process these 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 (AGB) 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).

II. Health Professions Education

The organization recognizes that to continuously improve the Corporation's long-term value to our community and our customers, to encourage life-long learning among employees and to achieve a world-class employer status, it is in the organization's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. The organization also provides non-employees financial support in pursuing healthcare related degrees. In fiscal year 2020, the Corporation provided \$841,758 in clinical supervision and training of 385 nursing students, and an additional \$668,439 in clinical supervision and training to pharmacy, pharmacy techs and other allied health professionals. In all, 617 students received clinical instruction from our facilities at a total cost of \$1,510,197.

III. Subsidized Health Services

A. Other Subsidized Services

Inmate Care

The Corporation provides care to persons in jail for Dougherty County. In 2020 the Corporation provided \$257,140 of unreimbursed medical and drug treatment to 211 inmates.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2020

III. Subsidized Health Services

A. Other Subsidized Services, Continued

Indigent Drug Pharmacy

Indigent Drug Pharmacy provides medication upon discharge to patients that are either indigent or uninsured. In 2020, the pharmacy filled 4,499 prescriptions at a cost of \$154,269.

IV. Clinical Research

PPMH participated with the Mayo Clinic in Rochester, MN and the American Red Cross to study whether the blood of recovered COVID-19 patients may help other patients survive the illness. The study was named Expanded Access Program (EAP) Convalescent Plasma for the Treatment of Patients with COVID-19. PPMH began this program on April 9, 2020. The American Red Cross provided the plasma of former COVID-19 patients at no charge. PPMH administered the plasma to 77 participants in the trial at no charge to the participant. The total estimated unreimbursed cost to participate in the study was \$129,312. Two research papers: COVID demographics in Rural SOWEGA and Journal of Hypertension ACE ARB in African Americans were published with estimated staff time cost at \$5,893.

V. Financial and In-Kind Support

In 2020, the Corporation provided \$445,566 in cash donations and in-kind support to non-profit organizations in Southwest Georgia. Listed are some highlights:

- The Horizons Community Health Solutions received \$151,252 for staff support and various projects centered on prevention, screening and early detection.
- In-kind support of Foregone Rent to non-profit organizations at an estimated cost of \$96,165.
- Georgia Southwestern State University received \$50,000 to support the nursing program.
- Gave \$2,500 to The Boys and Girls Club.
- PWMC gave \$45,619 to the Worth County Health Department for chronic disease management.
- PPMH donated land, volunteer manpower, and infrastructure support to design and construct a community garden near the hospital on 5th avenue. The non-profit Flint River Fresh will operate the day to day activities. This was at a cost of \$15,326.

VI. 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.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2020

VII. Community Benefit Operations

The Corporation incurred \$192,221 to support staff and community health needs assessment costs that included the renewal of Healthy Communities Institute's dashboard feature on our website:

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

Summary

	<u>2020</u>
Community Health Improvement Services:	
Community Health Education	\$ 330,177
Community Based Clinical Services	398,971
Healthcare Support Services	<u>863,167</u>
Total community health improvement services	<u>1,592,315</u>
Health Professions Education:	
Nurses/nursing students	841,758
Other health professional education	<u>668,439</u>
Total health professional education	<u>1,510,197</u>
Subsidized Health Services:	
Other subsidized health services	<u>411,409</u>
Total subsidized health services	<u>411,409</u>
Clinical Research:	
Clinical research activities	<u>135,205</u>
Total clinical research	<u>135,205</u>
Financial and In-Kind Support:	
Cash donations	334,075
In-kind donations	<u>111,491</u>
Total financial and in-kind support	<u>445,566</u>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2020

Summary, Continued

	<u>2020</u>
Community Benefit Operations:	
Dedicated staff and other resources	\$ <u>192,221</u>
Total community benefit operations	<u>192,221</u>
Other:	
Traditional charity care – estimated unreimbursed cost of charity services	26,000,000
Unpaid cost of Medicare services – estimated unreimbursed cost of Medicare services	253,000,000
Unpaid cost of Medicaid services – estimated unreimbursed cost of Medicaid services	<u>95,000,000</u>
Total other	<u>374,000,000</u>
Total summary	<u>\$ 378,286,913</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.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Phoebe Putney Health System, Inc. (Corporation), which comprise the consolidated balance sheets as of July 31, 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Continued

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with the certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Draffon & Tucker, LLP". The signature is written in a cursive, flowing style.

Albany, Georgia
November 18, 2020