

PHOEBE PUTNEY HEALTH SYSTEM, INC.



CONSOLIDATED FINANCIAL STATEMENTS

for the years ended July 31, 2021 and 2020

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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, 2021 and 2020, 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 financial statements of Phoebe Putney Indemnity, Ltd., a wholly-owned subsidiary, which statements reflect approximately \$104,256,000 and \$104,613,000 of consolidated total assets as of July 31, 2021 and 2020, respectively, and approximately \$12,343,000 and \$10,467,000, respectively, of consolidated total revenues, gains, and other support, for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phoebe Putney Health System, Inc. as of July 31, 2021 and 2020, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2021, 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 10, 2021

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS, July 31, 2021 and 2020

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 257,420	\$ 301,069
Patient accounts receivable, net	106,469	104,354
Supplies	24,334	21,747
Estimated third-party payor settlements	515	-
Other current assets	<u>33,276</u>	<u>35,842</u>
Total current assets	<u>422,014</u>	<u>463,012</u>
Assets limited as to use:		
Internally designated for capital improvements	558,913	448,063
Internally designated for self-insurance	85,760	86,288
Externally designated by donors	<u>11,780</u>	<u>12,858</u>
Total assets limited as to use	<u>656,453</u>	<u>547,209</u>
Property and equipment, net	<u>397,732</u>	<u>385,468</u>
Other assets:		
Deferred financing cost	739	943
Operating lease right-of-use assets	254	50
Goodwill	130,296	130,296
Other assets	<u>7,755</u>	<u>6,921</u>
Total other assets	<u>139,044</u>	<u>138,210</u>
Total assets	<u>\$ 1,615,243</u>	<u>\$ 1,533,899</u>

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS, Continued, July 31, 2021 and 2020

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 9,032	\$ 9,032
Current portion of operating lease liabilities	82	29
Accounts payable	38,430	33,718
Accrued expenses	75,330	65,427
Estimated third-party payor settlements	-	1,013
CARES Act refundable advance	14,252	92,800
Current portion of Medicare accelerated and advance payments	<u>39,919</u>	<u>9,393</u>
Total current liabilities	177,045	211,412
Medicare accelerated and advance payments, net of current portion	7,759	46,964
Long-term debt, net of current portion	253,747	262,062
Operating lease liabilities, net of current portion	172	21
Accrued pension cost	65,571	140,970
Accrued self-insurance cost	70,828	65,953
Derivative financial instruments	<u>9,669</u>	<u>13,907</u>
Total liabilities	<u>584,791</u>	<u>741,289</u>
Net assets:		
Without donor restrictions	1,016,895	775,358
With donor restrictions:		
Purpose restrictions	11,533	15,228
Perpetual in nature	<u>2,024</u>	<u>2,024</u>
Total net assets	<u>1,030,452</u>	<u>792,610</u>
Total liabilities and net assets	<u>\$ 1,615,243</u>	<u>\$ 1,533,899</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, 2021 and 2020

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Revenues, gains, and other support:		
Net patient service revenue	\$ 804,553	\$ 746,339
Other revenue	80,539	61,015
CARES Act funding	<u>79,997</u>	<u>16,566</u>
Total revenues, gains, and other support	<u>965,089</u>	<u>823,920</u>
Expenses:		
Salaries and wages	342,505	323,474
Employee health and welfare	80,400	79,507
Medical supplies and other	250,523	232,420
Purchased services	206,534	131,943
Depreciation and amortization	33,341	31,809
Interest	<u>6,664</u>	<u>8,208</u>
Total expenses	<u>919,967</u>	<u>807,361</u>
Operating income	45,122	16,559
Nonoperating income:		
Investment and other nonoperating income	<u>129,017</u>	<u>19,302</u>
Excess revenues	174,139	35,861
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	504	182
Net actuarial gain (loss)	59,125	(39,905)
Amortization of net loss	4,987	3,621
Capital contributions	<u>2,782</u>	<u>263</u>
Increase in net assets without donor restrictions	<u>241,537</u>	<u>22</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS, Continued
for the years ended July 31, 2021 and 2020

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
Net assets with donor restrictions:		
Restricted donations	\$ 2,164	\$ 5,934
Released from restriction to operations	<u>(5,859)</u>	<u>(2,726)</u>
Increase (decrease) in net assets with donor restrictions	<u>(3,695)</u>	<u>3,208</u>
Increase in net assets	237,842	3,230
Net assets, beginning of year, as previously reported	792,610	790,154
Implementation of ASU No. 2016-02	<u>-</u>	<u>(774)</u>
Net assets, end of year	<u>\$ 1,030,452</u>	<u>\$ 792,610</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, 2021 and 2020

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Increase in net assets	\$ 237,842	\$ 3,230
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Proceeds from capital contributions	(2,782)	(263)
Realized (gain) loss and changes in unrealized (gain) loss on investments	(121,438)	(19,830)
Loss on disposal of property and equipment	121	175
Depreciation and amortization	33,341	31,809
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	(504)	(182)
Change in derivative financial instruments	(4,238)	3,208
Changes in:		
Patient accounts receivable	(2,115)	2,276
Supplies	(2,587)	(5,400)
Estimated third-party payor settlements	(1,528)	(401)
CARES Act refundable advance	(78,548)	92,800
Medicare accelerated and advance payments	(8,679)	56,357
Other assets	2,236	(8,519)
Accounts payable and accrued expenses	14,615	2,041
Accrued pension cost	(75,399)	30,719
Accrued self-insurance cost	4,875	2,544
	<u>(4,788)</u>	<u>190,564</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(46,625)	(41,546)
Proceeds from sale of property and equipment	1,211	1,292
Sale of assets limited as to use	215,249	195,324
Purchase of assets limited as to use	(203,055)	(199,839)
	<u>(33,220)</u>	<u>(44,769)</u>
Net cash used by investing activities		

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
for the years ended July 31, 2021 and 2020

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
Cash flows from financing activities:		
Payments on long-term debt	\$ (7,317)	\$ (7,067)
Payments on finance lease liabilities	(1,106)	(1,237)
Proceeds from capital contributions	<u>2,782</u>	<u>263</u>
Net cash used by financing activities	<u>(5,641)</u>	<u>(8,041)</u>
Increase (decrease) in cash and cash equivalents	(43,649)	137,754
Cash and cash equivalents, beginning of year	<u>301,069</u>	<u>163,315</u>
Cash and cash equivalents, end of year	<u>\$ 257,420</u>	<u>\$ 301,069</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 6,716</u>	<u>\$ 8,564</u>
Assets acquired through leases	<u>\$ 566</u>	<u>\$ 8,477</u>

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

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2021 and 2020

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, Ltd., a wholly-owned subsidiary, 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, 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.

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).

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

1. Summary of Significant Accounting Policies, Continued

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 were 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 were 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.

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

1. Summary of Significant Accounting Policies, Continued

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. Certain short-term, highly liquid investments temporarily held as part of the Corporation's long-term investment portfolio are excluded from cash and cash equivalents.

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.

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.

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

1. Summary of Significant Accounting Policies, Continued

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 statement of operations and changes in net assets. 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.

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

1. Summary of Significant Accounting Policies, Continued

Goodwill, Continued

As of July 31, 2021 and 2020 the Corporation has goodwill of approximately \$130,296,000. 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 has 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 sheets 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.

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

1. Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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 statements of operations and changes in net assets include 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).

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

1. Summary of Significant Accounting Policies, Continued

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Conditional gifts received prior to the satisfaction of conditions are recorded as refundable advances. 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, 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.

The Corporation applies accounting policies that prescribe when to recognize and how to measure the consolidated 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, 2021 and 2020 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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

1. Summary of Significant Accounting Policies, Continued

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, 2021 and 2020.

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

1. Summary of Significant Accounting Policies, Continued

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.

Recently Adopted Accounting Pronouncement

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, to streamline the disclosure requirements of ASC Topic 820, Fair Value Measurement. The update removes, modifies and adds certain disclosure requirements. The Corporation adopted the new guidance for the year ending July 31, 2021 and adoption did not have a material impact on the consolidated financial statements.

Accounting Pronouncement Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The standard is effective for fiscal years ending after December 15, 2021. The Corporation expects to adopt the new guidance for the year ending July 31, 2022 and is continuing to evaluate the impact the guidance will have on the consolidated financial statements.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 10, 2021, the date the financial statements were issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2020 consolidated financial statements to conform to the fiscal year 2021 presentation. These reclassifications had no impact on the change in net assets in the accompanying consolidated financial statements.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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, 2021 and 2020

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. PPMH and PSMC's Medicare cost reports have been audited by the MAC through July 31, 2017.

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. PWMC's Medicare cost reports have been audited by the MAC through July 31, 2016.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

2. Net Patient Service Revenue, Continued

• Medicaid

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

Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Corporation is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. The Corporation's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through July 31, 2018 for PPMH, PSMC, and PWMC.

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 \$7,249,000 and \$6,312,000 for the years ended July 31, 2021 and 2020, 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 \$16,260,000 and \$3,251,000 for the years ended July 31, 2021 and 2020, respectively. In fiscal year 2021, the Corporation also participated in the Medicaid Managed Care Physician Group Direct Payment Program, which is a supplemental payment program through the Georgia Department of Community Health. As a result of this participation, the Corporation recognized revenue of approximately \$2,421,000 for the year ended July 31, 2021.

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%.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

Approximately \$7,488,000 and \$7,589,000 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, 2021 and 2020, respectively.

- Other Arrangements

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

- 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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

2. Net Patient Service Revenue, Continued

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 2021 or 2020.

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, 2021 and 2020. 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, 2021 and 2020 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, 2021 and 2020 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>
2021	<u>\$ 331,856</u>	<u>\$ 87,039</u>	<u>\$ 379,148</u>	<u>\$ 6,510</u>	<u>\$ 804,553</u>
2020	<u>\$ 285,864</u>	<u>\$ 81,118</u>	<u>\$ 375,777</u>	<u>\$ 3,580</u>	<u>\$ 746,339</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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, 2021 and 2020 is as follows:

	July 31, 2021 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	\$601,679	\$ 86,856	\$ 13,737	\$ -	\$702,272
Home Health	3,541	-	-	-	3,541
Hospice	5,430	1,221	-	-	6,651
Physician practice Clinic	-	-	-	90,096	90,096
	<u>-</u>	<u>193</u>	<u>1,800</u>	<u>-</u>	<u>1,993</u>
 Total	 <u>\$610,650</u>	 <u>\$ 88,270</u>	 <u>\$ 15,537</u>	 <u>\$ 90,096</u>	 <u>\$804,553</u>
Timing of revenue and recognition:					
Services transferred over time	<u>\$610,650</u>	<u>\$ 88,270</u>	<u>\$ 15,537</u>	<u>\$ 90,096</u>	<u>\$804,553</u>
	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 Clinic	-	-	-	73,291	73,291
	<u>-</u>	<u>248</u>	<u>1,469</u>	<u>-</u>	<u>1,717</u>
 Total	 <u>\$574,997</u>	 <u>\$ 82,801</u>	 <u>\$ 15,250</u>	 <u>\$ 73,291</u>	 <u>\$746,339</u>
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>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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, 2021 and 2020

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Net patient service revenue includes amounts, representing the transaction price, based on standard charges reduced by variable considerations such as contractual adjustments, discounts, and implicit price concessions. Charges for uncompensated services for 2021 and 2020 were approximately \$1,859,000,000 and \$1,742,000,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$118,000,000 and \$88,000,000 in 2021 and 2020, respectively. The cost of charity and indigent care services provided during 2021 and 2020 was approximately \$41,000,000 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 2021 and 2020.

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
Gross patient charges	<u>\$ 2,663,848</u>	<u>\$ 2,487,942</u>
Uncompensated services:		
Charity and indigent care	118,160	88,209
Medicare	965,434	887,255
Medicaid	358,324	335,350
Other third-party payors	308,679	274,502
Price concessions	<u>108,698</u>	<u>156,287</u>
Total uncompensated care	<u>1,859,295</u>	<u>1,741,603</u>
Net patient service revenue	<u>\$ 804,553</u>	<u>\$ 746,339</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

4. Investments

Assets Limited as to Use

The composition of assets limited as to use at July 31, 2021 and 2020 is set forth in the following table. Assets limited as to use are stated at fair value.

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
By board for capital improvements:		
Money market funds	\$ 45,547	\$ 21,448
Certificates of deposit	392	390
Equity securities	43,048	30,987
Mutual funds - fixed income funds	37,172	30,640
Mutual funds - index funds	69,062	94,828
Mutual funds - growth and other funds	13,483	10,555
Real estate investment trusts	15,223	9,688
Corporate debt securities	10,951	8,229
Government debt securities	916	1,021
Alternative investments:		
Credit opportunities	6,734	5,698
Multi-strategy	39,074	27,815
Equity securities	271,766	201,716
Other	<u>5,545</u>	<u>5,048</u>
Total board designated for capital improvements	<u>558,913</u>	<u>448,063</u>
By board for self-insurance:		
Money market funds	2,803	4,561
Mutual funds - fixed income funds	14,540	14,283
Mutual funds - index funds	13,059	16,507
Mutual funds - growth and other funds	36,911	34,458
Alternative investments:		
Multi-strategy	<u>18,447</u>	<u>16,479</u>
Total board designated for self-insurance	<u>85,760</u>	<u>86,288</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

4. Investments, Continued

Assets Limited as to Use, Continued

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Externally designated by donors:		
Money market funds	\$ 1,285	\$ 1,227
Equity securities	2,506	2,347
Mutual funds - fixed income funds	455	468
Mutual funds - index funds	1,833	1,628
Mutual funds - growth and other funds	1,699	1,936
Alternative investments:		
Equity securities	348	323
Real estate investment trusts	159	909
Corporate debt securities	3,340	3,823
Government debt securities	<u>155</u>	<u>197</u>
 Total externally designated by donors	 <u>11,780</u>	 <u>12,858</u>
 Total assets limited to use	 <u>\$ 656,453</u>	 <u>\$ 547,209</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 short-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, 2021 and 2020

5. Property and Equipment, Net

A summary of property and equipment, net at July 31, 2021 and 2020 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
Land	\$ 31,168	\$ 31,458
Land improvements	8,235	7,667
Building	440,051	416,029
Equipment	477,734	446,606
Finance lease right-of-use assets	6,025	6,961
	<u>963,213</u>	<u>908,721</u>
Less accumulated depreciation	<u>573,514</u>	<u>544,562</u>
	389,699	364,159
Construction-in-progress	<u>8,033</u>	<u>21,309</u>
Property and equipment, net	<u>\$ 397,732</u>	<u>\$ 385,468</u>

Depreciation expense for the years ended July 31, 2021 and 2020 amounted to approximately \$32,067,000 and \$30,362,000, respectively.

Amortization expense on finance lease right-of-use assets for the years ended July 31, 2021 and 2020 amounted to approximately \$1,274,000 and \$1,447,000, respectively.

Construction contracts exist for various projects at year-end with a total commitment of approximately \$12,349,000. At July 31, 2021, the remaining commitment on these contracts approximated \$8,936,000.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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, 2021 and 2020, are as follows:

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
Balance at beginning of year:		
Goodwill	\$ 174,450	\$ 174,664
Accumulated impairment losses	<u>(44,154)</u>	<u>(44,154)</u>
	130,296	130,510
Goodwill acquired during the year	-	-
Impairment losses	-	-
Disposal of goodwill	<u>-</u>	<u>(214)</u>
Balance at end of year:		
Goodwill	174,450	174,450
Accumulated impairment losses	<u>(44,154)</u>	<u>(44,154)</u>
Total	<u>\$ 130,296</u>	<u>\$ 130,296</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%, with a maturity date of April 22, 2021. On April 22, 2021, the line-of-credit was amended and restated for a maximum amount of \$50,000,000 bearing interest at LIBOR plus 0.95%, with the rate never being less than 1.10%, with a maturity date of April 22, 2022. The outstanding balance on the line-of-credit at July 31, 2021 and 2020 was \$0.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

8. Long-Term Debt

Long-term debt consists of the following:

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</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%.	\$ 88,320	\$ 90,920
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.	67,400	71,970
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>6,901</u>	<u>7,900</u>
	259,386	267,555
Less: unamortized debt issuance cost	1,181	1,248
Less: current portion	9,032	9,032
Add: unamortized premium	<u>4,574</u>	<u>4,787</u>
Long-term debt, net of current portion	<u>\$ 253,747</u>	<u>\$ 262,062</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 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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

8. Long-Term Debt, Continued

The Series 2012 Revenue Certificates were issued on December 1, 2012 for the purposes of financing the costs of making certain additions, extensions, and capital improvements to its health care system. The Series 2012 Revenue Certificates bear interest at fixed rates from 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 satisfies 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>
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
2026	1,385	5,050	2,270	8,705
Thereafter	<u>82,540</u>	<u>44,905</u>	<u>84,775</u>	<u>212,220</u>
Total	<u>\$ 88,320</u>	<u>\$ 67,400</u>	<u>\$ 96,765</u>	<u>\$ 252,485</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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)

	<u>2021</u>	<u>2020</u>
\$25MM Fixed Pay LIBOR Swap - Non-Hedge		
Notional amount	\$ 20,734	\$ 20,931
Fair market value	\$ (4,253)	\$ (5,615)
Life remaining	11 Years	12 Years
\$25MM Fixed Pay LIBOR Swap - Non-Hedge		
	<u>2021</u>	<u>2020</u>
Notional amount	\$ 20,734	\$ 20,931
Fair market value	\$ (4,111)	\$ (5,449)
Life remaining	11 Years	12 Years
\$21.145MM Fixed Pay LIBOR Swap - Non-Hedge		
	<u>2021</u>	<u>2020</u>
Notional amount	\$ 17,537	\$ 17,703
Fair market value	\$ (3,444)	\$ (4,569)
Life remaining	11 Years	12 Years
Constant Maturity LIBOR Swap - Non-Hedge		
	<u>2021</u>	<u>2020</u>
Notional amount	\$ 29,503	\$ 30,843
Fair market value	\$ 1,083	\$ 870
Life remaining	11 Years	12 Years

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

9. Derivative Financial Instruments, Continued

(Dollars in Thousands)

Constant Maturity LIBOR Swap - Non-Hedge		
	<u>2021</u>	<u>2020</u>
Notional amount	\$ 29,503	\$ 30,843
Fair market value	\$ 1,056	\$ 856
Life remaining	11 Years	12 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, 2021 and 2020, this earnings impact totaled a gain of approximately \$4,238,000 and a loss of approximately \$3,208,000, respectively.

10. Net Assets with Donor Restrictions

A summary of the net assets with donor restrictions at July 31, 2021 and 2020 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
Net assets with donor restrictions that are subject to expenditure for a specified purpose	<u>\$ 11,533</u>	<u>\$ 15,228</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, 2021 and 2020

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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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, 2021 and 2020. The Corporation issues a publicly available financial report that includes the consolidated 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, 2021 and 2020:

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
Plan assets at fair value at July 31	\$ 275,050	\$ 219,136
Projected benefit obligation at July 31	<u>340,621</u>	<u>360,106</u>
Funded status	<u>\$ (65,571)</u>	<u>\$ (140,970)</u>
Amounts recognized in the consolidated balance sheets consist of:		
Noncurrent liabilities	<u>\$ (65,571)</u>	<u>\$ (140,970)</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

11. Pension Plan, Continued

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Amounts recognized in net assets without donor restrictions:		
Net actuarial loss	\$ (100,268)	\$ (164,381)
Deferred pension cost	<u>\$ (100,268)</u>	<u>\$ (164,381)</u>
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	2.92%	2.58%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	2.58%	3.66%
Expected long-term return on plan assets	6.50%	6.50%
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 MP2020 for 2021 and MP2019 for 2020.

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, 2021 and 2020

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, 2021 and 2020:

	<u>(Dollars in Thousands)</u>	
	<u>2021</u>	<u>2020</u>
Interest cost	\$ 7,163	\$ 10,150
Expected return on plan assets	(14,234)	(13,433)
Amortization of recognized net actuarial loss	<u>4,987</u>	<u>3,620</u>
Net periodic benefit cost	<u>(2,084)</u>	<u>337</u>
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial (gain) loss	(59,125)	39,905
Amortization of net actuarial loss	<u>(4,987)</u>	<u>(3,621)</u>
Total recognized in net assets without donor restrictions	<u>(64,112)</u>	<u>36,284</u>
Total recognized in net periodic benefit cost and net assets without donor restrictions	<u>\$ (66,196)</u>	<u>\$ 36,621</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

11. Pension Plan, Continued

The change in projected benefit obligation for the defined benefit pension plan for the years ended July 31, 2021 and 2020 included the following components:

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Projected benefit obligation, beginning of year	\$ 360,106	\$ 320,077
Interest cost	7,163	10,150
Actuarial (gain) loss	(16,109)	39,865
Benefits paid	<u>(10,539)</u>	<u>(9,986)</u>
 Projected benefit obligation, end of year	 <u>\$ 340,621</u>	 <u>\$ 360,106</u>
 Accumulated benefit obligation	 <u>\$ 340,621</u>	 <u>\$ 360,106</u>

The change in fair value of plan assets for the years ended July 31, 2021 and 2020 included the following components:

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Plan assets at fair value, beginning of year	\$ 219,136	\$ 209,826
Actual return on assets	57,250	13,393
Employer contributions	9,203	5,903
Benefits paid	<u>(10,539)</u>	<u>(9,986)</u>
 Plan assets at fair value, end of year	 <u>\$ 275,050</u>	 <u>\$ 219,136</u>

The Corporation does not anticipate making a contribution during fiscal year 2022.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

11. Pension Plan, Continued

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

	<u>(Dollars in Thousands)</u>	
<u>Year Ending July 31</u>		<u>Pension Benefits</u>
2022	\$	13,280
2023	\$	14,146
2024	\$	14,821
2025	\$	15,369
2026	\$	15,841
2027 - 2031	\$	84,447

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at July 31, 2021.

The actuarial loss and prior service cost to be recognized during the next 12 months beginning August 1, 2021 is as follows:

	<u>(Dollars in Thousands)</u>	
Amortization of net actuarial loss	\$	2,648
Amortization of prior year service costs		-
		<hr/>
Total	\$	<u>2,648</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

11. Pension Plan, Continued

Plan Assets

The composition of plan assets at July 31, 2021 and 2020 is as follows:

Asset Category:	Target Allocations		Plan Assets	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
U.S. equities	28%	28%	29%	30%
Non U.S. equities	16%	16%	21%	16%
Emerging markets	8%	8%	8%	8%
Hedge funds	20%	20%	19%	19%
Real assets	8%	8%	6%	5%
Fixed income	20%	20%	15%	20%
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 2021 and 2020. 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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

11. Pension Plan, Continued

The fair values of the Corporation's pension plan assets at July 31, 2021 and 2020, by asset category are as follows:

(Dollars in Thousands)				
Fair Value Measurements at July 31, 2021				
<u>Asset Category</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Money market funds	\$ 4,508	\$ 1,860	\$ 2,648	\$ -
Equity securities	8,700	8,700	-	-
Real estate investment trusts	<u>8,967</u>	<u>8,967</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	22,175	<u>\$ 19,527</u>	<u>\$ 2,648</u>	<u>\$ -</u>
Investments measured at net asset value	<u>252,875</u>			
Total assets at fair value	<u>\$ 275,050</u>			
Fair Value Measurements at July 31, 2020				
<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>			

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

11. Pension Plan, Continued

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

as of July 31, 2021				
(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	\$ 6,356	None	Monthly	30 Days
Mutual Funds - index funds	\$ 55,899	None	Daily	15 Days
Mutual Funds - growth and other funds	\$ 6,547	None	Daily	None
Alternative Investments:				
Credit opportunities	\$ 7,418	None	Annually	90 Days
Multi-strategy	\$ 24,069	None	Monthly - Annually	45 - 92 Days
Equity securities	\$ 149,133	\$ 264	Weekly - Annually	4 - 180 Days
Other	\$ 3,453	None	Monthly	3 Business Days

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

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.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

11. Pension Plan, Continued

The Corporation maintains defined contribution 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, 2021 and 2020 totaled approximately \$6,025,000 and \$5,986,000, 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 \$750,000. Total expenses related to this plan were approximately \$44,207,000 and \$43,725,000 for 2021 and 2020, respectively.

13. Malpractice Insurance

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. PPI is a wholly-owned subsidiary of Phoebe 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.

PPI issues a claims-made policy with a per occurrence limit of \$2,000,000 for 2021 and \$1,000,000 for 2020 and an annual aggregate of \$2,000,000 for 2021 and \$1,000,000 for 2020 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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

13. Malpractice Insurance, Continued

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 \$600,000 for 2021 and up to \$750,000 for 2020, per loss, per insured, in excess of \$400,000 for 2021 and \$250,000 for 2020, per loss, per insured. Under the clash coverage, the reinsurer shall pay up to \$600,000 for 2021 and up to \$750,000 for 2020, per loss occurrence, in excess of \$400,000 for 2021 and \$250,000 for 2020, 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 \$6,000,000 for 2021 and up to \$5,000,000 for 2020, per loss, per insured, in excess of \$1,000,000, per loss, per insured. The maximum amount recoverable for this coverage shall not exceed \$12,000,000 for 2021 and \$10,000,000 for 2020. 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.

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, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	26%	23%
Medicaid	12%	13%
Blue Cross	26%	26%
Commercial	33%	36%
Patients	<u>3%</u>	<u>2%</u>
Total	<u>100%</u>	<u>100%</u>

At July 31, 2021, the Corporation had deposits at major financial institutions which exceeded the \$250,000 Federal Deposit Insurance Corporation limits. Management believes the credit risks related to these deposits is minimal.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

15. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services in 2021 and 2020 are as follows:

	(Dollars in Thousands)		
<u>July 31, 2021</u>	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Consolidated Total</u>
Salaries and wages	\$ 271,614	\$ 70,891	\$ 342,505
Employee health and welfare	64,848	15,552	80,400
Medical supplies and other	179,492	71,031	250,523
Purchased services	163,875	42,659	206,534
Depreciation and amortization	16,649	16,692	33,341
Interest	<u>3,310</u>	<u>3,354</u>	<u>6,664</u>
Total	<u>\$ 699,788</u>	<u>\$ 220,179</u>	<u>\$ 919,967</u>

	(Dollars in Thousands)		
<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	66,302	232,420
Purchased services	98,301	33,642	131,943
Depreciation and amortization	14,862	16,947	31,809
Interest	<u>3,576</u>	<u>4,632</u>	<u>8,208</u>
Total	<u>\$ 602,616</u>	<u>\$ 204,745</u>	<u>\$ 807,361</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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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.
- *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 \$257,059,000 and \$264,442,000 at July 31, 2021 and 2020, respectively, with a fair value of approximately \$260,462,000 and \$268,326,000, 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 and liabilities at fair value. There have been no changes in the methodologies used at July 31, 2021 and 2020.

- *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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

17. Fair Value Measurement, Continued

- *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.
- *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, 2021 and 2020

17. Fair Value Measurement, Continued

Fair values of assets and liabilities measured on a recurring basis at July 31, 2021 and 2020 follows:

(Dollars in Thousands)				
Fair Value Measurements at Reporting Date Using				
<u>July 31, 2021</u>	<u>Fair Value</u>	Quoted prices in Active Markets For Identical Assets/Liabilities <u>(Level 1)</u>	Significant Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Assets:				
Money market funds	\$ 49,635	\$ 28,906	\$ 20,729	\$ -
Certificates of deposit	392	-	392	-
Equity securities	45,554	45,554	-	-
Mutual funds - fixed income funds	896	896	-	-
Mutual funds - growth and other funds	33,551	33,551	-	-
Real estate investment trusts	15,382	15,382	-	-
Corporate debt securities	14,291	9,537	4,754	-
Government debt securities	<u>1,071</u>	<u>77</u>	<u>994</u>	<u>-</u>
Total assets in the fair value hierarchy	160,772	<u>\$ 133,903</u>	<u>\$ 26,869</u>	<u>\$ -</u>
Investments measured at net asset value	<u>495,681</u>			
Total assets at fair value	<u>\$ 656,453</u>			
Liabilities:				
Derivatives	<u>\$ 9,669</u>	<u>\$ -</u>	<u>\$ 9,669</u>	<u>\$ -</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

17. Fair Value Measurement, Continued

(Dollars in Thousands)				
<u>Fair Value Measurements at Reporting Date Using</u>				
<u>July 31, 2020</u>	<u>Fair Value</u>	<u>Quoted prices in Active Markets For Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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>118,147</u>	<u>\$ 89,455</u>	<u>\$ 28,692</u>	<u>\$ -</u>
Total assets in the fair value hierarchy				
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, 2021 and 2020

17. Fair Value Measurement, Continued

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 weekly redemption with 2 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 24 month hard lock-up.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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, 2021			
	(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	\$ 51,271	None	Daily - Monthly	None - 30 Days
Mutual funds - index funds	\$ 83,954	None	Daily	None - 15 Days
Mutual funds - growth and other funds	\$ 18,542	None	Daily - Weekly	None - 2 Business Days
Alternative investments:				
Credit opportunities	\$ 6,734	None	Annually	90 Days
Multi-stategy	\$ 57,521	None	Monthly - Annually	5 Business - 92 Days
Equity securities	\$ 272,114	\$ 258	Weekly - Annually	None - 180 Days
Other	\$ 5,545	None	Monthly	3 Business Days

	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-stategy	\$ 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

18. Related Party Transactions

The Corporation had contracts with a certain hospital in the surrounding area to provide management services. The agreement automatically renewed 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.

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 terminated on March 31, 2021.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

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, 2021 and 2020

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, 2021. 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 2021 and 2020 consolidated financial statements.

21. Liquidity and Availability

As of July 31, 2021 and 2020, the Corporation has working capital of approximately \$244,969,000 and \$251,600,000 and average days (based on normal expenditures) cash on hand of 106 and 142 days, respectively.

Financial assets available for general expenditures within one year of the balance sheet date, consists of the following at July 31, 2021 and 2020:

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 257,420	\$ 301,069
Patient accounts receivable, net	106,469	104,354
Estimated third-party payor settlements	515	-
Other current assets - other receivables	21,259	25,079
Internally designated for capital improvements	558,913	448,063
Less: Conditional CARES Act refundable advance	<u>14,252</u>	<u>92,800</u>
Total financial assets available	<u>\$ 930,324</u>	<u>\$ 785,765</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, 2021 and 2020

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 \$50,000,000, 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, 2021 and 2020

22. Leases, Continued

Operating and finance lease right-of-use assets and lease liabilities as of July 31, 2021 and 2020 were as follows:

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Operating leases:		
Right-of-use assets:		
Operating lease right-of-use assets	\$ <u>254</u>	\$ <u>50</u>
Lease liabilities:		
Current portion	\$ 82	\$ 29
Long-term	<u>172</u>	<u>21</u>
Total operating lease liabilities	\$ <u>254</u>	\$ <u>50</u>
Finance leases:		
Right-of-use assets:		
Property and equipment, net	\$ <u>6,025</u>	\$ <u>6,961</u>
Lease liabilities:		
Current portion	\$ 1,383	\$ 1,649
Long-term	<u>5,518</u>	<u>6,251</u>
Total finance lease liabilities	\$ <u>6,901</u>	\$ <u>7,900</u>

Operating expenses for the leasing activity of the Corporation as the lessee for the year ended July 31, 2021 and 2020 are as follows:

	(Dollars in Thousands)	
<u>Lease Type</u>	<u>2021</u>	<u>2020</u>
Operating lease cost	\$ 25	\$ 24
Finance lease interest	642	423
Finance lease amortization	<u>1,274</u>	<u>1,388</u>
Total lease cost	\$ <u>1,941</u>	\$ <u>1,835</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

22. Leases, Continued

Cash paid for amounts included in the measurement of lease liabilities for the year ended July 31, 2021 and 2020 is as follows:

	(Dollars in Thousands)	
	<u>2021</u>	<u>2020</u>
Operating cash flows from operating leases	\$ 25	\$ 24
Operating cash flows from finance leases	642	406
Financing cash flows from finance leases	<u>1,106</u>	<u>1,237</u>
Total	<u>\$ 1,773</u>	<u>\$ 1,667</u>

The aggregate future lease payments for operating and finance leases as of July 31, 2021 were as follows:

	(Dollars in Thousands)	
<u>Year Ending July 31</u>	<u>Finance</u>	<u>Operating</u>
2022	\$ 1,692	\$ 93
2023	1,591	92
2024	1,552	85
2025	1,095	2
2026	1,051	1
Thereafter	<u>870</u>	<u>-</u>
Total undiscounted cash flows	7,851	273
Less: present value discount	<u>950</u>	<u>19</u>
Total lease liabilities	<u>\$ 6,901</u>	<u>\$ 254</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

22. Leases, Continued

Average lease terms and discount rates at July 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Weighted-average remaining lease term (years):		
Operating leases	2.97	4.03
Finance leases	5.25	6.05
Weighted-average discount rate:		
Operating leases	5.00%	5.00%
Finance leases	5.00%	5.00%

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.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

23. Coronavirus (COVID-19), Continued

PPMH received approximately \$0 and \$89,726,000 in grant stimulus funding for the years ended July 31, 2021 and 2020, respectively, of which approximately \$63,594,000 and \$3,631,000 was recognized as operating revenues in the consolidated statements of operations and changes in net assets for the years ended July 31, 2021 and 2020, respectively. Approximately \$6,274,000 and \$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 for the years ended July 31, 2021 and 2020, respectively, and approximately \$6,702,000 and \$76,570,000 is recorded as a CARES Act refundable advance on the consolidated balance sheets as of July 31, 2021 and 2020, respectively.

PPG received approximately \$1,665,000 and \$11,162,000 in grant stimulus funding for the years ended July 31, 2021 and 2020, respectively, including the transfers of approximately \$6,274,000 and \$9,525,000 from PPMH during 2021 and 2020, respectively. The entire amount received was recognized as operating revenues in the consolidated statements of operations and changes in net assets for the years ended July 31, 2021 and 2020.

PSMC received approximately \$170,000 and \$12,702,000 in grant stimulus funding for the years ended July 31, 2021 and 2020, respectively, of which approximately \$6,655,000 and \$0 was recognized as operating revenues in the consolidated statements of operations and changes in net assets for the years ended July 31, 2021 and 2020, respectively. Approximately \$6,217,000 and \$12,702,000 is recorded as a CARES Act refundable advance on the consolidated balance sheets as of July 31, 2021 and 2020, respectively.

PWMC received approximately \$118,000 and \$4,982,000 in grant stimulus funding for the years ended July 31, 2021 and 2020, respectively, of which approximately \$2,312,000 and \$1,454,000 was recognized as operating revenues in the consolidated statements of operations and changes in net assets for the years ended July 31, 2021 and 2020, respectively. Approximately \$1,333,000 and \$3,528,000 is recorded as a CARES Act refundable advance on the consolidated balance sheets as of July 31, 2021 and 2020, respectively.

CARES Act funding may be subject to 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 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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2021 and 2020

23. Coronavirus (COVID-19), Continued

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, 2021 and 2020.

The State of Georgia utilized Coronavirus Relief Fund monies to pay for and provide medical staffing to PPMH and PSMC to assist with the COVID-19 pandemic. The amounts paid on behalf of PPMH approximated \$31,771,000 and \$24,892,000 for the years ended July 31, 2021 and 2020, respectively. The amounts paid on behalf of PSMC approximated \$1,639,000 and \$0 for the years ended July 31, 2021 and 2020, respectively. These services were provided by individuals with specialized skills and would have been purchased if not provided. Therefore, these amounts qualify as contributed services and are included in other revenue and purchased services in the consolidated statements of operations and changes in net assets.



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, 2021 and 2020, and our report thereon dated November 10, 2021, 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 61 to 72, 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. In our opinion, the consolidating information, which insofar as it relates to Phoebe Putney Indemnity, Ltd. is based on the report of other auditors, 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 "Draffin & Tucker, LLP". The signature is written in a cursive, flowing style.

Albany, Georgia
November 10, 2021

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET
July 31, 2021

(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	\$ 10,733	\$ 166,672	\$ 2	\$ 10,690
Patient accounts receivable, net	-	80,747	-	10,699
Supplies	-	22,044	-	13
Estimated third-party payor settlements	-	(522)	-	-
Other current assets	776	13,867	31	8,636
Total current assets	11,509	282,808	33	30,038
Assets limited as to use:				
Internally designated for capital improvements	509,315	392	-	-
Internally designated for self-insurance	-	-	-	-
Externally designated by donors	-	-	-	-
Total assets limited as to use	509,315	392	-	-
Property and equipment, net	43,392	300,316	402	16,839
Other assets:				
Due from related parties	46,027	-	10,884	-
Deferred financing cost	-	739	-	-
Operating lease right-of-use assets	-	243	-	2,881
Goodwill	4,330	124,778	-	1,188
Other assets	43,548	20,083	-	1,632
Total other assets	93,905	145,843	10,884	5,701
Total assets	\$ 658,121	\$ 729,359	\$ 11,319	\$ 52,578

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2021

(Dollars in Thousands)

<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, Ltd.</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 8,026	\$ 45,281	\$ 11,472	\$ 4,544	\$ -	\$ 257,420
2,351	12,672	-	-	-	106,469
184	2,093	-	-	-	24,334
616	421	-	-	-	515
<u>600</u>	<u>2,090</u>	<u>7,025</u>	<u>251</u>	<u>-</u>	<u>33,276</u>
<u>11,777</u>	<u>62,557</u>	<u>18,497</u>	<u>4,795</u>	<u>-</u>	<u>422,014</u>
-	41,663	-	7,543	-	558,913
-	-	85,760	-	-	85,760
<u>-</u>	<u>4,000</u>	<u>-</u>	<u>7,780</u>	<u>-</u>	<u>11,780</u>
<u>-</u>	<u>45,663</u>	<u>85,760</u>	<u>15,323</u>	<u>-</u>	<u>656,453</u>
<u>7,040</u>	<u>46,263</u>	<u>-</u>	<u>-</u>	<u>(16,520)</u>	<u>397,732</u>
-	-	-	-	(56,911)	-
-	-	-	-	-	739
1	23	-	-	(2,894)	254
-	-	-	-	-	130,296
<u>(1)</u>	<u>3,804</u>	<u>-</u>	<u>89</u>	<u>(61,400)</u>	<u>7,755</u>
<u>-</u>	<u>3,827</u>	<u>-</u>	<u>89</u>	<u>(121,205)</u>	<u>139,044</u>
<u>\$ 18,817</u>	<u>\$ 158,310</u>	<u>\$ 104,257</u>	<u>\$ 20,207</u>	<u>\$ (137,725)</u>	<u>\$ 1,615,243</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2021

(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	\$ 8	\$ 9,272	\$ 15	\$ 3,259
Current portion of operating lease liabilities	-	78	-	648
Account payable	1,635	29,145	64	4,208
Accrued expenses	10,760	35,665	-	22,225
Estimated third-party payor settlements	-	-	-	-
CARES Act refundable advance	-	6,702	-	-
Current portion of Medicare accelerated and advance payments	-	39,919	-	-
Total current liabilities	12,403	120,781	79	30,340
Due to related parties	-	24,332	-	11,415
Medicare accelerated and advance payments, net of current portion	-	7,759	-	-
Long-term debt, net of current portion	28	254,317	33	10,999
Operating lease liabilities, net of current portion	-	165	-	2,217
Accrued pension cost	-	65,571	-	-
Accrued self-insurance cost	-	-	-	-
Derivative financial instruments	-	9,669	-	-
Total liabilities	12,431	482,594	112	54,971
Net assets:				
Without donor restrictions	645,690	237,208	11,207	(2,393)
With donor restrictions:				
Purpose restrictions	-	7,533	-	-
Perpetual in nature	-	2,024	-	-
Total net assets	645,690	246,765	11,207	(2,393)
Total liabilities and net assets	\$ 658,121	\$ 729,359	\$ 11,319	\$ 52,578

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2021

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ 100	\$ 205	\$ -	\$ -	\$ (3,827)	\$ 9,032
-	5	-	-	(649)	82
380	2,814	33	151	-	38,430
1,193	5,487	-	-	-	75,330
-	-	-	-	-	-
1,333	6,217	-	-	-	14,252
-	-	-	-	-	39,919
3,006	14,728	33	151	(4,476)	177,045
18,538	2,528	95	3	(56,911)	-
-	-	-	-	-	7,759
485	935	-	-	(13,050)	253,747
-	17	-	-	(2,227)	172
-	-	-	-	-	65,571
-	-	70,828	-	-	70,828
-	-	-	-	-	9,669
22,029	18,208	70,956	154	(76,664)	584,791
(3,212)	136,102	33,301	10,496	(51,504)	1,016,895
-	4,000	-	7,533	(7,533)	11,533
-	-	-	2,024	(2,024)	2,024
(3,212)	140,102	33,301	20,053	(61,061)	1,030,452
<u>\$ 18,817</u>	<u>\$ 158,310</u>	<u>\$ 104,257</u>	<u>\$ 20,207</u>	<u>\$ (137,725)</u>	<u>\$ 1,615,243</u>

See accompanying auditor's report on consolidating information.

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
Estimated third-party payor settlements	-	-	-	-
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>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2020

(Dollars in Thousands)

<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, Ltd.</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 10,491	\$ 46,625	\$ 6,009	\$ 7,462	\$ -	\$ 301,069
1,857	11,870	-	-	-	104,354
206	1,638	-	-	-	21,747
-	-	-	-	-	-
<u>73</u>	<u>1,401</u>	<u>12,316</u>	<u>141</u>	<u>-</u>	<u>35,842</u>
<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
<u>-</u>	<u>4,000</u>	<u>-</u>	<u>8,858</u>	<u>-</u>	<u>12,858</u>
<u>-</u>	<u>37,511</u>	<u>86,288</u>	<u>13,921</u>	<u>-</u>	<u>547,209</u>
<u>6,711</u>	<u>45,680</u>	<u>-</u>	<u>1</u>	<u>(6,629)</u>	<u>385,468</u>
-	-	-	-	(41,211)	-
-	-	-	-	-	943
1	27	-	-	(1,323)	50
-	-	-	-	-	130,296
<u>1</u>	<u>3,300</u>	<u>-</u>	<u>89</u>	<u>(67,357)</u>	<u>6,921</u>
<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

Continued

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 STATEMENT OF EXCESS REVENUES (EXPENSES)

July 31, 2021

(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	\$ -	\$ 610,650	\$ -	\$ 90,096
Other revenue	40,164	67,748	50	1,954
CARES Act funding	-	63,594	-	7,939
Total revenues, gains, and other support	<u>40,164</u>	<u>741,992</u>	<u>50</u>	<u>99,989</u>
Expenses:				
Salaries and wages	21,934	152,652	-	138,452
Employee health and welfare	3,719	43,999	-	20,225
Medical supplies and other	2,302	262,174	(5)	(61,721)
Purchased services	4,812	209,323	22	(1,109)
Depreciation and amortization	1,380	27,728	32	3,475
Interest	-	6,316	3	691
Total expenses	<u>34,147</u>	<u>702,192</u>	<u>52</u>	<u>100,013</u>
Operating income (loss)	6,017	39,800	(2)	(24)
Nonoperating income:				
Investment and other nonoperating income	<u>106,975</u>	<u>4,499</u>	<u>-</u>	<u>24</u>
Excess revenues (expenses)	<u>\$ 112,992</u>	<u>\$ 44,299</u>	<u>\$ (2)</u>	<u>\$ -</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES), Continued
July 31, 2021

(Dollars in Thousands)

<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, LLC</u>	<u>Phoebe Putney Indemnity, Ltd.</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 15,537	\$ 88,270	\$ -	\$ -	\$ -	\$ -	\$ 804,553
1,107	7,541	-	14,588	6,722	(59,335)	80,539
<u>2,278</u>	<u>6,186</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,997</u>
18,922	101,997	-	14,588	6,722	(59,335)	965,089
6,155	22,714	-	-	598	-	342,505
2,244	10,213	-	-	-	-	80,400
3,404	35,839	-	20,327	5,877	(17,674)	250,523
5,697	24,560	-	-	192	(36,963)	206,534
803	3,751	-	-	1	(3,829)	33,341
<u>31</u>	<u>59</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(436)</u>	<u>6,664</u>
18,334	97,136	-	20,327	6,668	(58,902)	919,967
588	4,861	-	(5,739)	54	(433)	45,122
195	10,240	-	12,518	2,128	(7,562)	129,017
<u>\$ 783</u>	<u>\$ 15,101</u>	<u>\$ -</u>	<u>\$ 6,779</u>	<u>\$ 2,182</u>	<u>\$ (7,995)</u>	<u>\$ 174,139</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	52,870	67	1,555
CARES Act funding	<u>319</u>	<u>3,631</u>	<u>-</u>	<u>11,162</u>
Total revenues, gains, and other support	<u>38,997</u>	<u>631,498</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	137,882	50	(866)
Depreciation and amortization	1,317	26,328	60	3,494
Interest	<u>-</u>	<u>8,104</u>	<u>5</u>	<u>411</u>
Total expenses	<u>33,993</u>	<u>620,845</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>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

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

(Dollars in Thousands)

<u>Phoebe Worth</u> <u>Medical</u> <u>Center, Inc.</u>	<u>Phoebe Sumter</u> <u>Medical</u> <u>Center, Inc.</u>	<u>Phoebe</u> <u>Putney</u> <u>Indemnity, LLC</u>	<u>Phoebe</u> <u>Putney</u> <u>Indemnity, Ltd.</u>	<u>Phoebe</u> <u>Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 15,250	\$ 82,801	\$ -	\$ -	\$ -	\$ -	\$ 746,339
264	3,008	-	13,921	3,406	(52,754)	61,015
1,454	-	-	-	-	-	16,566
<u>16,968</u>	<u>85,809</u>	<u>-</u>	<u>13,921</u>	<u>3,406</u>	<u>(52,754)</u>	<u>823,920</u>
5,795	20,846	-	-	465	-	323,474
2,354	6,193	-	-	-	-	79,507
3,329	31,247	-	15,228	2,873	(12,870)	232,420
5,257	20,792	-	-	201	(35,655)	131,943
690	3,717	-	-	6	(3,803)	31,809
40	69	-	-	-	(421)	8,208
<u>17,465</u>	<u>82,864</u>	<u>-</u>	<u>15,228</u>	<u>3,545</u>	<u>(52,749)</u>	<u>807,361</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.



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, 2021 and 2020 and our report thereon dated November 10, 2021, 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 74 to 83, 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 10, 2021

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY

July 31, 2021

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 Internal Revenue Code and is classified as a public charity under Section 509(a)(3) of the Internal Revenue 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, 2021

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	\$ 907,000,000	\$ 306,000,000
Medicaid	341,000,000	115,000,000
Indigent/charity	<u>115,000,000</u>	<u>39,000,000</u>
	<u>\$ 1,363,000,000</u>	<u>\$ 460,000,000</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 2021.

I. Community Health Improvement Services

A. Community Health Education

The Corporation's affiliated hospitals provided health education services that reached 2,266 individuals in 2021 at a cost of \$255,734. These services included the following free classes and seminars:

- Teen Pregnancy Prevention Education
- Teen Parenting Classes (Network of Trust)
- CPR Training to Teachers
- Safe-Sitter Classes
- Asthma & Epi-Pen Education
- Health Education at Summer Camps
- Breast Cancer Prevention Education
- Shop Talk discussions related to Prostate Cancer and Diabetes
- COVID-19 Updates to the Community and Media

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2021

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

A. Community Health Education, Continued

Men's and Women's Health Conferences

The PPMH's Men's and Women's Conferences attracted a total of 532 participants. In June, the Men's Conference attracted 207 participants. It was an in-person event and the topic was "Shop-talk." The event was staged as a barber shop with topics on prostate health and prevention, healthy eating and being physically active. The leaders of the topic areas were Dr. McGill, Dr. Richardson and Dr. Rivers. The event also gave COVID vaccinations. Due to COVID constraints, the Women's Conference was a drive-by virtual event (with 325 participants). This year's theme was breast cancer awareness and healthy eating. Each vehicle received health information and a free basket of fresh vegetables. The total cost of Health Fairs was \$21,031.

In Americus at PSMC, Health Fairs were cancelled due to COVID 19 concerns. However, PSMC did host a Back to School Mini Health Fair with 100 participants.

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 35 teen parents (with zero repeat pregnancies) during the 2020/2021 school year at a cost of \$234,703. Projected results demonstrate teens that graduated from the two-semester program are less likely to have a second pregnancy prior to age 21. Thirteen Network of Trust seniors graduated in 2021. In addition, Network of Trust and the school nurse program provided teen pregnancy prevention programming, asthma and ep-pen education and conducted health education at summer camps.

B. Community Based Clinical Services

Flu Shots

The Corporation provides free flu shots to volunteers and students, and homeless shelters. In 2021, the Corporation administered 150 flu shots at an unreimbursed cost of \$2,880.

Mammography

PPMH provided 183 mammograms to the uninsured in 2021 at a cost of \$25,620.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2021

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

B. Community Based Clinical Services, Continued

School Nurse Program

PPMH places nurses in sixteen elementary schools, six middle schools, and four high schools in Dougherty County with a goal of creating access to care for students and staff, assessing the health care status of each population represented, and effectively establishing referrals for all health care needs. Nurses conducted CPR training, Safe Sitter classes, Teen Pregnancy Prevention Education, Asthma and Epi-pen Education and Health Education Summer Camps. During the 2020/2021 school year, the school nurse program covered approximately 5,736 student lives. This program operated at a cost of \$327,248 in 2021.

C. Health Care Support Services

Although the Corporation anticipates reimbursement from various funding sources in FY2022, the Corporation wanted to highlight these life-saving benefits to the community.

Monoclonal Antibody Treatment

The Corporation provided 414 monoclonal antibody treatments to patients with COVID-19. Monoclonal anti-body treatment is authorized to treat COVID-19 early in the course of illness, within ten days of symptom onset, in outpatient settings, and have been shown to reduce the risk of hospitalization by upwards to 70%. Additionally, monoclonal antibodies can be administered proactively after a potential exposure (source: PhRMA).

COVID-19 Vaccinations

The Corporation was the first mass vaccination location established in Southwest Georgia. Upon receipts of vaccine from the state in December, the Corporation began dispensing to employees, healthcare workers and local first responders within 18 hours of receipt. The Corporation administered approximately 49,000 doses of the COVID-19 vaccine to Southwest Georgia Residents (excluding employees) during FY21 across multiple sites. In order to administer these vaccines, 582 employees across the Corporation worked a total of 38,707 hours. Employees were directing parking, helping elderly out of their cars, helping to check in the community members, clinical staff administered the vaccine, and employees were assigned to monitor the community members after they received the vaccine. In addition, a call center was set up to assist with answering questions and scheduling the vaccinations. The vaccination clinics were open for five months.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2021

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

C. Health Care Support Services, Continued

COVID-19 Vaccinations, Continued

The breakdown by facility of the number of doses given is as follows:

- PPMH 33,971*
- PSMC 10,994
- PWMC 4,053

Mobile Units

In fiscal year 2021 the Corporation purchased two 36-foot mobile healthcare units for \$946,869, funded through generous donations from Phoebe Foundation. These mobile units are dedicated to improving the health of our region's vulnerable residents in medically underserved communities throughout Southwest Georgia. Each unit is equipped with two examination rooms, equipped with comprehensive primary, specialty and occupational healthcare facilities. These exam rooms can accommodate full physical examinations, specimen collections, clinical vital readings, hearing examinations and respiratory testing. Each unit is equipped with Telehealth presentation site capabilities, which allow for a variety of subspecialty providers to evaluate and assess patients within the mobile unit. In addition, each unit is equipped with a wireless connectivity cradle point, allowing for real time medical documentation. Both units are self-sustainable, requiring no external electrical or water hook ups.

The mobile units are designed to provide in-person primary care, virtual specialty care, and health & wellness resources in regular rotation across southwest Georgia, many of whom lack the resources to travel to service deliverable sites. Such access enhancements connect patients with medical professionals before an emergency room visit or hospitalization becomes necessary. Through low cost /no cost treatment, education, and referral to additional resources, the mobile clinics are able to keep potentially serious health conditions in check, helping targeted patient populations take control of their health in ways they'd never be able to otherwise.

The mobile units were deployed in March 2021 and have been dedicated to providing access to the COVID-19 vaccine. From March 2021 – June 2021, the units travelled to 14 Southwest Georgia counties and held 66 Vaccination events, giving out 1,585 doses, (*this amount is included in the COVID-19 Vaccinations totals listed above under PPMH).

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2021

I. Community Health Improvement Services, Continued

C. Health Care Support Services, Continued

Government Sponsored Eligibility Applications to the Poor and Needy

The Corporation 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 2021 the Corporation paid \$917,059 to process these applications with 884 receiving Medicaid benefits.

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 Corporation recognizes that to continuously improve the Corporation's long-term value to our community and our customers, to encourage life-long learning among employees and to achieve a world-class employer status, it is in the organization's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. PPHS also provides non-employees financial support in pursuing healthcare related degrees. In fiscal year 2021, 812 students received clinical instruction from the Corporation's facilities at a total cost of \$2,676,344.

Nursing Students

In fiscal year 2021, PPHS provided \$1,464,380 in clinical supervision and training to 532 nursing students. This year, the nursing clinical team added three full time employees for Academic Clinic Instructors to assist college nursing program supervisors and provided Simulation Lab instruction to all the nursing students.

See independent auditor's report on supplemental information.

II. Health Professions Education, Continued

Simulation & Innovation Center

PPMH's technologically advanced Simulation & Innovation Center is the leading provider of nurse training and development in Southwest Georgia. The Simulation & Innovation Center features a state-of-the-art skills lab and simulators for Labor & Delivery, NICU, Pediatrics, Med-Surg, Surgery, Trauma and Critical Care. Students participate in full patient codes on life-like mannequins that respond to a variety of conditions. What nurses experience in the Simulation & Innovation Center will mirror what one would experience on the floor.

Clinical Preceptorship Program

The Corporation is excited to offer nursing students the opportunity to gain professional growth and enhanced clinical hands-on skills through a competitive preceptorship program during their final semester of college. Students are paired with a Phoebe RN to complete a one-on-one clinical learning experience on an inpatient floor or unit.

Other Health Professional Education

The Corporation provided an additional \$1,211,964 in clinical supervision and training to pharmacy, pharmacy techs, and other allied health professionals.

III. Subsidized Health Services

A. *Other Subsidized Services*

Inmate Care

The Corporation provides care to persons in jail for Dougherty County. In 2021 the Corporation provided \$256,651 of unreimbursed medical and drug treatment to 200 inmates.

Indigent Drug Pharmacy

Indigent Drug Pharmacy provides medication upon discharge to patients that are either indigent or uninsured. In 2021, the pharmacy filled 4,012 prescriptions at a cost of \$143,720.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2021

IV. Financial and In-Kind Support

In 2021, the Corporation provided \$575,801 in cash donations and in-kind support to non-profit organizations in Southwest Georgia. Listed are some highlights:

- PWMC gave \$45,619 to the Worth County Health Department for chronic disease management.
- PPMH and PWMC contributed \$102,254 in Forgone Rent to local non-profits.
- PPMH Gave \$146,252 to Horizons Community Solutions to support cancer screenings
- PPMH Flint River Fresh received a donation of \$12,500 to address food scarcity.
- Phoebe Sumter paid for the Community Garden and other initiatives of Healthy Sumter to include advertising, consulting fees and the monthly fees for the Wellable app. The cost was \$239,826.

V. Community Building Activities

A. Economic Development

The Corporation supports the Economic Development Commission of Dougherty County with funding to support improved employment and health coverage as a way to improve the overall health of the residents of the region.

B. Workforce Development

To address a long-standing nursing shortage, PPHS reached agreements with four institutions of higher learning to support the institutions nursing infrastructure with a total investment of \$981,596. Through various investments with our academic partners, PPHS has enabled the nursing programs to increase student enrollment by providing funding for full and/or part-time faculty for each of the nursing programs, as well as for three full-time clinical faculty whom are located in the Simulation & Innovation Center. These four institutions are Fort Valley State University in Fort Valley, Albany State University and Albany Technical College in Albany and Georgia Southwestern State University in Americus.

Leadership Academy hosted by Colony Bank

PPMH hosted 32 area high school seniors; Simulation & Innovation Center staff provided a simulation scenario, engaged students in activities such as PPE relay, and participated in a Panel Discussion.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2021

V. Community Building Activities, Continued

C. Workforce Development, Continued

Work Based Learning for High School Seniors

In cooperation with Lee County High School, PPMH hosted 11 High School Seniors to participate in an educational option that prepares high school students for the world of work through a combination of academic and workplace learning. It is based on the belief that our youth must be better prepared for the future if they are to be successful in a competitive, global economy. This lasted the entire school year and the students interned for a range from 6-15 hours at PPMH each week. The students had to complete an application packet, have a minimum GPA, and have letters of recommendation.

VI. Community Benefit Operations

The Corporation incurred \$207,002 in dedicated staff to operate the community benefit programs. The Corporation also provided \$36,150 in data management and community dashboard that displays over 180 community health indicators on our website:

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

Summary

	<u>2021</u>
Community Health Improvement Services:	
Community Health Education	\$ 255,734
Community Based Clinical Services	355,748
Healthcare Support Services	<u>917,059</u>
Total community health improvement services	<u>1,528,541</u>
Health Professions Education:	
Nurses/nursing students	1,464,380
Other health professional education	<u>1,211,964</u>
Total health professional education	<u>2,676,344</u>
Subsidized Health Services:	
Other subsidized health services	<u>400,371</u>
Total subsidized health services	<u>400,371</u>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2021

VI. Community Benefit Operations, Continued

Summary, Continued

Financial and In-Kind Support:

Cash donations	\$ 473,547
In-kind donations	<u>102,254</u>

Total financial and in-kind support **575,801**

Community Benefit Operations:

Workforce development	981,596
Dedicated staff and other resources	<u>243,152</u>

Total community benefit operations **1,224,748**

Other:

Traditional charity care - estimated unreimbursed cost of charity services	39,000,000
Unpaid cost of Medicare services - estimated unreimbursed cost of Medicare services	306,000,000
Unpaid cost of Medicaid services - estimated unreimbursed cost of Medicaid services	<u>115,000,000</u>

Total other **460,000,000**

Total summary **\$ 466,405,805**

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 sheet as of July 31, 2021, 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 10, 2021.

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.

Continued

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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.

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.



Albany, Georgia
November 10, 2021