

PHOEBE WORTH MEDICAL CENTER, INC.



FINANCIAL STATEMENTS

for the years ended July 31, 2020 and 2019

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheets	3
Statements of Operations and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-25
Independent Auditor's Report on Supplemental Information	26
Service to the Community	27-28



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Phoebe Worth Medical Center, Inc.
Sylvester, Georgia

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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1

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoebe Worth Medical Center, Inc. as of July 31, 2020 and 2019, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, Phoebe Worth Medical Center, Inc. is fiscally dependent on Phoebe Putney Health System, Inc. Our opinion is not modified with respect to that matter.

Change in Accounting Principle

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

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

Albany, Georgia
January 18, 2021

PHOEBE WORTH MEDICAL CENTER, INC.

BALANCE SHEETS, July 31, 2020 and 2019

ASSETS	<u>2020</u>	<u>2019</u>
Current assets:		
Cash	\$ 10,491,000	\$ 3,440,000
Patient accounts receivable, net	1,857,000	1,951,000
Supplies	206,000	212,000
Other current assets	73,000	80,000
Estimated third-party payor settlements	<u>501,000</u>	<u>489,000</u>
Total current assets	<u>13,128,000</u>	<u>6,172,000</u>
Property and equipment, net	<u>6,711,000</u>	<u>5,105,000</u>
Other assets:		
Operating lease right-of-use assets	1,000	-
Other assets	<u>1,000</u>	<u>-</u>
Total other assets	<u>2,000</u>	<u>-</u>
Total assets	<u>\$ 19,841,000</u>	<u>\$ 11,277,000</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of finance lease liabilities	\$ 98,000	\$ -
Accounts payable	312,000	245,000
Accrued expenses	760,000	887,000
CARES Act refundable advance	<u>3,528,000</u>	<u>-</u>
Total current liabilities	4,698,000	1,132,000
Due to related parties	18,554,000	13,758,000
Finance lease liabilities, net of current portion	583,000	-
Operating lease liabilities, net of current portion	<u>1,000</u>	<u>-</u>
Total liabilities	23,836,000	14,890,000
Net assets (deficit) without donor restrictions	<u>(3,995,000)</u>	<u>(3,613,000)</u>
Total liabilities and net assets	<u>\$ 19,841,000</u>	<u>\$ 11,277,000</u>

See accompanying notes to financial statements.

PHOEBE WORTH MEDICAL CENTER, INC.

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

	<u>2020</u>	<u>2019</u>
Revenues, gains, and other support:		
Net patient service revenue	\$ 15,250,000	\$ 15,768,000
Other revenue	264,000	506,000
CARES Act funding	<u>1,454,000</u>	<u>-</u>
Total revenues, gains, and other support	<u>16,968,000</u>	<u>16,274,000</u>
Expenses:		
Salaries and wages	5,795,000	5,561,000
Employee health and welfare	2,354,000	2,171,000
Medical supplies and other	3,329,000	3,173,000
Purchased services	5,257,000	4,981,000
Depreciation and amortization	690,000	504,000
Interest	<u>40,000</u>	<u>-</u>
Total expenses	<u>17,465,000</u>	<u>16,390,000</u>
Operating loss	(497,000)	(116,000)
Nonoperating income:		
Contributions and other nonoperating gains and losses	<u>173,000</u>	<u>2,576,000</u>
Excess revenues (expenses)	(324,000)	2,460,000
Net assets (deficit), beginning of year, as previously reported	(3,613,000)	(6,073,000)
Implementation of ASU No. 2016-02	<u>(58,000)</u>	<u>-</u>
Net assets (deficit), end of year	<u>\$ (3,995,000)</u>	<u>\$ (3,613,000)</u>

See accompanying notes to financial statements.

PHOEBE WORTH MEDICAL CENTER, INC.

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

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Change in net assets (deficit)	\$ (324,000)	\$ 2,460,000
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Depreciation and amortization	690,000	504,000
Changes in:		
Patient accounts receivable, net	94,000	(392,000)
Estimated third-party payor settlements	(12,000)	(42,000)
Supplies	6,000	(64,000)
CARES Act refundable advance	3,528,000	-
Other assets	5,000	(4,000)
Accounts payable	67,000	10,000
Accrued expenses	<u>(127,000)</u>	<u>94,000</u>
Net cash provided by operating activities	<u>3,927,000</u>	<u>2,566,000</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(1,583,000)</u>	<u>(687,000)</u>
Cash flows from financing activities:		
Advances from related parties	8,024,000	7,425,000
Payments on finance lease liabilities	(89,000)	-
Payments to related parties	<u>(3,228,000)</u>	<u>(8,189,000)</u>
Net cash provided (used) by financing activities	<u>4,707,000</u>	<u>(764,000)</u>
Net increase in cash	7,051,000	1,115,000
Cash at beginning of year	<u>3,440,000</u>	<u>2,325,000</u>
Cash at end of year	<u>\$ 10,491,000</u>	<u>\$ 3,440,000</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 40,000</u>	<u>\$ -</u>
Assets acquired through leases	<u>\$ 718,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

1. Summary of Significant Accounting Policies

Organization

Phoebe Worth Medical Center, Inc. (Hospital) was organized on January 23, 2002 as a nonprofit corporation and is a wholly-owned subsidiary of Phoebe Putney Health System, Inc. (System). The Hospital is a not-for-profit critical access hospital located in Sylvester, Georgia. The Hospital provides inpatient, outpatient and emergency care services to local residents.

Use of Estimates

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

Supplies

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

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 financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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

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PHOEBE WORTH MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Impairment of Long-Lived Assets

The Hospital 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 Hospital has not recorded any impairment charges in the accompanying statements of operations and changes in net assets for the years ended July 31, 2020 and 2019.

Refundable Advance

A refundable advance arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 16 for additional information.

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

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

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PHOEBE WORTH MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Excess Revenues (Expenses)

The statements of operations and changes in net assets includes excess revenues (expenses). Changes in net assets without donor restrictions which are excluded from excess revenues (expenses), consistent with industry practice, include 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 Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the amount that reflects the consideration to which the Hospital 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 Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

Donor-Restricted Gifts

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

Estimated Malpractice and Other Self-Insurance Costs

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

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PHOEBE WORTH MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Income Taxes

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

The Hospital applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Hospital only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2020 and 2019 or for the years then ended. The Hospital'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.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is a new comprehensive lease accounting model. The new standard clarifies the definition of a lease and requires lessees to recognize right-of-use assets and related lease liabilities for all leases with terms greater than twelve months. As part of the transition to the new standard, the Hospital was required to measure and recognize leases that existed at August 1, 2019 using a modified retrospective approach. The Hospital applied the new standard at the adoption date and recognized a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. The Hospital elected the package of practical expedients permitted under the new standard that allowed the Hospital to carry forward historical lease classification. The Hospital also elected the practical expedient that allowed the Hospital to not separate nonlease components from the associated lease components. The impact of adoption on the financial statements was an increase on August 1, 2019 in other noncurrent assets to record the right-of-use assets and an increase in other current and noncurrent liabilities to record lease liabilities for current operating and finance (lease and nonlease components) leases of approximately \$750,000, representing the present value of remaining lease payments.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update assists entities in determining when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The Hospital adopted the new guidance for the year ending July 31, 2020 and adoption did not have a material impact on the financial statements.

Subsequent Event

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through January 18, 2021, the date the financial statements were available to be issued.

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Hospital 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 Hospital 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 Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital 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 Hospital 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 Hospital does not believe it is required to provide additional services to the patient.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

2. Net Patient Service Revenue, Continued

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital 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 Hospital is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Hospital 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 Hospital has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

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

The Hospital 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 Hospital's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent the difference between amounts billed and the estimated consideration the Hospital expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. The Hospital 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

Effective September 1, 2002, the Hospital was granted Critical Access Hospital (CAH) designation 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.

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PHOEBE WORTH MEDICAL CENTER, INC.

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

2. Net Patient Service Revenue, Continued

- Medicare, Continued

The Hospital is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital'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 Hospital. The Hospital's Medicare cost reports have been audited by the MAC through July 31, 2016.

- 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 Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through July 31, 2017.

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

The Hospital participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Hospital receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Hospital's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$1,197,000 and \$1,288,000 for the years ended July 31, 2020 and 2019, respectively.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$37,000 and \$48,000 for the years ended July 31, 2020 and 2019, respectively.

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PHOEBE WORTH MEDICAL CENTER, INC.

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

2. Net Patient Service Revenue, Continued

- Other Arrangements

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

- Uninsured Patients

The Hospital 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 the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital'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 Hospital. In addition, the contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2020 or 2019.

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PHOEBE WORTH MEDICAL CENTER, INC.

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

2. Net Patient Service Revenue, Continued

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the years ending July 31, 2020 and 2019. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended July 31, 2020 and 2019 was not significant.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital 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 Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Net patient service revenue by major payor source for the years ended July 31, 2020 and 2019 is as follows:

	Net Patient Service Revenue				
	<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
2020	<u>\$ 7,931,000</u>	<u>\$ 2,496,000</u>	<u>\$ 3,899,000</u>	<u>\$ 924,000</u>	<u>\$ 15,250,000</u>
2019	<u>\$ 7,565,000</u>	<u>\$ 2,913,000</u>	<u>\$ 4,740,000</u>	<u>\$ 550,000</u>	<u>\$ 15,768,000</u>

Net patient service revenue by facility, line of business, and timing of revenue recognition for the years ended July 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Service lines:		
Hospital	\$ 13,781,000	\$ 14,052,000
Clinic	<u>1,469,000</u>	<u>1,716,000</u>
Timing of revenue and recognition:		
Services transferred over time	<u>\$ 15,250,000</u>	<u>\$ 15,768,000</u>

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

2. Net Patient Service Revenue, Continued

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the Hospital's diagnostic and surgical equipment, and emergency care services. Performance obligations for the hospital and clinic are satisfied over time as the patient simultaneously receives and consumes the benefits the Hospital 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 pharmacy, cafeteria, gift shop, and other point-of-sale performance obligations are satisfied at a point in time when the goods are provided. These revenues are recorded in other revenue on the statements of operations and changes in net assets.

The Hospital 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 Hospital'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 Hospital 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 Hospital 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 Hospital otherwise would have recognized is one year or less in duration.

3. Uncompensated Services

The Hospital was compensated for services at amounts less than its established rates.

Charges for uncompensated services for 2020 and 2019 were approximately \$26,910,000 and \$27,164,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$3,394,000 and \$5,135,000 in 2020 and 2019, respectively. The cost of charity and indigent care services provided during 2020 and 2019 was approximately \$1,406,000 and \$1,960,000, respectively, computed by applying a total cost factor to the charges foregone.

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PHOEBE WORTH MEDICAL CENTER, INC.

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

3. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Gross patient charges	\$ 42,160,000	\$ 42,932,000
Uncompensated services:		
Charity and indigent care	3,394,000	5,135,000
Medicare	8,988,000	9,124,000
Medicaid	5,078,000	4,740,000
Other third-party payors	4,034,000	3,455,000
Price concessions	<u>5,416,000</u>	<u>4,710,000</u>
Total uncompensated care	<u>26,910,000</u>	<u>27,164,000</u>
Net patient service revenue	<u>\$ 15,250,000</u>	<u>\$ 15,768,000</u>

4. Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 202,000	\$ 202,000
Buildings and improvements	5,871,000	4,978,000
Equipment	8,235,000	7,365,000
Finance lease right-of-use assets	<u>614,000</u>	<u>-</u>
	14,922,000	12,545,000
Less accumulated depreciation	<u>8,236,000</u>	<u>7,645,000</u>
	6,686,000	4,900,000
Construction-in-progress	<u>25,000</u>	<u>205,000</u>
Property and equipment, net	<u>\$ 6,711,000</u>	<u>\$ 5,105,000</u>

Depreciation expense for the years ended July 31, 2020 and 2019 amounted to approximately \$591,000 and \$504,000, respectively.

Amortization expense on finance lease right-of-use assets for the year ended July 31, 2020 was approximately \$99,000.

At July 31, 2020, there were no open construction contracts.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

5. Defined Contribution Plan

The Hospital participates in the System's defined contribution pension plan covering substantially all eligible employees. Employees may deposit a portion of their earnings for each pay period on a pre-tax basis and the System matches 50% of each participant's voluntary contributions up to a maximum of 6% of the employee's annual salary. At its discretion, the System may make additional contributions to the plan. Matching and discretionary contribution expense was approximately \$119,000 and \$109,000 for the years ended July 31, 2020 and 2019, respectively.

6. Employee Health Insurance

The Hospital participates in the System's self-insurance program under which a third-party administrator processes and pays claims. The Hospital reimburses the third-party administrator for claims incurred and paid. In addition, the Hospital participates in a shared group financing layer agreement with other Georgia hospitals through a program offered by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims. Effective January 1, 2016, the parameters of the program changed to include covered claims between \$225,000 and \$650,000. Each participant in the program is responsible for a portion of the shared claims based on their percentage of the total claims for the group. Additional insurance has been obtained to provide coverage for claims exceeding \$650,000. Total expenses related to this plan were approximately \$1,606,000 and \$1,289,000 for 2020 and 2019, respectively.

7. Malpractice Insurance

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

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

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

7. 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 \$750,000 per loss, per insured, in excess of \$250,000 per loss, per insured. Under the clash coverage, the reinsurer shall pay up to \$750,000 per loss occurrence, in excess of \$250,000 per loss occurrence. The maximum amount recoverable for both of these coverage's combined shall not exceed 300% of the maximum subject premium or \$6,000,000, whichever is greater. Under the excess of limits coverage, the reinsurer shall pay up to \$5,000,000 for 2020 and up to \$4,000,000 for 2019 per loss, per insured, in excess of \$1,000,000, per loss, per insured. The maximum amount recoverable for this coverage shall not exceed \$10,000,000 for 2020 and \$8,000,000 for 2019. The reinsurance treaty provides for adjustable premiums based on ceded losses up to a stated maximum. Such adjustments are recorded in the period when they become known.

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

Various claims and assertions have been made against the Hospital 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.

8. Concentrations of Credit Risk

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

	<u>2020</u>	<u>2019</u>
Medicare	50%	43%
Medicaid	4%	8%
Other third-party payors	38%	43%
Patients	<u>8%</u>	<u>6%</u>
Total	<u>100%</u>	<u>100%</u>

At July 31, 2020, the Hospital 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 are minimal.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

9. Due to Related Parties

Related party transactions as of July 31, 2020 and 2019 consist of the following:

	<u>2020</u>	<u>2019</u>
Due to Phoebe Putney Health System, Inc.	<u>\$ 18,554,000</u>	<u>\$ 13,758,000</u>

The related party transactions that affect the above payables arise from normal management related services, physician practice operations, and other shared cost in the ordinary course of business.

10. Functional Expenses

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

	<u>2020</u>		
	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 5,276,000	\$ 519,000	\$ 5,795,000
Employee health and welfare	2,171,000	183,000	2,354,000
Medical supplies and other	2,381,000	948,000	3,329,000
Purchased services	3,934,000	1,323,000	5,257,000
Depreciation and amortization	364,000	326,000	690,000
Interest	21,000	19,000	40,000
	<u>\$ 14,147,000</u>	<u>\$ 3,318,000</u>	<u>\$ 17,465,000</u>
	<u>2019</u>		
	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 5,071,000	\$ 490,000	\$ 5,561,000
Employee health and welfare	1,991,000	180,000	2,171,000
Medical supplies and other	2,175,000	998,000	3,173,000
Purchased services	3,692,000	1,289,000	4,981,000
Depreciation and amortization	299,000	205,000	504,000
Interest	-	-	-
	<u>\$ 13,228,000</u>	<u>\$ 3,162,000</u>	<u>\$ 16,390,000</u>

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

10. Functional Expenses, Continued

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

11. 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 Hospital.

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 Hospital has implemented a compliance plan focusing on such issues. There can be no assurance that the Hospital will not be subjected to future investigations with accompanying monetary damages.

Litigation

The Hospital 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 Hospital's future financial position or results from operations. See malpractice insurance disclosures in Note 7.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

12. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals and corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2024. The Hospital submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2020 and 2019. Contributions received under the program approximated \$152,000 and \$2,522,000, during fiscal years 2020 and 2019, respectively. The funds are included in contributions and other nonoperating gains and losses on the statements of operations and changes in net assets. The Hospital will have to be approved by the State to participate in the program in each subsequent year.

13. Liquidity and Availability

As of July 31, 2020 and 2019, the Hospital has working capital of approximately \$8,430,000 and \$5,040,000 and average days (based on normal expenditures) cash on hand of 228 and 79 days, respectively.

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

	<u>2020</u>	<u>2019</u>
Cash	\$ 10,491,000	\$ 3,440,000
Patient accounts receivable, net	1,857,000	1,951,000
Other current assets - other receivables	2,000	14,000
Estimated third-party payor settlements	501,000	489,000
Less: Conditional CARES Act refundable advance	<u>3,528,000</u>	<u>-</u>
Total financial assets available	<u>\$ 9,323,000</u>	<u>\$ 5,894,000</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 Hospital has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Hospital is supported by the System. See Note 14 for additional information.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

14. Economic Dependency

The Hospital is a wholly-owned subsidiary of the System and receives a substantial portion of its funds for operations from the System. Without the continued support from the System, there would be substantial doubt about the Hospital's ability to continue as a going concern. The System has the ability and intent to continue to support the Hospital.

15. Leases

The Hospital has operating and finance leases for buildings and equipment. The Hospital 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 balance sheets.

The Hospital 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 Hospital 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 Hospital's right to use an underlying asset during the lease term, and lease liabilities represent the Hospital'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 Hospital'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 Hospital's operating leases do not provide an implicit rate, the Hospital uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Hospital 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 WORTH MEDICAL CENTER, INC.

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

15. Leases, Continued

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

Operating leases:	
Right-of-use assets:	
Operating lease right-of-use assets	\$ <u>1,000</u>
Lease liabilities:	
Current portion	\$ -
Long-term	<u>1,000</u>
Total operating lease liabilities	<u>\$ 1,000</u>
Finance leases:	
Right-of-use assets:	
Property and equipment, net	\$ <u>614,000</u>
Lease liabilities:	
Current portion	\$ 98,000
Long-term	<u>583,000</u>
Total finance lease liabilities	<u>\$ 681,000</u>

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

<u>Lease Type</u>	
Operating lease cost	\$ -
Finance lease interest	36,000
Finance lease amortization	<u>104,000</u>
Total lease cost	<u>\$ 140,000</u>

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

Operating cash flows from operating leases	\$ -
Operating cash flows from finance leases	33,000
Financing cash flows from finance leases	<u>89,000</u>
Total	<u>\$ 122,000</u>

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

15. Leases, Continued

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

<u>Year Ending July 31</u>	<u>Finance</u>	<u>Operating</u>
2021	\$ 129,000	\$ 1,000
2022	126,000	-
2023	126,000	-
2024	121,000	-
2025	89,000	-
Thereafter	<u>234,000</u>	<u>-</u>
Total undiscounted cash flows	825,000	1,000
Less: present value discount	<u>(144,000)</u>	<u>-</u>
Total lease liabilities	<u>\$ 681,000</u>	<u>\$ 1,000</u>

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

Weighted-average remaining lease term (years):

Operating leases	3.92
Finance leases	7.83

Weighted-average discount rate:

Operating leases	5.00%
Finance leases	5.00%

16. 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 Hospital'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 Hospital'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 Hospital's financial position or results of operations is uncertain.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

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

16. Coronavirus (COVID-19), Continued

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 will 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 Hospital 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 statements of operations and changes in net assets. The Hospital received approximately \$4,982,000 in grant stimulus funding in fiscal year 2020, of which approximately \$1,454,000 was recognized as operating revenues in the statements of operations and changes in net assets.

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



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
Phoebe Worth Medical Center, Inc.
Sylvester, Georgia

We have audited the financial statements of Phoebe Worth Medical Center, Inc. as of and for the years ended July 31, 2020 and 2019 and our report thereon dated January 18, 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 financial statements as a whole. The information included in this report on pages 27 thru 28, which is the responsibility of management, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

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

Albany, Georgia
January 18, 2021

PHOEBE WORTH MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY

July 31, 2020

Phoebe Worth Medical Center (Hospital) is a not-for-profit health care organization that exists to serve the community. The Hospital has no stockholders or owners, and is part of the not-for-profit Phoebe Putney Health System, Inc. After operating expenses are covered, any remaining revenues are reinvested in the operation of the Hospital in order to enhance our ability to carry out our local mission of taking care of our communities' citizens.

The Hospital participates in the Medicare and Medicaid programs which cover many Georgian's health care needs, and by so doing, foregoes some charges and has unreimbursed expenses. The Hospital also offers Financial Assistance to individuals unable to pay for their healthcare services. Indigent Financial Assistance, or free care, is offered to patients whose household income is at or below 125% of the Federal Poverty Guidelines. Patients whose income level is between 126% - 400% of the Federal Poverty Levels will be classified as charity and receive their needed healthcare services at a discounted rate. The following table summarizes the amounts of charges foregone (i.e., contractual adjustments) and estimates the losses incurred by the Hospital due to inadequate payments by these programs and for indigent/charity services. The Hospital also operates a Rural Health Clinic (RHC) which also foregoes some charges and has costs not reimbursed through patients qualifying for these same indigent and charity programs. The amounts listed below are all inclusive of both Hospital and Clinic activities.

	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Medicare	\$ 9,000,000	\$ 4,000,000
Medicaid	5,000,000	2,000,000
Indigent/Charity	<u>3,000,000</u>	<u>1,000,000</u>
Totals	<u>\$ 17,000,000</u>	<u>\$ 7,000,000</u>

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

I. Community Health Improvement Services

A. Community Health Education

Senior Center Health Fair

The Hospital provides time throughout the year to speak to Seniors about services offered at Phoebe Worth and various other health and wellness topics. The Hospital also offers medical screenings at these events. The Hospital incurred expenses of \$2,800 for these services.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2020

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

Various Other Speaking Engagements and Health Fairs

The Hospital participated in various other community events throughout the year, including church gatherings, Health Fairs for County employees, New School System employee orientations, etc. At these events, the Hospital offered health screenings and/or speaking on various health and wellness topics. Expenses for these types of gatherings are nominal but serve an important role with community ties within Worth County.

II. Financial and In-Kind Support

The Hospital supports the community through providing office space for ASPIRE Behavioral Health so that they are able to offer more behavioral health services to the citizens of Worth County. The support provides much needed mental health services as determined by our Community Health Needs Assessment. The fair market value of the Hospital's contribution of space totals \$4,800 per year.

The Hospital supports the Health Department through contributions towards their programs directed at educating, screening, treating, and assisting with the costs of supplies and medications for low income individuals battling high blood pressure and diabetes. The financial support enables the Health Department to operate its Stroke and Heart Attack Prevention (SHAPP) and Diabetes Program. The Hospital's contribution totaled \$45,619.

The Hospital participates in the Worth County disaster drill each year as the Community Emergency Responders host a Community-Wide Drive-Thru Flu Clinic. The Hospital assists with staffing the event that offers community members flu vaccinations. The Hospital incurred expenses of \$800 for the nurse staff involved in servicing the event.

The Hospital supports the local Sylvester/Worth County Cancer Coalition and the events they offer the community. During the Christmas season, the Hospital hosted the Coalition and community at a tree-lighting event and offered snacks and hot chocolate. The Hospital coordinated a local speaker who provided her testimonial of her experience with Cancer and her story of survival.

The Hospital engages with the community in various other ways as well, including participation in local events ranging from the local law enforcement "Night Out Against Crime" to the annual community Peanut Festival. The Hospital acts as corporate sponsors to ensure the community can offer these types of events. The Hospital also provides staffing for the informational tents, which inform the community about the service offerings at the Hospital. The Hospital participates in local civic clubs and supports leadership in their roles on the local chamber boards and other community clubs.

See independent auditor's report on supplemental information.