

PHOEBE WORTH MEDICAL CENTER, INC.



FINANCIAL STATEMENTS

for the years ended July 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Phoebe Worth Medical Center, Inc. as of July 31, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the results of its operations and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Draffin & Tucker, LLP

Albany, Georgia
January 15, 2013

PHOEBE WORTH MEDICAL CENTER, INC.

BALANCE SHEETS, July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash	\$ 2,955,604	\$ 1,410,544
Patient accounts receivable, net of allowance for doubtful accounts of \$2,500,000 in 2012 and \$2,400,000 in 2011	2,589,868	2,230,132
Supplies, at lower of cost (first-in, first-out) or market	156,750	162,599
Other current assets	<u>151,544</u>	<u>260,426</u>
Total current assets	5,853,766	4,063,701
Property and equipment, net	<u>3,298,450</u>	<u>3,548,652</u>
Total assets	\$ <u>9,152,216</u>	\$ <u>7,612,353</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable	\$ 303,201	\$ 378,966
Accrued expenses	1,301,634	1,086,772
Estimated third-party payor settlement	<u>213,825</u>	<u>546,000</u>
Total current liabilities	1,818,660	2,011,738
Due to related parties	<u>8,684,854</u>	<u>6,008,099</u>
Total liabilities	10,503,514	8,019,837
Unrestricted net assets	(<u>1,351,298</u>)	(<u>407,484</u>)
Total liabilities and unrestricted net assets	\$ <u>9,152,216</u>	\$ <u>7,612,353</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenues, gains, and other support:		
Net patient service revenue	\$ 18,151,025	\$ 16,881,988
Other revenue	<u>970,904</u>	<u>641,169</u>
Total revenues, gains, and other support	<u>19,121,929</u>	<u>17,523,157</u>
Expenses:		
Salaries and wages	7,114,487	6,627,123
Employee health and welfare	2,434,889	1,911,717
Medical supplies and other	3,949,696	3,839,276
Purchased services	3,218,176	3,015,510
Depreciation and amortization	365,278	457,800
Provision for bad debts	<u>2,983,217</u>	<u>3,247,898</u>
Total expenses	<u>20,065,743</u>	<u>19,099,324</u>
Excess expenses over revenues	(943,814)	(1,576,167)
Unrestricted net assets, beginning of year	(<u>407,484</u>)	<u>1,168,683</u>
Unrestricted net assets, end of year	\$(<u>1,351,298</u>)	\$(<u>407,484</u>)

See accompanying notes to financial statements.

PHOEBE WORTH MEDICAL CENTER, INC.

STATEMENTS OF CASH FLOWS
for the years ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Excess expenses over revenues	\$(943,814)	\$(1,576,167)
Adjustments to reconcile excess expenses over revenues to net cash used by operating activities:		
Depreciation and amortization	365,278	457,800
Changes in:		
Patient accounts receivable	(359,736)	(106,394)
Estimated third-party payor settlements	(332,175)	(80,000)
Supplies	5,849	(14,055)
Other current assets	108,882	94,831
Accounts payable	(75,765)	(212,239)
Accrued expenses	<u>214,862</u>	<u>556,652</u>
Net cash used by operating activities	<u>(1,016,619)</u>	<u>(879,572)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(115,076)</u>	<u>(672,291)</u>
Cash flows from financing activities:		
Advances from related parties	4,952,499	4,741,219
Payments to related parties	<u>(2,275,744)</u>	<u>(3,586,390)</u>
Net cash provided by financing activities	<u>2,676,755</u>	<u>1,154,829</u>
Net increase (decrease) in cash	1,545,060	(397,034)
Cash at beginning of year	<u>1,410,544</u>	<u>1,807,578</u>
Cash at end of year	\$ <u>2,955,604</u>	\$ <u>1,410,544</u>

See accompanying notes to financial statements.

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

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). On May 1, 2002, the System purchased certain assets and liabilities and all operations of Phoebe Worth Medical Center, formerly Baptist Worth Hospital, Inc. 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.

Allowance For Doubtful Accounts

The Hospital provides an allowance for doubtful accounts based on an evaluation of the overall collectibility of the accounts receivable. As accounts are known to be uncollectible, the account is charged against the allowance.

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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess expenses over 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 restricted support. 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.

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, 2012 and 2011.

Excess Expenses Over Revenues

The statement of operations and changes in net assets includes excess expenses over revenues. Changes in unrestricted net assets which are excluded from excess expenses over revenues, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

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 estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final 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.

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

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

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2012 and 2011 or for the years then ended. The Hospital's open audit periods are for tax years ended 2009-2011.

Recently Issued Accounting Pronouncement

In 2012, the Hospital adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under the ASU, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities are to be presented separately on the balance sheet. The Hospital's adoption of the ASU did not have a material effect on the financial statements.

In July 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provisions for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The ASU requires health care entities to change the presentation of the statement of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues. Additionally, the guidance requires enhanced disclosures about the policies for recognizing revenue, assessing bad debts and qualitative and quantitative information about the changes in allowance for doubtful accounts. The guidance is effective for fiscal years beginning after December 15, 2011, with early adoption permitted. The Hospital has not early adopted this guidance. While this standard will have no impact on the Hospital's financial position or results of operations, it will require the Hospital to reclassify the provision for bad debts from operating expenses to a component of net revenues for the fiscal year ended July 31, 2013, with retrospective application required.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Subsequent Event

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through January 15, 2013, the date the financial statements were available to be issued.

2. Net Patient Service Revenue

The Hospital has arrangements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The Hospital does not believe that there are any significant credit risks associated with receivables due from third-party payors.

Revenue from the Medicare and Medicaid programs accounted for approximately 37% and 7%, respectively, of the Hospital's net patient revenue for the year ended July 31, 2012 and 36% and 6%, respectively, of the Hospital's net patient revenue for the year ended July 31, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Cost report estimated reimbursement amounts are adjusted in subsequent periods as final settlements are determined. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from Medicare and Medicaid programs.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Net Patient Service Revenue, Continued

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.

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, 2010.

- 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, 2009.

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.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

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 \$1,050,000 and \$899,000 for the years ended July 31, 2012 and 2011, 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 \$80,000 and \$131,000 for the years ended July 31, 2012 and 2011, respectively.

- Other Agreements

The Hospital has also entered into payment arrangements with certain commercial insurance carriers, health management 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.

3. Uncompensated Services

The Hospital was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2012 and 2011 were approximately \$16,700,000 and \$16,600,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$5,000,000 and \$4,700,000 in 2012 and 2011, respectively. The cost of charity and indigent care services provided during 2012 and 2011 were approximately \$2,700,000 and \$2,500,000, respectively, computed by applying a total cost factor to the charges foregone.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

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 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Gross patient charges	\$ <u>31,818,243</u>	\$ <u>30,227,592</u>
Uncompensated services:		
Charity and indigent care	5,000,252	4,719,630
Medicare	3,718,027	3,802,837
Medicaid	2,637,202	2,585,642
Other allowances	2,311,737	2,237,495
Bad debts	<u>2,983,217</u>	<u>3,247,898</u>
Total uncompensated care	16,650,435	16,593,502
Less bad debts	<u>2,983,217</u>	<u>3,247,898</u>
Deductions from patient service revenue	<u>13,667,218</u>	<u>13,345,604</u>
Net patient service revenue	\$ <u>18,151,025</u>	\$ <u>16,881,988</u>

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

4. Property and Equipment

A summary of property and equipment at July 31, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 199,293	\$ 199,292
Leasehold improvements	114,923	114,923
Buildings and improvements	3,063,344	3,173,048
Equipment	<u>3,560,170</u>	<u>3,410,339</u>
	6,937,730	6,897,602
Less accumulated depreciation and amortization	<u>3,639,280</u>	<u>3,348,950</u>
Property and equipment, net	\$ <u>3,298,450</u>	\$ <u>3,548,652</u>

Depreciation expense was \$365,000 and \$458,000 for the years ended July 31, 2012 and 2011, respectively.

5. Defined Contribution Plan

Hospital employees may participate in the Phoebe Putney Health System 403(b) Deferred Savings Plan (Plan). All employees are eligible to participate in the Plan. Each employee may contribute up to 100% of their adjusted salary, up to the federal limit. The System matches 50% of each participant's contributions up to a maximum of 4%. Employees are fully vested in the System's matching contributions after three years of service. At its discretion, the Hospital may make additional contributions to the Plan. Contribution expense was approximately \$255,000 and \$300,000 for the years ended July 31, 2012 and 2011, respectively.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

6. Employee Health Insurance

The Hospital has a 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 and has purchased stop-loss insurance coverage for claims in excess of \$150,000 for each individual employee. Total expenses relative to this plan were approximately \$1,603,000 and \$838,000 for 2012 and 2011, respectively.

7. Malpractice Insurance

The Hospital is covered by a claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis through the parent's wholly owned subsidiary, Phoebe Putney Indemnity, LLC (PPI), located in South Carolina. Effective August 1, 2006, PPI issued a claims-made policy covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability of the Hospital with a retroactive date of January 1, 1990. Effective August 1, 2007 and renewing annually, PPI issued a policy with limits of \$5,000,000 per occurrence, with an annual aggregate of \$15,000,000.

PPI also provides excess liability coverage to the Hospital, which covers \$25,000,000 per occurrence in excess of the underlying insurance coverage of \$30,000,000 for the policy years ending July 31, 2012 and 2011. The excess policy has an annual aggregate limit of \$25,000,000. 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.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

8. Concentrations of Credit Risk

The Hospital grants credit without collateral to 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, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	23%	28%
Medicaid	10%	9%
Blue Cross	2%	5%
Other third-party payors	29%	18%
Patients	<u>36%</u>	<u>40%</u>
Total	<u>100%</u>	<u>100%</u>

At July 31, 2012, 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.

9. Related Party Transactions

	<u>2012</u>	<u>2011</u>
Due to Phoebe Physician Group, Inc.	\$ -	\$(123,585)
Due to Phoebe Putney Health System, Inc.	(<u>8,684,854</u>)	(<u>5,884,514</u>)
Total	\$(<u>8,684,854</u>)	\$(<u>6,008,099</u>)

The related party transactions that affect the above payables arise from normal management related services and physician practice operations.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

10. Functional Expenses

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

	<u>2012</u>	<u>2011</u>
Patient care services	\$ 13,800,831	\$ 12,570,798
General and administrative	2,916,417	2,822,828
Depreciation and amortization	365,278	457,800
Provision for bad debts	<u>2,983,217</u>	<u>3,247,898</u>
Total	\$ <u>20,065,743</u>	\$ <u>19,099,324</u>

11. Commitments and Contingencies

Compliance Plan

The healthcare industry has recently 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. 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.

Health Care Reform

In recent years, there has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare on the national or at the state level. In 2010 legislation was enacted which included cost controls on hospitals, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of certain provisions 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.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

11. Commitments and Contingencies, Continued

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.

12. Economic Dependency

The Hospital 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.

13. Electronic Health Record Incentive Payments

The Health Information Technology for Economic and Clinical Health Act (the HITECH Act) was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in Medicare reimbursements beginning in FY 2015. On July 13, 2010, the Department of Health and Human Services (DHHS) released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages: I, II and III. The final rules specify the initial criteria for physicians and eligible hospitals necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued

13. Electronic Health Record Incentive Payments, Continued

The final rule set the earliest interim payment date for the incentive payment at May 2011. The first year of the Medicare portion of the program is defined as the federal government fiscal year October 1, 2010 to September 30, 2011.

The Hospital recognizes income related to the Medicaid incentive payment using a grant model based upon when it has determined that it is reasonably assured that the Hospital will be meaningfully using EHR technology for the applicable period and the cost report information is reasonably estimable.

As of July 31, 2012, the Hospital has not met the criteria for meaningful use for either the Medicare or Medicaid programs. However, the Hospital is eligible and did receive the first payment under the Medicaid program since it was able to demonstrate the pursuit of meaningful use. During 2012, the Hospital received approximately \$364,000 which is reported in other revenue on the statement of operations and changes in net assets.

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, 2012 and 2011 and our report thereon dated January 15, 2013, which expressed an unqualified opinion on those financial statements, appears on page 1. 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 page 20, 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.

Draffin & Tucker, LLP
Albany, Georgia
January 15, 2013

PHOEBE WORTH MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY

Phoebe Worth Medical Center 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.

In 2012, we worked with the Worth County Health Department to enable them to support two health prevention type programs. One program was Stroke and Heart Attack Prevention (SHAPP), the second program was a Diabetes program. We supported the Health Department with a check of \$45,619.

The Medical Center 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. Charges foregone, described as contractual adjustments, and costs not reimbursed, described as indigent or charity care are outlined below. The Medical Center also operates two Rural Health Clinics (RHCs) which also forego some charges and have 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.

Medicare contractual adjustments	\$ 3,718,027
Medicaid contractual adjustments	2,637,202
Charity and indigent care provided at cost	<u>5,000,252</u>
Totals	\$ <u>11,355,481</u>

Patients whose income falls below 225% of Federal Poverty Guidelines are eligible to apply for assistance through the indigent program.

Another \$1,750 in miscellaneous donations is made locally to aid the sheriff's department, local middle school, local high school, and South West Georgia Autism programs.