

PHOEBE WORTH MEDICAL CENTER, INC.



FINANCIAL STATEMENTS

for the years ended July 31, 2017 and 2016

## C O N T E N T S

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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, 2017 and 2016, 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.

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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.

### *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, 2017 and 2016, 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 12 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.

*Draffin & Tucker, LLP*  
Albany, Georgia  
January 17, 2018

PHOEBE WORTH MEDICAL CENTER, INC.

BALANCE SHEETS, July 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash	\$ 2,463,000	\$ 3,092,000
Patient accounts receivable, net of allowance for doubtful accounts of \$909,000 in 2017 and \$2,284,000 in 2016	1,715,000	1,722,000
Supplies, at lower of cost (first-in, first-out) or market	132,000	162,000
Other current assets	90,000	232,000
Estimated third-party payor settlement	<u>-</u>	<u>85,000</u>
Total current assets	4,400,000	5,293,000
Property and equipment, net	4,751,000	4,561,000
Other assets	<u>7,000</u>	<u>-</u>
Total assets	\$ <u>9,158,000</u>	\$ <u>9,854,000</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable	\$ 182,000	\$ 278,000
Accrued expenses	820,000	1,129,000
Estimated third-party payor settlement	<u>491,000</u>	<u>-</u>
Total current liabilities	1,493,000	1,407,000
Due to related parties	<u>14,053,000</u>	<u>14,680,000</u>
Total liabilities	15,546,000	16,087,000
Unrestricted net assets (deficit)	( <u>6,388,000</u> )	( <u>6,233,000</u> )
Total liabilities and unrestricted net assets	\$ <u>9,158,000</u>	\$ <u>9,854,000</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 17,982,000	\$ 20,900,000
Provision for bad debts	<u>( 3,018,000)</u>	<u>( 6,271,000)</u>
Net patient service revenue	14,964,000	14,629,000
Other revenue	<u>243,000</u>	<u>715,000</u>
Total revenues, gains, and other support	<u>15,207,000</u>	<u>15,344,000</u>
Expenses:		
Salaries and wages	4,907,000	5,800,000
Employee health and welfare	1,245,000	2,393,000
Medical supplies and other	3,338,000	3,195,000
Purchased services	4,964,000	4,806,000
Depreciation and amortization	<u>908,000</u>	<u>805,000</u>
Total expenses	<u>15,362,000</u>	<u>16,999,000</u>
Excess expenses over revenues	<u>( 155,000)</u>	<u>( 1,655,000)</u>
Unrestricted net assets (deficit), beginning of year	<u>( 6,233,000)</u>	<u>( 4,578,000)</u>
Unrestricted net assets (deficit), end of year	<u>\$( 6,388,000)</u>	<u>\$( 6,233,000)</u>

See accompanying notes to financial statements.

PHOEBE WORTH MEDICAL CENTER, INC.

STATEMENTS OF CASH FLOWS  
for the years ended July 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Excess expenses over revenues	\$( 155,000)	\$( 1,655,000)
Adjustments to reconcile excess expenses over revenues to net cash provided (used) by operating activities:		
Depreciation and amortization	908,000	805,000
Changes in:		
Patient accounts receivable	7,000	166,000
Estimated third-party payor settlements	576,000	( 621,000)
Supplies	30,000	7,000
Other assets	135,000	( 86,000)
Accounts payable	( 96,000)	( 139,000)
Accrued expenses	( 309,000)	<u>109,000</u>
Net cash provided (used) by operating activities	<u>1,096,000</u>	<u>( 1,414,000)</u>
Cash flows from investing activities:		
Purchase of property and equipment	( 1,098,000)	( 576,000)
Cash flows from financing activities:		
Advances from related parties	6,816,000	6,752,000
Payments to related parties	( 7,443,000)	( 4,511,000)
Net cash provided (used) by financing activities	( 627,000)	<u>2,241,000</u>
Net increase (decrease) in cash	( 629,000)	251,000
Cash at beginning of year	<u>3,092,000</u>	<u>2,841,000</u>
Cash at end of year	\$ <u>2,463,000</u>	\$ <u>3,092,000</u>

Supplemental disclosure of cash flow information:

Equipment in related party payables was approximately \$-0- and \$876,000 in 2017 and 2016, respectively.

See accompanying notes to financial statements.

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

July 31, 2017 and 2016

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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.

Allowance For Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

1. Summary of Significant Accounting Policies, Continued

Allowance For Doubtful Accounts, Continued

The Hospital's allowance for doubtful accounts for self-pay patients decreased from 98% of self-pay accounts receivable at July 31, 2016 to 86% of self-pay accounts receivable at July 31, 2017. The decrease was a result of the Hospital implementing strategies to better identify accounts receivable associated with patient balances after insurance or another third-party has paid. These accounts are more likely to be collectible than true self-pay accounts. The Hospital updated its Financial Assistance Policy during 2017 as discussed in Note 2.

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.

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, 2017 and 2016.

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PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

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1. Summary of Significant Accounting Policies, Continued

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).

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.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

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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 sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2017 and 2016 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.

Subsequent Event

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through January 17, 2018, the date the financial statements were available to be issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2016 financial statements to conform to the fiscal year 2017 presentation. These reclassifications had no impact on the change in net assets in the accompanying financial statements.

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PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

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.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

July 31, 2017				
Patient Service Revenue				
(Net of Contractual Allowances and Discounts)				
<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
\$ <u>7,734,000</u>	\$ <u>3,166,000</u>	\$ <u>5,386,000</u>	\$ <u>1,696,000</u>	\$ <u>17,982,000</u>

July 31, 2016				
Patient Service Revenue				
(Net of Contractual Allowances and Discounts)				
<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
\$ <u>8,333,000</u>	\$ <u>1,732,000</u>	\$ <u>4,315,000</u>	\$ <u>6,520,000</u>	\$ <u>20,900,000</u>

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PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

2. Net Patient Service Revenue, Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 21%, respectively, of the Hospital's net patient revenue for the year ended July 31, 2017 and 57% and 12%, respectively, of the Hospital's net patient revenue for the year ended July 31, 2016. 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.

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, 2015.

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PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

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2. Net Patient Service Revenue, Continued

- Medicaid

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

Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The 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, 2014.

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 \$1,266,000 and \$1,229,000 for the years ended July 31, 2017 and 2016, 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 \$-0- and \$41,000 for the years ended July 31, 2017 and 2016, respectively.

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PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

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2. Net Patient Service Revenue, Continued

- Other Agreements

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

In 2017, the Hospital updated 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 private health insurance, including payments received from beneficiaries and insured patients, by the sum of the associated gross charges for those claims.

3. Uncompensated Services

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

Charges for uncompensated services for 2017 and 2016 were approximately \$23,458,000 and \$22,568,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$6,487,000 and \$1,764,000 in 2017 and 2016, respectively. The cost of charity and indigent care services provided during 2017 and 2016 was approximately \$2,594,000 and \$807,000, 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, 2017 and 2016

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 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Gross patient charges	\$ <u>38,422,000</u>	\$ <u>37,197,000</u>
Uncompensated services:		
Charity and indigent care	6,487,000	1,764,000
Medicare	6,844,000	6,548,000
Medicaid	4,463,000	4,687,000
Other allowances	2,646,000	3,298,000
Bad debts	<u>3,018,000</u>	<u>6,271,000</u>
Total uncompensated care	<u>23,458,000</u>	<u>22,568,000</u>
Net patient service revenue	\$ <u>14,964,000</u>	\$ <u>14,629,000</u>

4. Property and Equipment

A summary of property and equipment at July 31, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 207,000	\$ 207,000
Leasehold improvements	115,000	115,000
Buildings and improvements	4,327,000	3,507,000
Equipment	<u>6,601,000</u>	<u>6,366,000</u>
	11,250,000	10,195,000
Less accumulated depreciation and amortization	<u>6,499,000</u>	<u>5,634,000</u>
Property and equipment, net	\$ <u>4,751,000</u>	\$ <u>4,561,000</u>

Depreciation expense was approximately \$908,000 and \$805,000 for the years ended July 31, 2017 and 2016, respectively.

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PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

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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 4% of the employee's annual salary. Effective January 1, 2017, the System increased its match to 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 \$(17,000) and \$123,000 for the years ended July 31, 2017 and 2016, respectively. Expense for the year ended July 31, 2017 includes adjustments to recorded estimates due to a change in the System's policy.

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. For fiscal year 2016 through December 31, 2015, the claims included in the financing program were covered claims between \$150,000 and \$500,000. 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 \$625,000 and \$1,777,000 for 2017 and 2016, respectively.

7. Malpractice Insurance

The Hospital is covered by the System's claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis through the System's wholly-owned subsidiary, Phoebe Putney Indemnity, LLC (PPI), located in South Carolina. The System's policy with PPI includes limit of liability of \$5,000,000 per occurrence, with an annual aggregate of \$27,000,000 at July 31, 2017 and 2016.

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PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

7. Malpractice Insurance, Continued

Effective August 1, 2015, PPI purchased excess of loss reinsurance coverage in order to limit its financial exposure to large claims relating to employed physicians and surgeons. Under the per risk coverage, the reinsurer shall pay up to \$750,000 per loss, per insured, in excess of \$250,000 per loss, per insured. Under the clash coverage, the reinsurer shall pay up to \$750,000 per loss occurrence, in excess of \$250,000 per loss occurrence. The maximum amount recoverable for both of these coverages combined shall not exceed 40% of the subject premium or \$6,000,000, whichever is greater. Under the excess of limits coverage, the reinsurer shall pay up to \$4,000,000 per loss, per insured, in excess of \$1,000,000, per loss, per insured. The maximum amount recoverable for this coverage shall not exceed \$8,000,000. The reinsurance treaty provides for adjustable premiums based on ceded losses up to a stated maximum.

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

Various claims and assertions have been made against the 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 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, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Medicare	55%	52%
Medicaid	5%	4%
Other third-party payors	29%	41%
Patients	<u>11%</u>	<u>3%</u>
Total	<u>100%</u>	<u>100%</u>

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

8. Concentrations of Credit Risk, Continued

At July 31, 2017, the Hospital had deposits at major financial institutions which exceeded the Federal Deposit Insurance Corporation limits. Management believes the credit risks related to these deposits are minimal.

9. Related Party Transactions

Related party transactions as of July 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Due to Phoebe Putney Health System, Inc.	\$ <u>14,053,000</u>	\$ <u>14,680,000</u>

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

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>2017</u>	<u>2016</u>
Patient care services	\$ 12,740,000	\$ 14,174,000
General and administrative	<u>2,622,000</u>	<u>2,825,000</u>
Total	\$ <u>15,362,000</u>	\$ <u>16,999,000</u>

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2017 and 2016

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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.

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.

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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, 2017 and 2016 and our report thereon dated January 17, 2018, 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 20 thru 23, 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.

*Driffin & Tucker, LLP*  
Albany, Georgia  
January 17, 2018

PHOEBE WORTH MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY

July 31, 2017

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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% - 200% 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 forgone (i.e., contractual adjustments) and estimates the losses incurred by the Corporation 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	\$ 7,000,000	\$ 3,000,000
Medicaid	4,000,000	2,000,000
Indigent/charity	<u>6,000,000</u>	<u>3,000,000</u>
Totals	\$ <u>17,000,000</u>	\$ <u>8,000,000</u>

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY, Continued  
July 31, 2017

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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 2017.

**I. Community Health Improvement Services**

A. Community Health Education

Women's Health Fair

The Hospital hosted a Women's Health Fair where community ladies had the opportunity to have a health screening, engage with local businesses who staffed vendor tables, try a group exercise called ShaBam, and listen to a local motivational speaker. The event was held at Unity Baptist Church in October 2016. The Hospital incurred expenses of \$1,000 for this event.

Senior Center Health Fair

The Hospital provides time throughout the year to speak to our Seniors about services offered at Phoebe Worth and various other health and wellness topics. We also offer medical screenings at these events. The Hospital incurred expenses of \$300 for these services.

Behavioral and Mental Health Services

The Hospital organized two community-wide meetings to conduct open discussions about Mental Health, which according to our latest Community Health Needs Assessment, is a large unmet health need in our community.

At the first meeting, efforts were geared towards building a Mental Health Coalition that would identify strategies and goals to ultimately create a health setting for community members in need of services. The first meeting included twelve key stakeholders. Attendees included leadership from our County Chamber, local Health Department, Behavioral Health providers, Family Connections, and Phoebe representatives. An action plan was created and the Hospital identified Coalition members to enhance their efforts. An agenda was created for the first Coalition meeting.

Continued

PHOEBE WORTH MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2017

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

A. Community Health Education, Continued

Behavioral and Mental Health Services, Continued

The second meeting included twenty-two attendees and was made up of law enforcement, city officials, Aspire (a Behavioral Health Provider), and the original key stakeholders. The agenda for the event included reviewing the Community Health Needs Assessment and outlining the identified need to address Behavioral and Mental Health issues, a presentation by Aspire highlighting the various resources and services they offer, and outlining next steps. The next steps included finding space for Aspire to utilize on a more frequent basis, applying for a grant under the 2 Georgia Initiative, and continuing to build the Coalition.

Between the second meeting and the fiscal year end, there were several smaller group meetings and/or email correspondences as we worked through the grant application and continued to work towards meeting our other stated next steps. As of fiscal year end 2017, the group was notified funding via the grant had been denied but efforts to address the unmet health need would continue and we would achieve meeting our community's health need.

**II. Financial and In-Kind Support**

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.

During the fiscal year, the community experienced devastating weather and during recovery, the community pulled together to ensure families were fed and had places to go. The Hospital responded to the community by donating time and providing hot meals or food supplies. Members of our team donated their time to help with staffing the main headquarter shelter and preparing meals. The Hospital incurred expenses of \$600.

Continued



PHOEBE WORTH MEDICAL CENTER, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2017

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**II. Financial and In-Kind Support, Continued**

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 where they offered snacks and hot chocolate. They coordinated a local speaker who provided her testimonial of her experience with Cancer and her story of survival. The Hospital has also provided staff and all food products and meal preparation for the annual Worth County Cancer Survivor Dinner. This event is inspiring for the community and the Hospital hosted community survivors under a Christmas themed evening event with a wonderful meal to help celebrate each of their survivor stories. The Hospital incurred expenses of \$600 for the dinner.

The Hospital engages with the community in various other ways as well. They support the community by participating 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.