

PHOEBE PUTNEY HEALTH SYSTEM, INC.



CONSOLIDATED FINANCIAL STATEMENTS

for the years ended July 31, 2023 and 2022



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CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-3
Consolidated Financial Statements:	
Balance Sheets	4-5
Statements of Operations and Changes in Net Assets	6-7
Statements of Cash Flows	8-9
Notes to Consolidated Financial Statements	10-60
Independent Auditor's Report on Consolidating Information	61
Consolidating Balance Sheets	62-69
Consolidating Statements of Excess Revenues (Expenses)	70-73
Independent Auditor's Report on Supplemental Information	74
Service to the Community	75-90
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	91-92



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Phoebe Putney Health System, Inc. (Corporation), which comprise the consolidated balance sheets as of July 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Phoebe Putney Health System, Inc. as of July 31, 2023 and 2022, and the results of operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Phoebe Putney Indemnity, Ltd., a wholly-owned subsidiary, which statements reflect approximately \$95,224,000 and \$91,284,000 of consolidated total assets as of July 31, 2023 and 2022, respectively, and approximately \$19,699,000 and \$16,532,000, respectively, of consolidated total operating revenues, gains, and other support, for the years then ended. Those statements were audited by other auditors in accordance with International Standards on Auditing, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Phoebe Putney Indemnity, Ltd., is based solely on the report of the other auditors. We have applied additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Phoebe Putney Health System, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of Phoebe Putney Indemnity, Ltd. were not audited in accordance with *Government Auditing Standards*.

Continued

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Phoebe Putney Health System, Inc.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user based on these consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Phoebe Putney Health System, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Phoebe Putney Health System, Inc.'s ability to continue as a going concern for a reasonable period of time.

Continued

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2023, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

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

Albany, Georgia
November 8, 2023

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS, July 31, 2023 and 2022

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 159,091	\$ 140,196
Patient accounts receivable, net	114,832	110,157
Supplies	22,429	23,309
Other current assets	<u>34,039</u>	<u>58,494</u>
Total current assets	<u>330,391</u>	<u>332,156</u>
Assets limited as to use:		
Internally designated for capital improvements	552,216	522,140
Internally designated for self-insurance	78,581	75,622
Held by trustee	78,335	-
Externally designated by donors	<u>11,712</u>	<u>11,676</u>
Total assets limited as to use	<u>720,844</u>	<u>609,438</u>
Property and equipment, net	<u>422,857</u>	<u>403,255</u>
Other assets:		
Deferred financing cost	610	675
Operating lease right-of-use assets	589	219
Goodwill	130,296	130,296
Other assets	<u>7,493</u>	<u>7,372</u>
Total other assets	<u>138,988</u>	<u>138,562</u>
Total assets	<u>\$ 1,613,080</u>	<u>\$ 1,483,411</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS, Continued, July 31, 2023 and 2022

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 8,880	\$ 9,927
Current portion of operating lease liabilities	260	107
Accounts payable	42,674	46,178
Accrued expenses	73,985	64,194
Estimated third-party payor settlements	3,719	4,945
Current portion of accrued self-insurance cost	-	22,392
Grant stimulus refundable advance	167	503
Current portion of Medicare accelerated and advance payments	<u>-</u>	<u>14,775</u>
Total current liabilities	129,685	163,021
Long-term debt, net of current portion	335,530	246,259
Operating lease liabilities, net of current portion	323	112
Accrued pension cost	23,339	47,582
Accrued self-insurance cost	80,240	74,399
Derivative financial instruments	<u>3,460</u>	<u>5,881</u>
Total liabilities	<u>572,577</u>	<u>537,254</u>
Net assets:		
Without donor restrictions	1,023,944	931,334
With donor restrictions:		
Purpose restrictions	14,535	12,799
Perpetual in nature	<u>2,024</u>	<u>2,024</u>
Total net assets	<u>1,040,503</u>	<u>946,157</u>
Total liabilities and net assets	<u>\$ 1,613,080</u>	<u>\$ 1,483,411</u>

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

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
for the years ended July 31, 2023 and 2022

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
Operating revenues, gains, and other support:		
Net patient service revenue	\$ 888,083	\$ 813,513
Other revenue	69,919	66,148
Grant stimulus funding	<u>342</u>	<u>28,023</u>
Total operating revenues, gains, and other support	<u>958,344</u>	<u>907,684</u>
Operating expenses:		
Salaries and wages	370,338	348,227
Employee health and welfare	77,897	76,981
Medical supplies and other	296,139	255,833
Purchased services	149,284	239,472
Depreciation and amortization	36,891	35,485
Interest	<u>11,295</u>	<u>6,332</u>
Total operating expenses	<u>941,844</u>	<u>962,330</u>
Operating income (loss)	16,500	(54,646)
Nonoperating income (loss):		
Investment and other nonoperating income (loss)	<u>51,957</u>	<u>(42,225)</u>
Excess revenues (expenses)	68,457	(96,871)
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	147	(338)
Net actuarial gain	20,972	7,970
Amortization of net loss	2,488	2,648
Capital contributions	<u>546</u>	<u>1,030</u>
Increase (decrease) in net assets without donor restrictions	<u>92,610</u>	<u>(85,561)</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS, Continued
for the years ended July 31, 2023 and 2022

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions:		
Restricted donations	\$ 2,593	\$ 2,708
Released from restriction to operations	<u>(857)</u>	<u>(1,442)</u>
Increase in net assets with donor restrictions	<u>1,736</u>	<u>1,266</u>
Increase (decrease) in net assets	94,346	(84,295)
Net assets, beginning of year	<u>946,157</u>	<u>1,030,452</u>
Net assets, end of year	<u>\$ 1,040,503</u>	<u>\$ 946,157</u>

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

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended July 31, 2023 and 2022

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 94,346	\$ (84,295)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Proceeds from capital contributions	(546)	(1,030)
Realized (gain) loss and changes in unrealized (gain) loss on investments	(38,730)	50,137
Loss on disposal of property and equipment	1,040	236
Loss on debt extinguishment	446	-
Depreciation and amortization	36,891	35,485
Change in interest in net assets of Sumter Regional Hospital Foundation, Inc.	(147)	338
Change in derivative financial instruments	(2,421)	(3,788)
Changes in:		
Patient accounts receivable	(4,675)	(3,688)
Supplies	880	1,025
Estimated third-party payor settlements	(1,226)	5,460
Grant stimulus refundable advance	(336)	(13,749)
Medicare accelerated and advance payments	(14,775)	(32,903)
Other assets	24,176	(25,074)
Accounts payable and accrued expenses	6,287	(3,388)
Accrued pension cost	(24,243)	(17,989)
Accrued self-insurance cost	(16,551)	25,963
	<u>60,416</u>	<u>(67,260)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Purchase of property and equipment	(57,447)	(38,794)
Proceeds from sale of property and equipment	174	95
Sale of assets limited as to use	240,740	287,538
Purchase of assets limited as to use	(313,416)	(290,660)
	<u>(129,949)</u>	<u>(41,821)</u>
Net cash used by investing activities		

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
for the years ended July 31, 2023 and 2022

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
Cash flows from financing activities:		
Payments on long-term debt	\$ (158,600)	\$ (7,582)
Payments on finance lease liabilities	(1,874)	(1,591)
Proceeds from issuance of long-term debt	248,356	-
Proceeds from capital contributions	<u>546</u>	<u>1,030</u>
Net cash provided (used) by financing activities	<u>88,428</u>	<u>(8,143)</u>
Increase (decrease) in cash and cash equivalents	18,895	(117,224)
Cash and cash equivalents, beginning of year	<u>140,196</u>	<u>257,420</u>
Cash and cash equivalents, end of year	<u>\$ 159,091</u>	<u>\$ 140,196</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 8,334</u>	<u>\$ 6,154</u>
Assets acquired through leases	<u>\$ 862</u>	<u>\$ 2,718</u>

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

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2023 and 2022

1. Summary of Significant Accounting Policies

Organization

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

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

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

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

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

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

Phoebe Putney Indemnity, Ltd. (PPI) was incorporated on November 14, 2018 as an exempted company under the Companies Law of the Cayman Islands. PPI is a wholly-owned subsidiary of Phoebe Putney Health System, Inc. established to provide general liability, professional liability, personal injury liability, advertising injury liability, contractual liability, and auto physical damage coverage to Phoebe Putney Health System, Inc.

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Reorganization

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

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

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

Use of Estimates

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. The Corporation routinely invests its surplus operating funds in money market mutual funds. Certain short-term, highly liquid investments temporarily held as part of the Corporation's long-term investment portfolio are excluded from cash and cash equivalents.

Supplies

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

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities, which are all classified as trading securities, are measured at fair value in the consolidated balance sheets. For investments in equity securities without a readily determinable fair value that do not qualify for the net asset value (NAV) practical expedient in ASC 820-10-35-59, an entity is permitted to elect a practicability exception to fair value measurement, under which the investment will be measured at cost, less impairment, plus or minus observable price changes (in orderly transactions) of an identical or similar investment of the same issuer. Investments qualifying for the equity method are stated at quoted net asset value of shares held at year end. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in excess revenues (expenses) unless the income or loss is restricted by donor or law.

Derivative Financial Instruments

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

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of net assets without donor restrictions. The ineffective component, if any, is recorded in excess revenues (expenses) in the period in which the hedge transaction affects earnings. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains or losses on the derivative are recorded in excess revenues (expenses). For derivative instruments not designated as hedging instruments, the unrealized gain or loss is recognized in nonoperating gains (losses) during the period of change.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Assets Limited as to Use

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

Property and Equipment

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as increases in net assets without donor restrictions, and are excluded from excess revenues (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.

Goodwill

Goodwill and intangible assets with indefinite lives are tested for impairment annually and more frequently in the event of an impairment indicator. Intangible assets with definite lives are amortized over their respective estimated useful lives, and reviewed whenever events or circumstances indicate impairment may exist.

The Corporation assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Corporation determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then an impairment loss for the amount by which the carrying amount exceeds the reporting unit's fair value is recorded.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Goodwill, Continued

As of July 31, 2023 and 2022 the Corporation has goodwill of approximately \$130,296,000. The Corporation has elected March 31st as its annual impairment assessment date. The Corporation also considered certain factors such as whether macroeconomic conditions, industry considerations, cost factors, and the sequence of events during the COVID-19 pandemic constituted a triggering event. The Corporation's evaluation determined it is not more likely than not that the reporting unit's fair value is less than its carrying value. The Corporation completed its annual impairment assessment and concluded that no goodwill or indefinite lived intangible asset impairment charge was required.

Refundable Advance

A refundable advance arises when assets are recognized before revenue recognition criteria has been satisfied. CARES Act and ARPA advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 22 for additional information.

Deferred Financing Cost

Costs related to the issuance of long-term debt were deferred and are being amortized using the straight-line method, which approximates the effective interest method, over the life of the related debt. Debt issuance costs related to a recognized debt liability are presented in the consolidated balance sheets as a direct deduction from the carrying amount of the related debt liability. Costs related to the issuance of derivative financial instruments were deferred and are being amortized. The unamortized derivative financing costs are included with other assets in the consolidated balance sheets.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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

Excess Revenues (Expenses)

The consolidated statements of operations and changes in net assets include excess revenues (expenses). Changes in net assets without donor restrictions which are excluded from excess revenues (expenses), consistent with industry practice, include adjustments to pension obligations, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the amount that reflects the consideration which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are included in the determination of the estimated transaction price and adjusted in future periods as settlements are determined.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Donor-Restricted Gifts

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

Estimated Malpractice and Other Self-Insurance Costs

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

Income Taxes

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

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

Based on the results of management's evaluation, no liability is recognized in the accompanying consolidated balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2023 and 2022 or for the years then ended. The Corporation's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Impairment of Long-Lived Assets

The Corporation evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Corporation has not recorded any impairment charges of long-lived assets in the accompanying consolidated statements of operations and changes in net assets for the years ended July 31, 2023 and 2022.

Fair Value Measurements

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

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

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

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

1. Summary of Significant Accounting Policies, Continued

Pension Plan

The Corporation sponsors a frozen defined benefit pension plan. The Corporation recognizes the overfunded and underfunded status of the defined benefit pension plan in its consolidated balance sheets. Changes in the funded status are recorded in the year in which the changes occurred in the consolidated statements of operations and changes in net assets.

Components of the net periodic pension cost other than service cost are reported in investment and other nonoperating income (loss). See Note 11 for additional information.

Accounting Pronouncement Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), which introduces a new current expected credit loss (CECL) method for measuring credit losses on financial assets measured at amortized cost, replacing the previous incurred loss method that delays recognition until it is probable a loss has been incurred. The new guidance requires the immediate recognition of estimated credit losses that are expected to occur. The new guidance, including subsequent amendments, is effective for the Corporation as of August 1, 2023. The Corporation is continuing to evaluate the impact the guidance will have on the consolidated financial statements.

Subsequent Events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through November 8, 2023, the date the financial statements were issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2022 consolidated financial statements to conform to the fiscal year 2023 presentation. These reclassifications had no impact on the change in net assets in the accompanying consolidated financial statements.

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

2. Net Patient Service Revenue, Continued

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patient services.

The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation and have a duration of less than one year. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Corporation does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Corporation is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Corporation accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Corporation has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

The Corporation has arrangements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by the Corporation. The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent the difference between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

2. Net Patient Service Revenue, Continued

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare

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

The Corporation is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare Administrative Contractor (MAC). The Corporation's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Corporation. The Corporation's Medicare cost reports have been audited by the MAC through July 31, 2018 for PPMH, and through July 31, 2020 for PSMC.

PWMC is designated as a Critical Access Hospital (CAH) by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. PWMC's Medicare cost reports have been audited by the MAC through July 31, 2018, with the exception of the July 31, 2017 cost report.

- Medicaid

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

Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Corporation is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. The Corporation's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through July 31, 2020 for PPMH, PSMC and PWMC.

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

The Corporation participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Corporation receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Corporation's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$5,967,000 and \$9,483,000 for the years ended July 31, 2023 and 2022, 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 \$11,624,000 and \$18,674,000 for the years ended July 31, 2023 and 2022, respectively.

The Corporation also participates in the Medicaid Managed Care Directed Payment Programs, which are supplemental payment programs for hospitals and providers through the Georgia Department of Community Health. As a result of this participation, the Corporation recognized revenue of approximately \$20,281,000 and \$10,953,000 for the years ended July 31, 2023 and 2022, respectively.

During 2022, the Georgia Department of Community Health announced final approval of a new state directed payment program – Strengthening the Reinvestment Of a Necessary-workforce in Georgia (GA-STRONG). This is a supplemental payment program intended to support the retention of Georgia's existing workforce and development of the next generation of healthcare providers. As a result of participation in the GA-STRONG program, the Corporation recognized revenue of approximately \$38,785,000 for the year ended July 31, 2023.

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in an increase in hospital payments on Medicaid services of approximately 11.88%.

Approximately \$8,908,000 and \$8,640,000 relating to the Act is included in medical supplies and other in the accompanying consolidated statements of operations and changes in net assets for the years ended July 31, 2023 and 2022, respectively.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

2. Net Patient Service Revenue, Continued

- Other Arrangements

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

- Uninsured Patients

The Corporation maintains its Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, patients who are eligible individuals will not be charged more for emergency or other medically necessary care than the Amounts Generally Billed (AGB) for individuals who have insurance coverage. The minimum percentage discount to be applied to FAP eligible individuals shall be calculated on an annual basis. AGB is determined by dividing the sum of claims paid the previous fiscal year by Medicare fee-for-service and all private health insurance, including payments received from beneficiaries and insured patients, by the sum of the associated gross charges for those claims.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2023 or 2022.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

2. Net Patient Service Revenue, Continued

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the years ending July 31, 2023 and 2022. 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, 2023 and 2022 was not significant.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles).

Patients who meet the Corporation's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Net patient service revenue by major payor source for the years ended July 31, 2023 and 2022 is as follows:

	Net Patient Service Revenue (Dollars in Thousands)				
	<u>Medicare</u>	<u>Medicaid</u>	<u>Other</u>	<u>Self-Pay</u>	<u>Total</u>
2023	<u>\$ 344,627</u>	<u>\$ 142,552</u>	<u>\$ 386,908</u>	<u>\$ 13,996</u>	<u>\$ 888,083</u>
2022	<u>\$ 314,467</u>	<u>\$ 112,936</u>	<u>\$ 375,555</u>	<u>\$ 10,555</u>	<u>\$ 813,513</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

2. Net Patient Service Revenue, Continued

Net patient service revenue by facility, line of business, and timing of revenue recognition for the years ended July 31, 2023 and 2022 is as follows:

July 31, 2023					
Net Patient Service Revenue					
(Dollars in Thousands)					
	<u>PPMH</u>	<u>PSMC</u>	<u>PWMC</u>	<u>PPG</u>	<u>Total</u>
Service Lines:					
Hospital	\$ 655,208	\$ 99,310	\$ 21,121	\$ -	\$ 775,639
Home Health	4,936	-	-	-	4,936
Hospice	5,388	1,433	-	-	6,821
Physician practice	-	-	-	98,586	98,586
Clinic	-	215	1,886	-	2,101
	<u>-\$ 665,532</u>	<u>\$ 100,958</u>	<u>\$ 23,007</u>	<u>\$ 98,586</u>	<u>\$ 888,083</u>
Total					
	<u>\$ 665,532</u>	<u>\$ 100,958</u>	<u>\$ 23,007</u>	<u>\$ 98,586</u>	<u>\$ 888,083</u>
Timing of revenue and recognition:					
Services transferred over time	<u>\$ 665,532</u>	<u>\$ 100,958</u>	<u>\$ 23,007</u>	<u>\$ 98,586</u>	<u>\$ 888,083</u>
July 31, 2022					
Net Patient Service Revenue					
(Dollars in Thousands)					
	<u>PPMH</u>	<u>PSMC</u>	<u>PWMC</u>	<u>PPG</u>	<u>Total</u>
Service Lines:					
Hospital	\$ 604,528	\$ 95,481	\$ 18,245	\$ -	\$ 718,254
Home Health	3,292	-	-	-	3,292
Hospice	5,579	1,144	-	-	6,723
Physician practice	-	-	-	83,044	83,044
Clinic	-	261	1,939	-	2,200
	<u>\$ 613,399</u>	<u>\$ 96,886</u>	<u>\$ 20,184</u>	<u>\$ 83,044</u>	<u>\$ 813,513</u>
Total					
	<u>\$ 613,399</u>	<u>\$ 96,886</u>	<u>\$ 20,184</u>	<u>\$ 83,044</u>	<u>\$ 813,513</u>
Timing of revenue and recognition:					
Services transferred over time	<u>\$ 613,399</u>	<u>\$ 96,886</u>	<u>\$ 20,184</u>	<u>\$ 83,044</u>	<u>\$ 813,513</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

2. Net Patient Service Revenue, Continued

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the Corporation's diagnostic and surgical equipment, and emergency care services. Performance obligations for the hospitals, home health, hospice, physician practices, and clinics are satisfied over time as the patient simultaneously receives and consumes the benefits the Corporation performs. Requirements to recognize revenue for inpatient services are generally satisfied over periods that average approximately five days and for outpatient services are generally satisfied over a period of less than one day. Retail and employee pharmacy, cafeteria, gift shop, and other point-of-sale performance obligations are satisfied at a point in time when the goods are provided. These revenues are recorded in other revenue on the consolidated statements of operations and changes in net assets.

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Corporation has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Net patient service revenue includes amounts, representing the transaction price, based on standard charges reduced by variable considerations such as contractual adjustments, discounts, and implicit price concessions. Charges for uncompensated services for 2023 and 2022 were approximately \$1,944,000,000 and \$1,826,000,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$183,000,000 and \$174,000,000 in 2023 and 2022, respectively. The cost of charity and indigent care services provided during 2023 and 2022 was approximately \$61,000,000 and \$63,000,000, respectively, computed by applying a total cost factor to the charges foregone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2023 and 2022.

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
Gross patient charges	<u>\$ 2,831,808</u>	<u>\$ 2,639,487</u>
Uncompensated services:		
Charity and indigent care	183,404	173,974
Medicare	1,053,075	925,047
Medicaid	302,253	343,502
Other third-party payors	340,851	328,281
Price concessions	<u>64,142</u>	<u>55,170</u>
Total uncompensated care	<u>1,943,725</u>	<u>1,825,974</u>
Net patient service revenue	<u>\$ 888,083</u>	<u>\$ 813,513</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

4. Investments

Assets Limited as to Use

The composition of assets limited as to use at July 31, 2023 and 2022 is set forth in the following table. Assets limited as to use are stated at fair value.

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
By board for capital improvements:		
Money market funds	\$ 129,217	\$ 112,682
Certificates of deposit	395	393
Equity securities	39,652	34,615
Mutual funds - fixed income funds	18,968	17,626
Mutual funds - index funds	87,931	55,536
Mutual funds - growth and other funds	7,243	6,445
Real estate investment trusts	9,969	10,932
Corporate debt securities	12,441	12,410
Government debt securities	393	601
Alternative investments:		
Credit opportunities	2,788	4,643
Multi-strategy	33,467	31,566
Equity securities	203,200	227,825
Other	<u>6,552</u>	<u>6,866</u>
Total board designated for capital improvements	<u>552,216</u>	<u>522,140</u>
By board for self-insurance:		
Money market funds	1,988	1,870
Mutual funds - fixed income funds	12,668	13,182
Mutual funds - index funds	13,722	14,298
Mutual funds - growth and other funds	33,988	28,294
Alternative investments:		
Multi-strategy	<u>16,215</u>	<u>17,978</u>
Total board designated for self-insurance	<u>78,581</u>	<u>75,622</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

4. Investments, Continued

Assets Limited as to Use, Continued

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
Held by trustee:		
Money market funds	\$ 78,335	\$ -
Externally designated by donors:		
Money market funds	703	1,226
Equity securities	3,388	2,382
Mutual funds - fixed income funds	426	442
Mutual funds - index funds	1,460	1,891
Mutual funds - growth and other funds	1,542	1,612
Alternative investments:		
Equity securities	297	289
Real estate investment trusts	252	169
Corporate debt securities	3,499	3,514
Government debt securities	145	151
Total externally designated by donors	<u>11,712</u>	<u>11,676</u>
Total assets limited to use	<u>\$ 720,844</u>	<u>\$ 609,438</u>

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

5. Property and Equipment, Net

A summary of property and equipment, net at July 31, 2023 and 2022 follows:

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
Land	\$ 30,718	\$ 31,206
Land improvements	8,652	8,528
Building	468,225	451,505
Equipment	513,661	496,516
Finance lease right-of-use assets	5,585	7,141
	<u>1,026,841</u>	<u>994,896</u>
Less accumulated depreciation	<u>637,370</u>	<u>604,326</u>
	389,471	390,570
Construction-in-progress	<u>33,386</u>	<u>12,685</u>
Property and equipment, net	<u>\$ 422,857</u>	<u>\$ 403,255</u>

Depreciation expense for the years ended July 31, 2023 and 2022 amounted to approximately \$34,950,000 and \$33,950,000, respectively.

Amortization expense on finance lease right-of-use assets for the years ended July 31, 2023 and 2022 amounted to approximately \$1,941,000 and \$1,535,000, respectively.

Construction contracts exist for various projects at year-end with a total commitment of approximately \$41,445,000. At July 31, 2023, the remaining commitment on these contracts approximated \$11,060,000.

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PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

6. Goodwill

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

The changes in the carrying amount of goodwill for the years ended July 31, 2023 and 2022, are as follows:

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
Balance at beginning of year:		
Goodwill	\$ 174,450	\$ 174,450
Accumulated impairment losses	<u>(44,154)</u>	<u>(44,154)</u>
	130,296	130,296
Goodwill acquired during the year	-	-
Impairment losses	-	-
Disposal of goodwill	<u>-</u>	<u>-</u>
Balance at end of year:		
Goodwill	174,450	174,450
Accumulated impairment losses	<u>(44,154)</u>	<u>(44,154)</u>
Total	<u>\$ 130,296</u>	<u>\$ 130,296</u>

7. Short-Term Debt

On April 24, 2020, the Corporation entered into a revolving line-of-credit with Truist Bank for a maximum amount of \$75,000,000 bearing interest at LIBOR plus 1.10% with the rate never being less than 2.10%, with a maturity date of April 22, 2021. On April 22, 2021, the line-of-credit was amended and restated for a maximum amount of \$50,000,000 bearing interest at LIBOR plus 0.95%, with the rate never being less than 1.10%, with a maturity date of April 22, 2022. On April 28, 2022, the line-of-credit was amended and restated for a maximum amount of \$50,000,000 bearing interest at the daily secured overnight financing rate (SOFR) plus 1.08%, with the rate never being less than 1.08%, with a maturity date of April 15, 2023. On May 26, 2023, the line-of-credit was amended and restated for a maximum amount of \$25,000,000 bearing interest at Term SOFR plus 1.08%, with the rate never being less than 1.08%, with a maturity date of May 24, 2024. The outstanding balance on the line-of-credit at July 31, 2023 and 2022 was \$0.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

8. Long-Term Debt

Long-term debt consists of the following:

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
2012 Series Revenue Anticipation Certificates, payable in varying annual amounts from \$1,145,000 to \$16,285,000 in 2043; bearing interest at fixed rates from 3.00% to 5.00%.	\$ 86,330	\$ 87,380
2018A Revenue Anticipation Certificates, payable in varying annual amounts from \$4,510,000 to \$7,585,000 in 2033; bearing interest at a variable rate based on a percentage of LIBOR plus the applicable spread.	-	63,360
2018B Revenue Anticipation Certificates, payable in varying annual amounts from \$1,395,000 to \$11,355,000 in 2040; bearing interest at a variable rate based on a percentage of LIBOR plus the applicable spread.	-	94,310
2022A Revenue Anticipation Certificates, payable in varying annual amounts from \$5,250,000 to \$16,775,000; bearing interest at a fixed rate of 5.00%.	151,765	-
2022B Revenue Anticipation Certificates, payable in varying annual amounts from \$5,000 to \$14,205,000 in 2052; bearing interest at a variable rate based on a percentage of term SOFR plus a credit spread.	97,805	-
Finance lease liabilities (Note 21)	<u>6,358</u>	<u>7,890</u>
	342,258	252,940
Less: unamortized debt issuance cost	2,224	1,114
Less: current portion	8,880	9,927
Less: unamortized discount	1,506	-
Add: unamortized premium	<u>5,882</u>	<u>4,360</u>
Long-term debt, net of current portion	<u>\$ 335,530</u>	<u>\$ 246,259</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

8. Long-Term Debt, Continued

The Series 2012 Revenue Certificates were issued on December 1, 2012 for the purposes of financing the costs of making certain additions, extensions, and capital improvements to its health care system. The Series 2012 Revenue Certificates bear interest at fixed rates from 3.00% to 5.00%.

The Series 2018A Refunding Revenue Certificates were issued on November 1, 2018 in the amount of \$76,100,000 for the purpose of refunding all of the Series 2008A and 2008B Refunding Revenue Certificates. The Series 2018B Refunding Revenue Certificates were issued on November 1, 2018 in the amount of \$96,765,000 for the purpose of refunding all of the Series 2010A Revenue Certificates. The interest rate on each of the Series 2018A Refunding Revenue Certificates and Series 2018B Refunding Revenue Certificates will be reset monthly at a variable rate equal to LIBOR plus a credit spread. The Corporation may convert the interest rate upon compliance with the terms and provisions of the related indenture. As of December 2022, the Series 2018A and 2018B Refunding Revenue Certificates were paid in full and no longer outstanding.

The Series 2022A Refunding Revenue Certificates were issued on December 1, 2022 in the amount of \$151,765,000 for the purpose of refunding all of the Series 2018A and 2018B Refunding Revenue Certificates. The Series 2022A Certificates mature serially on each September 1st in 2023 through 2039 and 2043 and 2044 and bear interest at a fixed rate of 5.00% per annum.

The Series 2022B Revenue Certificates were issued on December 22, 2022 in the amount of \$97,805,000 for the purpose of financing the cost of certain capital expenditures for Phoebe Putney Memorial Hospital, Inc. The Series 2022B Certificates will mature on March 1, 2052, are subject to mandatory sinking fund redemption on each March 1st in 2026 through 2051 and are subject to mandatory purchase on March 1, 2037. The Series 2022B Certificates bear interest at a variable rate reset monthly equal to a percentage of term SOFR plus a credit spread. The Corporation may convert the interest rate upon compliance with terms and provisions or the related indenture.

As a result of the bond refunding transactions, the Corporation recognized a loss on extinguishment of approximately \$446,000. The loss included the write-off of unamortized 2018A and 2018B Series issue costs as well as funds necessary to adequately fund the extinguished 2018A and 2018B Series accounts. The loss is reflected in the investment and other nonoperating income (loss) line of the consolidated statements of operations and changes in net assets.

Under the terms of the 2022B Certificate Indentures, the Corporation is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the consolidated balance sheets.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

8. Long-Term Debt, Continued

Series 2012, 2022A and 2022B Revenue Certificates are secured by all receipts of, and revenue, income and money derived from the Corporation's operation of the Hospital premises.

The outstanding notes securing the Series 2012, 2022A and 2022B Revenue Certificates were issued pursuant to the Master Trust Indenture dated as of March 1, 2002, as amended, among the Corporation, Phoebe Putney Memorial Hospital, Inc. and U.S. Bank Trust Company, National Association (formerly U.S. Bank, National Association), as master trustee. Under the terms of the Master Trust Indenture, the Corporation is limited on the incurrence of additional borrowings and requires that the Corporation satisfies certain measures of financial performance as long as the notes are outstanding. For the fiscal year ended July 31, 2022, the Corporation did not meet the debt service coverage ratio requirement associated with the 2018A and 2018B Revenue Certificates, which requires the Corporation to maintain a maximum annual debt service coverage ratio of greater than 1.00:1.00. However, the bond holder provided a waiver for this covenant default.

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

(Dollars in Thousands)				
<u>Year</u>	<u>2012</u>	<u>2022A</u>	<u>2022B</u>	<u>Total</u>
2024	\$ 1,145	\$ 5,445	\$ -	\$ 6,590
2025	1,260	5,665	-	6,925
2026	1,385	5,895	150	7,430
2027	1,530	6,120	155	7,805
2028	1,670	6,360	155	8,185
Thereafter	<u>79,340</u>	<u>122,280</u>	<u>97,345</u>	<u>298,965</u>
Total	<u>\$ 86,330</u>	<u>\$ 151,765</u>	<u>\$ 97,805</u>	<u>\$ 335,900</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

9. Derivative Financial Instruments

The Corporation entered into fixed pay and constant maturity swaps to effectively swap variable interest rates to fixed interest rates thus reducing the impact of interest rate changes on future interest expense. The fair market value of the swaps is reported in noncurrent liabilities on the consolidated balance sheet. The critical terms of the swaps are as follows:

(Dollars in Thousands)

	<u>2023</u>	<u>2022</u>
\$25MM Fixed Pay LIBOR Swap - Non-Hedge		
Notional amount	\$ 18,566	\$ 19,676
Fair market value	\$ (971)	\$ (2,259)
Life remaining	9 Years	10 Years
\$25MM Fixed Pay LIBOR Swap - Non-Hedge		
	<u>2023</u>	<u>2022</u>
Notional amount	\$ 18,566	\$ 19,676
Fair market value	\$ (865)	\$ (2,138)
Life remaining	9 Years	10 Years
\$21.145MM Fixed Pay LIBOR Swap - Non-Hedge		
	<u>2023</u>	<u>2022</u>
Notional amount	\$ 15,703	\$ 16,642
Fair market value	\$ (721)	\$ (1,788)
Life remaining	9 Years	10 Years
Constant Maturity LIBOR Swap - Non-Hedge		
	<u>2023</u>	<u>2022</u>
Notional amount	\$ 26,418	\$ 27,998
Fair market value	\$ (423)	\$ 173
Life remaining	9 Years	10 Years

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

9. Derivative Financial Instruments, Continued

(Dollars in Thousands)

Constant Maturity LIBOR Swap - Non-Hedge		
	<u>2023</u>	<u>2022</u>
Notional amount	\$ 26,418	\$ 27,998
Fair market value	\$ (480)	\$ 131
Life remaining	9 Years	10 Years

The swaps were issued at market terms so that they had no fair value at their inception. The carrying amount of the swaps has been adjusted to fair value at the end of the year which, because of changes in forecasted levels of the LIBOR, resulted in reporting a liability. The Corporation deemed the capacity to perform on the part of the derivative counterparty to be of little or no concern; and no adjustment was applied to standard market valuation practices.

The swap results are included in excess revenues (expenses). For the years ending July 31, 2023 and 2022, this earnings impact totaled a gain of approximately \$2,421,000 and \$3,789,000, respectively.

10. Net Assets with Donor Restrictions

A summary of the net assets with donor restrictions at July 31, 2023 and 2022 follows:

<u>(Dollars in Thousands)</u>		
	<u>2023</u>	<u>2022</u>
Net assets with donor restrictions that are subject to expenditure for a specified purpose	<u>\$ 14,535</u>	<u>\$ 12,799</u>
Net assets with donor restrictions that are perpetual in nature	<u>\$ 2,024</u>	<u>\$ 2,024</u>

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

10. Net Assets with Donor Restrictions, Continued

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

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

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

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

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan

The Corporation has a defined benefit pension plan covering all full-time regular employees working 1,000 hours or more in a twelve-month period with an employment date before December 31, 2006. The plan provides benefits that are based upon earnings and years of service. The Corporation's funding policy is to make the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The measurement dates were July 31, 2023 and 2022. The Corporation issues a publicly available financial report that includes the consolidated financial statements and required supplementary information to the Retirement Plan for Employees of Phoebe Putney Health System, Inc. That report may be obtained by contacting the management of the Corporation.

Effective December 31, 2014, the Corporation amended the pension plan to freeze all benefit accruals except for participants whose combined age and credited service equaled or exceeded 70 by the effective date. On July 28, 2016, the Corporation executed an amendment to permit vested terminated participants with an accrued benefit of \$150,000 or less to make an election during the period September 2, 2016 through November 1, 2016 to receive a lump sum distribution. This amendment was effective December 1, 2016 and eligibility was based on the benefit accruals as of December 1, 2016. Such distributions were made during the period December 1, 2016 through December 31, 2016. Effective December 31, 2016, the Corporation amended the pension plan to freeze all benefit accruals for all remaining participants. On November 16, 2017, the Corporation purchased annuity contracts totaling approximately \$5,373,000 to settle a portion of the pension obligations, as part of a small benefit annuity lift out plan.

The following table sets forth the defined benefit pension plan funded status and amounts recognized in the consolidated financial statements at July 31, 2023 and 2022:

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
Plan assets at fair value at July 31	\$ 231,738	\$ 232,028
Projected benefit obligation at July 31	<u>255,077</u>	<u>279,610</u>
Funded status	<u>\$ (23,339)</u>	<u>\$ (47,582)</u>
Amounts recognized in the consolidated balance sheets consist of:		
Noncurrent liabilities	<u>\$ (23,339)</u>	<u>\$ (47,582)</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan, Continued

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
Amounts recognized in net assets without donor restrictions:		
Net actuarial loss	\$ (66,190)	\$ (89,650)
Deferred pension cost	<u>\$ (66,190)</u>	<u>\$ (89,650)</u>
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	5.22%	4.44%
Rate of compensation increase	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.44%	2.92%
Expected long-term return on plan assets	6.50%	6.50%
Rate of compensation increase	N/A	N/A

Mortality table assumptions used to determine pension benefit obligations were PRI2012 Employee and Healthy Annuitant Mortality Tables with Fully Generational Projections using MP2021 with Aon's Endemic Adjustment for 2023 and MP2021 for 2022.

The Corporation's expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan, Continued

The following table sets forth the components of net periodic cost and other amounts recognized in net assets without donor restrictions for the years ended July 31, 2023 and 2022:

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
Interest cost	\$ 11,366	\$ 7,435
Expected return on plan assets	(14,637)	(17,453)
Amortization of recognized net actuarial loss	<u>2,488</u>	<u>2,648</u>
Net periodic benefit cost	<u>(783)</u>	<u>(7,370)</u>
Other changes in plan assets and benefit obligations recognized in net assets without donor restrictions:		
Net actuarial gain	(20,972)	(7,970)
Amortization of net actuarial loss	<u>(2,488)</u>	<u>(2,648)</u>
Total recognized in net assets without donor restrictions	<u>(23,460)</u>	<u>(10,618)</u>
Total recognized in net periodic benefit cost and net assets without donor restrictions	<u>\$ (24,243)</u>	<u>\$ (17,988)</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan, Continued

The change in projected benefit obligation for the defined benefit pension plan for the years ended July 31, 2023 and 2022 included the following components:

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
Projected benefit obligation, beginning of year	\$ 279,610	\$ 340,621
Interest cost	11,366	7,435
Actuarial gain	(23,164)	(57,169)
Benefits paid	<u>(12,735)</u>	<u>(11,277)</u>
 Projected benefit obligation, end of year	 <u>\$ 255,077</u>	 <u>\$ 279,610</u>
 Accumulated benefit obligation	 <u>\$ 255,077</u>	 <u>\$ 279,610</u>

The change in fair value of plan assets for the years ended July 31, 2023 and 2022 included the following components:

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
Plan assets at fair value, beginning of year	\$ 232,028	\$ 275,050
Actual return on assets	12,445	(31,745)
Benefits paid	<u>(12,735)</u>	<u>(11,277)</u>
 Plan assets at fair value, end of year	 <u>\$ 231,738</u>	 <u>\$ 232,028</u>

The Corporation does not anticipate making a contribution during fiscal year 2024.

Actuarial gains related to changes in the benefit obligation of the defined benefit pension plan were approximately \$23,164,000 and \$57,169,000 in 2023 and 2022, respectively. Significant components of gains impacting this obligation include changes in the discount rate and updates to the retirement and mortality assumptions.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan, Continued

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

<u>Year Ending July 31</u>	<u>Pension Benefits</u>
2024	\$ 14,038
2025	\$ 14,747
2026	\$ 15,344
2027	\$ 15,847
2028	\$ 16,259
2029 - 2033	\$ 85,312

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at July 31, 2023.

Plan Assets

The composition of plan assets at July 31, 2023 and 2022 is as follows:

Asset Category:	<u>Target Allocations</u>		<u>Plan Assets</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Global equities	38%	47%	47%	47%
Hedge funds	15%	20%	17%	21%
Real assets	7%	8%	6%	8%
Liability-hedging assets	<u>40%</u>	<u>25%</u>	<u>30%</u>	<u>24%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan, Continued

Plan Assets, Continued

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

Pension assets are invested in various classes as summarized in the table below for 2023 and 2022. The allocation between different investment vehicles is determined by the Corporation, based on current market conditions, short-term and long-term market outlooks, and cash needs for distributions and plan expenses. Assumptions for expected returns on plan assets are based on historical performance, long-term market outlook, and a diversified investment approach designed to provide steady, consistent returns that minimize market fluctuations. The Corporation utilizes the services of a professional investment advisor in the selection of individual fund managers. The investment advisor tracks the performance of each fund manager and makes recommendations for redistributions, as needed, to comply with targeted allocations or to replace underperforming funds.

The Corporation attempts to mitigate investment risk by rebalancing between investment classes as the Corporation's contributions and monthly benefit payments are made. Although changes in interest rates may affect the fair value of a portion of the investment portfolio and cause unrealized gains and losses, such gains or losses would not be realized unless the investments are sold.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan, Continued

Plan Assets, Continued

The fair values of the Corporation's pension plan assets at July 31, 2023 and 2022, by asset category are as follows:

(Dollars in Thousands)				
<u>Asset Category</u>	Fair Value Measurements at July 31, 2023			
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Money market funds	\$ 7,200	\$ 1,641	\$ 5,559	\$ -
Equity securities	4,843	4,843	-	-
Real estate investment trusts	<u>6,326</u>	<u>6,326</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	18,369	<u>\$ 12,810</u>	<u>\$ 5,559</u>	<u>\$ -</u>
Investments measured at net asset value	<u>213,369</u>			
Total assets at fair value	<u>\$ 231,738</u>			
Fair Value Measurements at July 31, 2022				
<u>Asset Category</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Money market funds	\$ 3,639	\$ -	\$ 3,639	\$ -
Equity securities	4,158	4,158	-	-
Real estate investment trusts	<u>10,344</u>	<u>10,344</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	18,141	<u>\$ 14,502</u>	<u>\$ 3,639</u>	<u>\$ -</u>
Investments measured at net asset value	<u>213,887</u>			
Total assets at fair value	<u>\$ 232,028</u>			

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan, Continued

Plan Assets, Continued

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

	as of July 31, 2023			
	(Dollars in Thousands)			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual Funds - fixed income funds	\$ 7,049	None	Monthly	30 Days
Mutual Funds - index funds	\$ 65,919	None	Daily	15 Days
Mutual Funds - growth and other funds	\$ 4,915	None	Daily	None
Alternative Investments:				
Credit opportunities	\$ 4,498	None	Annually	90 Days
Multi-strategy	\$ 22,633	None	Monthly - Calendar Quarter	45 - 90 Days
Equity securities	\$ 103,911	\$ 424	None - Annually	None - 62 Days
Other	\$ 4,444	None	Monthly	3 Business Days
	as of July 31, 2022			
	(Dollars in Thousands)			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Restrictions on Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual Funds - fixed income funds	\$ 8,420	None	Monthly	30 Days
Mutual Funds - index funds	\$ 57,602	None	Daily	15 Days
Mutual Funds - growth and other funds	\$ 4,303	None	Daily	None
Alternative Investments:				
Credit opportunities	\$ 6,282	None	Annually	90 Days
Multi-strategy	\$ 22,667	None	Monthly - Calendar Quarter	45 - 92 Days
Equity securities	\$ 110,338	\$ 264	Weekly - Annually	4 - 180 Days
Other	\$ 4,275	None	Monthly	3 Business Days

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Financial assets using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. See Note 17 for valuation methodologies.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

11. Pension Plan, Continued

Defined Contribution Plan

The Corporation maintains defined contribution plans covering substantially all eligible employees. Employees may deposit a portion of their earnings for each pay period on a pre-tax basis and the Corporation matches 50% of each participant's voluntary contributions up to a maximum of 6% of the employee's annual salary. At its discretion, the Corporation may make additional contributions to the Plan. Matching and discretionary contribution expenses for the years ended July 31, 2023 and 2022 totaled approximately \$6,629,000 and \$6,524,000, respectively.

Supplemental Executive Retirement Plan

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

12. Employee Health Insurance

The Corporation has a self-insurance plan under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator for claims incurred and paid. In addition, the Corporation participates in a shared group financing layer agreement with other Georgia hospitals through a program offered by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims. The parameters of the program include covered claims between \$225,000 and \$850,000. 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 \$850,000. Total expenses related to this plan were approximately \$36,598,000 and \$47,012,000 for 2023 and 2022, respectively.

13. Malpractice Insurance

Phoebe Putney Indemnity, Ltd. (PPI), located in the Cayman Islands, was incorporated on November 14, 2018 as an exempted company under the Companies Law of the Cayman Islands. PPI is a wholly-owned subsidiary of Phoebe Health System, Inc. established to provide general liability, professional liability, personal injury liability, advertising injury liability, contractual liability, and auto physical damage coverage to Phoebe Putney Health System, Inc.

PPI issues a claims-made policy with a per occurrence limit of \$15,000,000 for 2023 and \$2,000,000 for 2022 and no annual aggregate for 2023 and an annual aggregate of \$2,000,000 for 2022 covering medical incidents, which is in excess of a per occurrence limit of \$5,000,000 for 2023 and 2022 and no annual aggregate for 2023 and an annual aggregate of \$32,000,000 for 2022 covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability of the Corporation.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

13. Malpractice Insurance, Continued

PPI purchases annual excess of loss reinsurance coverage in order to limit its financial exposure to large claims relating to employed physicians and surgeons. Under the per risk coverage, the reinsurer shall pay up to \$600,000 for 2023 and 2022, per loss, per insured, in excess of \$400,000 for 2023 and 2022, per loss, per insured. In the prior year, clash coverage was in place whereby the reinsurer shall pay up to \$600,000 for 2022, per loss occurrence, in excess of \$400,000 for 2022, per loss occurrence. However, this was not continued in the current policy period. The maximum amount recoverable for both of these coverages combined shall not exceed 250% for 2023 and 300% for 2022 of the maximum subject premium or \$6,000,000, for 2023 and 2022, whichever is greater. Under the excess of limits coverage, the reinsurer shall pay up to \$2,000,000 for 2023 and \$6,000,000 for 2022, per loss, per insured, in excess of \$1,000,000 in 2023 and 2022, per loss, per insured. The maximum amount recoverable for this coverage shall not exceed \$6,000,000 for 2023 and \$12,000,000 for 2022. During the current period, there is a second excess limits coverage. Under this coverage, the reinsurer shall pay up to \$4,000,000 per loss, per insured, in excess of \$3,000,000 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. Such adjustments are recorded in the period when they become known.

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

Obligations covered by reinsurance contracts are included in the reserves for professional liability risks, as the Corporation remains liable to the extent the reinsurers do not meet their obligations under the reinsurance contracts. The amounts recoverable under the reinsurance contracts totaled approximately \$15,573,000 and \$36,391,000 at July 31, 2023 and 2022, respectively, and are recorded in other current assets on the consolidated balance sheets.

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

14. Concentrations of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are residents of Southwest Georgia and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at July 31, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Medicare	29%	31%
Medicaid	13%	16%
Blue Cross	22%	23%
Commercial	32%	27%
Patients	<u>4%</u>	<u>3%</u>
Total	<u>100%</u>	<u>100%</u>

At July 31, 2023, the Corporation had deposits at major financial institutions which exceeded the \$250,000 Federal Deposit Insurance Corporation limits. Management believes the credit risks related to these deposits is minimal.

15. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services in 2023 and 2022 are as follows:

	<u>(Dollars in Thousands)</u>		
<u>July 31, 2023</u>	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Consolidated Total</u>
Salaries and wages	\$ 295,490	\$ 74,848	\$ 370,338
Employee health and welfare	63,468	14,429	77,897
Medical supplies and other	207,807	88,332	296,139
Purchased services	105,422	43,862	149,284
Depreciation and amortization	18,695	18,196	36,891
Interest	<u>5,420</u>	<u>5,875</u>	<u>11,295</u>
Total	<u>\$ 696,302</u>	<u>\$ 245,542</u>	<u>\$ 941,844</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

15. Functional Expenses, Continued

	(Dollars in Thousands)		
<u>July 31, 2022</u>	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Consolidated Total</u>
Salaries and wages	\$ 271,303	\$ 76,924	\$ 348,227
Employee health and welfare	59,165	17,816	76,981
Medical supplies and other	180,215	75,618	255,833
Purchased services	193,483	45,989	239,472
Depreciation and amortization	17,864	17,621	35,485
Interest	<u>3,145</u>	<u>3,187</u>	<u>6,332</u>
Total	<u>\$ 725,175</u>	<u>\$ 237,155</u>	<u>\$ 962,330</u>

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

16. Fair Values of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

- *Cash and cash equivalents, accounts payable, accrued expenses, estimated third-party payor settlements, Medicare accelerated and advance payments, and refundable advances:* The carrying amount reported in the consolidated balance sheets approximates its fair value due to the short-term nature of these instruments.
- *Assets limited as to use:* Amounts reported in the consolidated balance sheets are at fair value. See Note 17 for fair value measurement disclosures.
- *Derivative financial instruments:* The carrying amount reported in the consolidated balance sheets for derivative financial instruments approximates its fair value. See Note 17 for fair value measurement disclosures.
- *Long-term debt:* Fair values of the Corporation's revenue notes are based on current traded value. The carrying amount reported in the consolidated balance sheets for debt totals approximately \$340,276,000 and \$249,410,000 at July 31, 2023 and 2022, respectively, with a fair value of approximately \$346,147,000 and \$249,445,000, respectively. Based on inputs used in determining the estimated fair value, the Corporation's long-term debt would be classified as Level 2 in the fair value hierarchy.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

17. Fair Value Measurement

Following is a description of the valuation methodologies used for assets and liabilities at fair value. There have been no changes in the methodologies used at July 31, 2023 and 2022.

- *Money market funds and certificates of deposit:* Valued at amortized cost, which approximates fair value.
- *Equity securities:* Certain equity securities are valued at the closing price reported on the active market on which the individual securities are traded. Other equity securities are valued based on quoted prices for similar investments in active or inactive markets or valued using observable market data.
- *Mutual funds and alternative investments:* Certain mutual funds are valued at closing price reported on the active market on which the individual securities are traded. Other mutual funds are valued at the net asset value (NAV) of shares held at year-end. Certain investments invest in a variety of growth and value assets. Management of the funds has the ability to shift investments as they feel necessary to meet established goals.
- *Real estate investment trusts:* These exchange traded investments are valued on the basis of a discounted cash flow approach, which includes the future rental receipts, expenses, and residual values as the highest and best use of the real estate from a market participant view as rental property.
- *Corporate debt securities:* Certain corporate securities are valued at the closing price reported in the active market in which the security is traded. Other corporate securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- *Government debt securities:* Certain U.S. government securities are valued at the closing price reported in the active market in which the individual security is traded. Other U.S. governmental securities are based on yields currently available on comparable securities of issuers with similar credit ratings.
- *Derivatives:* Valued using forward LIBOR curves. Values are then verified against counterparty mark-to-market valuations.

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

17. Fair Value Measurement, Continued

Fair values of assets and liabilities measured on a recurring basis at July 31, 2023 and 2022 follows:

(Dollars in Thousands)				
Fair Value Measurements at Reporting Date Using				
<u>July 31, 2023</u>	<u>Fair Value</u>	<u>Quoted prices in Active Markets For Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Money market funds	\$ 210,243	\$ 183,413	\$ 26,830	\$ -
Certificates of deposit	395	-	395	-
Equity securities	43,040	43,040	-	-
Mutual funds - fixed income funds	810	810	-	-
Mutual funds - growth and other funds	30,339	30,339	-	-
Real estate investment trusts	10,221	10,221	-	-
Corporate debt securities	15,940	10,444	5,496	-
Government debt securities	<u>538</u>	<u>-</u>	<u>538</u>	<u>-</u>
Total assets in the fair value hierarchy	311,526	<u>\$ 278,267</u>	<u>\$ 33,259</u>	<u>\$ -</u>
Investments measured at net asset value	<u>409,318</u>			
Total assets at fair value	<u>\$ 720,844</u>			
Liabilities:				
Derivatives	<u>\$ 3,460</u>	<u>\$ -</u>	<u>\$ 3,460</u>	<u>\$ -</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

17. Fair Value Measurement, Continued

(Dollars in Thousands)				
<u>Fair Value Measurements at Reporting Date Using</u>				
<u>July 31, 2022</u>	<u>Fair Value</u>	<u>Quoted prices in Active Markets For Identical Assets/Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:				
Money market funds	\$ 115,778	\$ 107,920	\$ 7,858	\$ -
Certificates of deposit	393	-	393	-
Equity securities	36,997	36,997	-	-
Mutual funds - fixed income funds	805	805	-	-
Mutual funds - growth and other funds	25,431	25,431	-	-
Real estate investment trusts	11,101	11,101	-	-
Corporate debt securities	15,924	10,555	5,369	-
Government debt securities	<u>752</u>	<u>-</u>	<u>752</u>	<u>-</u>
Total assets in the fair value hierarchy	207,181	<u>\$ 192,809</u>	<u>\$ 14,372</u>	<u>\$ -</u>
Investments measured at net asset value	<u>402,257</u>			
Total assets at fair value	<u>\$ 609,438</u>			
Liabilities:				
Derivatives	<u>\$ 5,881</u>	<u>\$ -</u>	<u>\$ 5,881</u>	<u>\$ -</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

17. Fair Value Measurement, Continued

Following is a description of the valuation methodologies used and investment strategies for assets measured using NAV as a practical expedient.

- *Mutual funds - fixed income funds:* The fixed income mutual funds seek to provide a high level of current income while preserving principal by primarily investing in a portfolio of domestic and international debt securities with an investment grade or better and with a dollar weighted average maturity between three and ten years. Redemption frequency varies based on each fund's policy and ranges from daily redemption with daily notice to monthly redemption with 30 days' notice. The fixed income mutual funds have no redemption restrictions.
- *Mutual funds - index funds:* The index mutual funds are invested in a variety of large cap domestic companies that are members of the indices. Members of the indices are determined each year during annual reconstruction and enhanced quarterly with the addition of initial public offerings. The index mutual funds have no redemption restrictions with redemption notice requirements ranging from daily to 15 days.
- *Mutual funds - growth and other funds:* The growth and other mutual funds seek to provide a high level of return through the allocation of investments among both small cap investments and mortgage-backed securities. Redemption frequency varies based on each fund's policy and ranges from daily redemption with daily notice to weekly redemption with 2 days' notice.
- *Alternative investments:* The objective of the alternative investments is to use leveraged, long, short, and derivative positions in both domestic and international markets with the goal of generating high returns while maintaining minimal risk. The alternative investments may be redeemed from a range of daily with daily notice to annually with 92 days' notice. The limits on redemptions vary from none to a 24 month hard lock-up.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

17. Fair Value Measurement, Continued

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

	as of July 31, 2023			
	(Dollars in Thousands) <u>Fair Value</u>	(Dollars in Thousands) <u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds - fixed income funds	\$ 31,252	None	Daily - Monthly	None - 30 Days
Mutual funds - index funds	\$ 103,113	None	Daily	None - 15 Days
Mutual funds - growth and other funds	\$ 12,434	None	Daily - Weekly	None - 2 Business Days
Alternative investments:				
Credit opportunities	\$ 2,788	None	Annually	90 Days
Multi-strategy	\$ 49,682	None	Monthly - Calendar Quarter	None - 92 Days
Equity securities	\$ 203,497	\$212	None - Annually	None - 90 Days
Other	\$ 6,552	None	Monthly	3 Business Days
	as of July 31, 2022			
	(Dollars in Thousands) <u>Fair Value</u>	(Dollars in Thousands) <u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Mutual funds - fixed income funds	\$ 30,445	None	Daily - Monthly	None - 30 Days
Mutual funds - index funds	\$ 71,725	None	Daily	None - 15 Days
Mutual funds - growth and other funds	\$ 10,921	None	Daily - Weekly	None - 2 Business Days
Alternative investments:				
Credit opportunities	\$ 4,643	None	Annually	90 Days
Multi-strategy	\$ 49,541	None	Monthly - Calendar Quarter	5 Business - 92 Days
Equity securities	\$ 228,111	\$528	Weekly - Annually	None - 180 Days
Other	\$ 6,866	None	Monthly	3 Business Days

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

18. Commitments and Contingencies

Health Care Reform

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

Compliance Plan

The healthcare industry has been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Corporation has implemented a compliance plan focusing on such issues. There can be no assurance that the Corporation will not be subjected to future investigations with accompanying monetary damages.

Litigation

The Corporation is involved in litigation and regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results from operations.

Other

On May 18, 2017, a group submitted to the Georgia Department of Community Health a certificate of need application for a new hospital to be located within the Corporation's service area. On November 15, 2017, the Georgia Department of Community Health granted Lee County Medical Center a certificate of need to build a 60-bed hospital in Lee County, Georgia. The Georgia Department of Community Health has granted multiple extensions since 2017 related to the certificate of need. As of March 27, 2023 the certificate of need has been canceled due to Lee County Medical Center having failed to show good cause or to request a hearing after failure to secure financing in a timely manner resulting in an almost three year delay.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

19. Provision for Bad Debts - Dorminy

The Corporation entered into an agreement with the Hospital Authority of Ben Hill County, D/B/A Dorminy Medical Center (Dorminy) to provide management services originating August 1, 2011. This agreement was terminated on May 31, 2014. Under the management agreement, the Corporation provided personnel and management services in excess of \$21,157,000, as well as loan advances of approximately \$2,444,000, of which substantially all remained outstanding at July 31, 2021. The Corporation and Dorminy entered into a settlement agreement on June 27, 2022, requiring Dorminy to pay approximately \$2,108,000 in annual installments equal to a percentage of certain receipts, or \$200,000, whichever is less. Payments begin March 31, 2023 and are due on or before March 31 of each year. An additional amount of approximately \$2,892,000 is set out in the judgment to be payable to the Corporation should certain triggering events occur as set out in the parties' settlement agreement. Payment was received during fiscal year 2023 totaling approximately \$200,000. Due to concerns about the financial viability of small rural hospitals, an allowance has been recorded in the 2023 and 2022 consolidated financial statements.

20. Liquidity and Availability

As of July 31, 2023 and 2022, the Corporation has working capital of approximately \$200,706,000 and \$169,135,000 and average days (based on normal expenditures) cash on hand of 64 and 56 days, respectively.

Financial assets available for general expenditures within one year of the balance sheet date, consists of the following at July 31, 2023 and 2022:

	<u>(Dollars in Thousands)</u>	
	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 159,091	\$ 140,196
Patient accounts receivable, net	114,832	110,157
Other current assets - other receivables	18,233	44,840
Internally designated for capital improvements	552,216	522,140
Less: Conditional grant stimulus refundable advance	<u>167</u>	<u>503</u>
Total financial assets available	<u>\$ 844,205</u>	<u>\$ 816,830</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

20. Liquidity and Availability, Continued

Grant stimulus refundable advances restricted for healthcare-related expenses or lost revenue attributable to COVID-19 are excluded from the table above. No other financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Corporation estimates that approximately 100% of the internally designated funds for capital improvements are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The Corporation has other assets whose use is limited for self-insurance and for donor restricted purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as more fully described in Note 7, the Corporation has available an unused line of credit of \$25,000,000, which it could draw upon in the event of an unanticipated liquidity need.

21. Leases

The Corporation has operating and finance leases for buildings and equipment. The Corporation determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets. The Corporation has lease agreements which require payments for lease and nonlease components and has elected to account for these as a single lease component.

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

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

21. Leases, Continued

Operating and finance lease right-of-use assets and lease liabilities as of July 31, 2023 and 2022 were as follows:

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
Operating leases:		
Right-of-use assets:		
Operating lease right-of-use assets	\$ <u>589</u>	\$ <u>219</u>
Lease liabilities:		
Current portion	\$ 260	\$ 107
Long-term	<u>323</u>	<u>112</u>
Total operating lease liabilities	\$ <u>583</u>	\$ <u>219</u>
Finance leases:		
Right-of-use assets:		
Property and equipment, net	\$ <u>5,585</u>	\$ <u>7,141</u>
Lease liabilities:		
Current portion	\$ 1,872	\$ 1,979
Long-term	<u>4,486</u>	<u>5,911</u>
Total finance lease liabilities	\$ <u>6,358</u>	\$ <u>7,890</u>

Operating expenses for the leasing activity of the Corporation as the lessee for the years ended July 31, 2023 and 2022 are as follows:

	(Dollars in Thousands)	
<u>Lease Type</u>	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 124	\$ 106
Finance lease interest	399	329
Finance lease amortization	<u>1,941</u>	<u>1,535</u>
Total lease cost	\$ <u>2,464</u>	\$ <u>1,970</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

21. Leases, Continued

Cash paid for amounts included in the measurement of lease liabilities for the years ended July 31, 2023 and 2022 is as follows:

	(Dollars in Thousands)	
	<u>2023</u>	<u>2022</u>
Operating cash flows from operating leases	\$ 124	\$ 106
Operating cash flows from finance leases	399	329
Financing cash flows from finance leases	<u>1,874</u>	<u>1,591</u>
Total	<u>\$ 2,397</u>	<u>\$ 2,026</u>

The aggregate future lease payments for operating and finance leases as of July 31, 2023 were as follows:

	(Dollars in Thousands)	
<u>Year Ending July 31</u>	<u>Finance</u>	<u>Operating</u>
2024	\$ 2,168	\$ 287
2025	1,979	201
2026	1,598	138
2027	982	-
2028	169	-
Thereafter	<u>75</u>	<u>-</u>
Total undiscounted cash flows	6,971	626
Less: present value discount	<u>613</u>	<u>43</u>
Total lease liabilities	<u>\$ 6,358</u>	<u>\$ 583</u>

Average lease terms and discount rates at July 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Weighted-average remaining lease term (years):		
Operating leases	2.44	2.01
Finance leases	3.63	4.37
Weighted-average discount rate:		
Operating leases	5.00%	5.00%
Finance leases	5.87%	5.00%

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

22. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the Corporation's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local and federal governments, and impact on the Corporation's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Corporation's financial position or results of operations is uncertain. The federal Public Health Emergency for COVID-19 expired on May 11, 2023.

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding is to be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. On March 11, 2021, the American Rescue Plan Act (ARPA) was passed. This Act provides additional financial assistances for state and local governments, education, housing, food assistance, and additional grant programs.

The CARES Act and ARPA funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of the funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. The Corporation reports restricted contributions, whose restrictions are met in the same period in which they are recognized (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as operating revenues in the consolidated statements of operations and changes in net assets.

In fiscal years 2020 through 2023, the Corporation received total grant stimulus funding of approximately \$126,210,000, of which approximately \$342,000 and \$28,023,000 was recognized as operating revenues in the consolidated statements of operations and changes in net assets for the years ended July 31, 2023 and 2022, respectively. Approximately \$167,000 and \$503,000 is recorded as a grant stimulus refundable advance on the consolidated balance sheets as of July 31, 2023 and 2022, respectively. Approximately \$611,000 is recorded in capital contributions in net assets without donor restrictions in the consolidated statements of operations and changes in net assets for the year ended July 31, 2023.

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
July 31, 2023 and 2022

22. Coronavirus (COVID-19), Continued

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

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

The State of Georgia utilized Coronavirus Relief Fund and ARPA monies to pay for and provide medical staffing to PPMH, PSMC, and PWMC to assist with the COVID-19 pandemic. The amounts paid on behalf of PPMH approximated \$0 and \$10,184,000 for the years ended July 31, 2023 and 2022, respectively. The amounts paid on behalf of PSMC approximated \$0 and \$1,629,000 for the years ended July 31, 2023 and 2022, respectively. The amounts paid on behalf of PWMC approximated \$0 and \$80,000 for the years ended July 31, 2023 and 2022, respectively. These services were provided by individuals with specialized skills and would have been purchased if not provided. Therefore, these amounts qualify as contributed services and are included in other revenue and purchased services in the consolidated statements of operations and changes in net assets.



INDEPENDENT AUDITOR'S REPORT ON
CONSOLIDATING INFORMATION

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

We have audited the consolidated financial statements of Phoebe Putney Health System, Inc. as of and for the years ended July 31, 2023 and 2022, and our report thereon dated November 8, 2023, which expressed an unmodified opinion on those financial statements, appears on pages 1 to 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in this report on pages 62 to 73, inclusive, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information, which insofar as it relates to Phoebe Putney Indemnity, Ltd. is based on the report of other auditors, is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

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

Albany, Georgia
November 8, 2023

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET

July 31, 2023

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 5,413	\$ 80,578	\$ (47)	\$ 8,537
Patient accounts receivable, net	-	90,961	-	7,762
Supplies	-	19,518	-	13
Other current assets	<u>1,696</u>	<u>13,506</u>	<u>52</u>	<u>510</u>
Total current assets	<u>7,109</u>	<u>204,563</u>	<u>5</u>	<u>16,822</u>
Assets limited as to use:				
Internally designated for capital improvements	499,961	395	-	-
Internally designated for self-insurance	-	-	-	-
Held by trustee	-	78,335	-	-
Externally designated by donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets limited as to use	<u>499,961</u>	<u>78,730</u>	<u>-</u>	<u>-</u>
Property and equipment, net	<u>44,356</u>	<u>315,453</u>	<u>383</u>	<u>18,046</u>
Other assets:				
Due from related parties	77,389	-	10,898	656
Deferred financing cost	-	610	-	-
Operating lease right-of-use assets	-	637	-	3,517
Goodwill	4,330	124,778	-	1,188
Other assets	<u>28,051</u>	<u>22,783</u>	<u>-</u>	<u>1,611</u>
Total other assets	<u>109,770</u>	<u>148,808</u>	<u>10,898</u>	<u>6,972</u>
Total assets	<u>\$ 661,196</u>	<u>\$ 747,554</u>	<u>\$ 11,286</u>	<u>\$ 41,840</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2023

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ 7,964	\$ 48,726	\$ 1,034	\$ 6,886	\$ -	\$ 159,091
2,769	13,340	-	-	-	114,832
238	2,660	-	-	-	22,429
160	1,315	15,609	1,191	-	34,039
<u>11,131</u>	<u>66,041</u>	<u>16,643</u>	<u>8,077</u>	<u>-</u>	<u>330,391</u>
-	44,900	-	6,960	-	552,216
-	-	78,581	-	-	78,581
-	-	-	-	-	78,335
-	4,000	-	7,712	-	11,712
<u>-</u>	<u>48,900</u>	<u>78,581</u>	<u>14,672</u>	<u>-</u>	<u>720,844</u>
<u>7,973</u>	<u>53,362</u>	<u>-</u>	<u>-</u>	<u>(16,716)</u>	<u>422,857</u>
-	-	-	-	(88,943)	-
-	-	-	-	-	610
-	21	-	-	(3,586)	589
-	-	-	-	-	130,296
1	3,653	-	89	(48,695)	7,493
<u>1</u>	<u>3,674</u>	<u>-</u>	<u>89</u>	<u>(141,224)</u>	<u>138,988</u>
<u>\$ 19,105</u>	<u>\$ 171,977</u>	<u>\$ 95,224</u>	<u>\$ 22,838</u>	<u>\$ (157,940)</u>	<u>\$ 1,613,080</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2023

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	\$ 8	\$ 9,067	\$ 15	\$ 3,335
Current portion of operating lease liabilities	-	266	-	798
Accounts payable	1,444	30,837	33	4,270
Accrued expenses	8,922	37,492	-	21,501
Estimated third-party payor settlements	-	3,121	-	-
Grant stimulus refundable advance	-	-	-	-
Total current liabilities	10,374	80,783	48	29,904
Due to related parties	-	68,170	-	-
Long-term debt, net of current portion	12	336,666	48	11,599
Operating lease liabilities, net of current portion	-	362	-	2,730
Accrued pension cost	-	23,339	-	-
Accrued self-insurance cost	-	-	-	-
Derivative financial instruments	-	3,460	-	-
Total liabilities	10,386	512,780	96	44,233
Net assets:				
Without donor restrictions	650,810	222,215	11,190	(2,393)
With donor restrictions:				
Purpose restrictions	-	10,535	-	-
Perpetual in nature	-	2,024	-	-
Total net assets	650,810	234,774	11,190	(2,393)
Total liabilities and net assets	\$ 661,196	\$ 747,554	\$ 11,286	\$ 41,840

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2023

(Dollars in Thousands)

<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, Ltd.</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 104	\$ 205	\$ -	\$ -	\$ (3,854)	\$ 8,880
-	4	-	-	(808)	260
807	5,191	44	48	-	42,674
1,256	4,814	-	-	-	73,985
931	(333)	-	-	-	3,719
-	167	-	-	-	167
3,098	10,048	44	48	(4,662)	129,685
12,129	4,765	3,871	8	(88,943)	-
275	525	-	-	(13,595)	335,530
-	15	-	-	(2,784)	323
-	-	-	-	-	23,339
-	-	80,240	-	-	80,240
-	-	-	-	-	3,460
<u>15,502</u>	<u>15,353</u>	<u>84,155</u>	<u>56</u>	<u>(109,984)</u>	<u>572,577</u>
3,603	152,624	11,069	10,223	(35,397)	1,023,944
-	4,000	-	10,535	(10,535)	14,535
-	-	-	2,024	(2,024)	2,024
<u>3,603</u>	<u>156,624</u>	<u>11,069</u>	<u>22,782</u>	<u>(47,956)</u>	<u>1,040,503</u>
<u>\$ 19,105</u>	<u>\$ 171,977</u>	<u>\$ 95,224</u>	<u>\$ 22,838</u>	<u>\$ (157,940)</u>	<u>\$ 1,613,080</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET

July 31, 2022

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 10,490	\$ 68,626	\$ -	\$ 4,958
Patient accounts receivable, net	-	85,637	-	10,079
Supplies	-	20,295	-	13
Estimated third-party payor settlements	-	-	-	-
Other current assets	<u>23,051</u>	<u>14,077</u>	<u>37</u>	<u>1,241</u>
Total current assets	<u>33,541</u>	<u>188,635</u>	<u>37</u>	<u>16,291</u>
Assets limited as to use:				
Internally designated for capital improvements	473,692	393	-	-
Internally designated for self-insurance	-	-	-	-
Externally designated by donors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets limited as to use	<u>473,692</u>	<u>393</u>	<u>-</u>	<u>-</u>
Property and equipment, net	<u>46,052</u>	<u>299,369</u>	<u>370</u>	<u>14,752</u>
Other assets:				
Due from related parties	54,937	-	10,881	-
Deferred financing cost	-	675	-	-
Operating lease right-of-use assets	-	175	-	2,661
Goodwill	4,330	124,778	-	1,188
Other assets	<u>29,737</u>	<u>20,256</u>	<u>-</u>	<u>1,653</u>
Total other assets	<u>89,004</u>	<u>145,884</u>	<u>10,881</u>	<u>5,502</u>
Total assets	<u>\$ 642,289</u>	<u>\$ 634,281</u>	<u>\$ 11,288</u>	<u>\$ 36,545</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2022

(Dollars in Thousands)

<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, Ltd.</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 5,629	\$ 43,061	\$ 1,648	\$ 5,784	\$ -	\$ 140,196
2,252	12,189	-	-	-	110,157
225	2,776	-	-	-	23,309
-	-	-	-	-	-
<u>1,539</u>	<u>3,851</u>	<u>14,014</u>	<u>684</u>	<u>-</u>	<u>58,494</u>
<u>9,645</u>	<u>61,877</u>	<u>15,662</u>	<u>6,468</u>	<u>-</u>	<u>332,156</u>
-	41,759	-	6,296	-	522,140
-	-	75,622	-	-	75,622
<u>-</u>	<u>4,000</u>	<u>-</u>	<u>7,676</u>	<u>-</u>	<u>11,676</u>
<u>-</u>	<u>45,759</u>	<u>75,622</u>	<u>13,972</u>	<u>-</u>	<u>609,438</u>
<u>7,061</u>	<u>48,946</u>	<u>-</u>	<u>-</u>	<u>(13,295)</u>	<u>403,255</u>
-	-	-	-	(65,818)	-
-	-	-	-	-	675
-	56	-	-	(2,673)	219
-	-	-	-	-	130,296
<u>(2)</u>	<u>3,466</u>	<u>-</u>	<u>89</u>	<u>(47,827)</u>	<u>7,372</u>
<u>(2)</u>	<u>3,522</u>	<u>-</u>	<u>89</u>	<u>(116,318)</u>	<u>138,562</u>
<u>\$ 16,704</u>	<u>\$ 160,104</u>	<u>\$ 91,284</u>	<u>\$ 20,529</u>	<u>\$ (129,613)</u>	<u>\$ 1,483,411</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING BALANCE SHEET, Continued
July 31, 2022

(Dollars in Thousands)

	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	\$ 8	\$ 10,170	\$ 16	\$ 3,501
Current portion of operating lease liabilities	-	86	-	829
Accounts payable	2,331	33,012	53	5,207
Accrued expenses	5,131	32,762	-	21,566
Estimated third-party payor settlements	-	5,493	-	-
Current portion of self-insurance cost	22,392	-	-	-
Grant stimulus refundable advance	-	-	-	-
Current portion of Medicare accelerated and advance payments	-	14,775	-	-
Total current liabilities	29,862	96,298	69	31,103
Due to related parties	-	48,030	-	(2,308)
Medicare accelerated and advance payments, net of current portion	-	-	-	-
Long-term debt, net of current portion	20	246,638	17	8,316
Operating lease liabilities, net of current portion	-	89	-	1,827
Accrued pension cost	-	47,582	-	-
Accrued self-insurance cost	-	-	-	-
Derivative financial instruments	-	5,881	-	-
Total liabilities	29,882	444,518	86	38,938
Net assets:				
Without donor restrictions	612,407	178,940	11,202	(2,393)
With donor restrictions:				
Purpose restrictions	-	8,799	-	-
Perpetual in nature	-	2,024	-	-
Total net assets	612,407	189,763	11,202	(2,393)
Total liabilities and net assets	\$ 642,289	\$ 634,281	\$ 11,288	\$ 36,545

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.
CONSOLIDATING BALANCE SHEET, Continued
July 31, 2022

(Dollars in Thousands)

Phoebe Worth Medical Center, Inc.	Phoebe Sumter Medical Center, Inc.	Phoebe Putney Indemnity, Ltd.	Phoebe Foundation, Inc.	Eliminations	Consolidated
\$ 105	\$ 205	\$ -	\$ -	\$ (4,078)	\$ 9,927
-	22	-	-	(830)	107
398	4,865	43	269	-	46,178
1,040	3,692	3	-	-	64,194
(145)	(403)	-	-	-	4,945
-	-	-	-	-	22,392
78	425	-	-	-	503
-	-	-	-	-	14,775
1,476	8,806	46	269	(4,908)	163,021
15,058	4,724	310	4	(65,818)	-
-	-	-	-	-	-
380	731	-	-	(9,843)	246,259
-	31	-	-	(1,835)	112
-	-	-	-	-	47,582
-	-	74,399	-	-	74,399
-	-	-	-	-	5,881
16,914	14,292	74,755	273	(82,404)	537,254
(210)	141,812	16,529	9,433	(36,386)	931,334
-	4,000	-	8,799	(8,799)	12,799
-	-	-	2,024	(2,024)	2,024
(210)	145,812	16,529	20,256	(47,209)	946,157
\$ 16,704	\$ 160,104	\$ 91,284	\$ 20,529	\$ (129,613)	\$ 1,483,411

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES)
July 31, 2023

	(Dollars in Thousands)			
	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
Operating revenues, gains, and other support:				
Net patient service revenue	\$ -	\$ 665,532	\$ -	\$ 98,586
Other revenue	44,759	61,002	50	2,284
Grant stimulus funding	-	-	-	-
Total operating revenues, gains, and other support	<u>44,759</u>	<u>726,534</u>	<u>50</u>	<u>100,870</u>
Operating expenses:				
Salaries and wages	23,643	164,311	-	148,048
Employee health and welfare	2,466	44,783	-	22,618
Medical supplies and other	8,067	304,897	24	(71,065)
Purchased services	4,529	157,455	4	(3,511)
Depreciation and amortization	1,666	30,216	32	4,249
Interest	-	11,268	1	576
Total operating expenses	<u>40,371</u>	<u>712,930</u>	<u>61</u>	<u>100,915</u>
Operating income (loss)	4,388	13,604	(11)	(45)
Nonoperating income (loss):				
Investment and other nonoperating income (loss)	<u>34,016</u>	<u>5,484</u>	<u>-</u>	<u>45</u>
Excess revenues (expenses)	<u>\$ 38,404</u>	<u>\$ 19,088</u>	<u>\$ (11)</u>	<u>\$ -</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES), Continued
July 31, 2023

(Dollars in Thousands)

<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, Ltd.</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 23,007	\$ 100,958	\$ -	\$ -	\$ -	\$ 888,083
495	6,521	19,699	1,922	(66,813)	69,919
<u>84</u>	<u>258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>342</u>
<u>23,586</u>	<u>107,737</u>	<u>19,699</u>	<u>1,922</u>	<u>(66,813)</u>	<u>958,344</u>
7,132	26,430	-	630	144	370,338
1,768	6,262	-	-	-	77,897
4,072	40,753	29,092	969	(20,670)	296,139
7,046	25,196	-	289	(41,724)	149,284
891	3,929	-	-	(4,092)	36,891
<u>21</u>	<u>41</u>	<u>-</u>	<u>-</u>	<u>(612)</u>	<u>11,295</u>
<u>20,930</u>	<u>102,611</u>	<u>29,092</u>	<u>1,888</u>	<u>(66,954)</u>	<u>941,844</u>
2,656	5,126	(9,393)	34	141	16,500
<u>546</u>	<u>5,539</u>	<u>3,932</u>	<u>756</u>	<u>1,639</u>	<u>51,957</u>
<u>\$ 3,202</u>	<u>\$ 10,665</u>	<u>\$ (5,461)</u>	<u>\$ 790</u>	<u>\$ 1,780</u>	<u>\$ 68,457</u>

See accompanying auditor's report on consolidating information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES)
July 31, 2022

	(Dollars in Thousands)			
	Phoebe Putney Health System, Inc.	Phoebe Putney Memorial Hospital, Inc.	Phoebe Putney Health Ventures, Inc.	Phoebe Physician Group, Inc.
Operating revenues, gains, and other support:				
Net patient service revenue	\$ -	\$ 613,399	\$ -	\$ 83,044
Other revenue	41,544	55,929	50	2,340
Grant stimulus funding	-	14,993	-	1,199
	<u>41,544</u>	<u>684,321</u>	<u>50</u>	<u>86,583</u>
Total operating revenues, gains, and other support				
Operating expenses:				
Salaries and wages	20,753	151,314	-	143,471
Employee health and welfare	5,601	35,367	-	25,906
Medical supplies and other	4,881	301,257	16	(94,974)
Purchased services	330	233,208	6	7,627
Depreciation and amortization	1,709	29,275	32	3,962
Interest	-	6,360	2	627
	<u>33,274</u>	<u>756,781</u>	<u>56</u>	<u>86,619</u>
Total operating expenses				
Operating income (loss)	8,270	(72,460)	(6)	(36)
Nonoperating income (loss):				
Investment and other nonoperating income (loss)	(41,553)	4,264	-	36
	<u>(41,553)</u>	<u>4,264</u>	<u>-</u>	<u>36</u>
Excess revenues (expenses)	<u>\$ (33,283)</u>	<u>\$ (68,196)</u>	<u>\$ (6)</u>	<u>\$ -</u>

Continued

PHOEBE PUTNEY HEALTH SYSTEM, INC.

CONSOLIDATING STATEMENT OF EXCESS REVENUES (EXPENSES), Continued
July 31, 2022

(Dollars in Thousands)

<u>Phoebe Worth Medical Center, Inc.</u>	<u>Phoebe Sumter Medical Center, Inc.</u>	<u>Phoebe Putney Indemnity, Ltd.</u>	<u>Phoebe Foundation, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 20,184	\$ 96,886	\$ -	\$ -	\$ -	\$ 813,513
1,457	7,045	16,532	2,633	(61,382)	66,148
<u>2,284</u>	<u>9,547</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,023</u>
<u>23,925</u>	<u>113,478</u>	<u>16,532</u>	<u>2,633</u>	<u>(61,382)</u>	<u>907,684</u>
7,363	24,636	-	690	-	348,227
2,706	7,401	-	-	-	76,981
3,923	39,016	18,547	1,534	(18,367)	255,833
6,388	30,069	-	295	(38,451)	239,472
863	3,755	-	-	(4,111)	35,485
<u>26</u>	<u>51</u>	<u>-</u>	<u>-</u>	<u>(734)</u>	<u>6,332</u>
<u>21,269</u>	<u>104,928</u>	<u>18,547</u>	<u>2,519</u>	<u>(61,663)</u>	<u>962,330</u>
2,656	8,550	(2,015)	114	281	(54,646)
<u>344</u>	<u>(3,158)</u>	<u>(6,756)</u>	<u>(1,177)</u>	<u>5,775</u>	<u>(42,225)</u>
<u>\$ 3,000</u>	<u>\$ 5,392</u>	<u>\$ (8,771)</u>	<u>\$ (1,063)</u>	<u>\$ 6,056</u>	<u>\$ (96,871)</u>

See accompanying auditor's report on consolidating information.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

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

We have audited the consolidated financial statements of Phoebe Putney Health System, Inc. as of and for the years ended July 31, 2023 and 2022 and our report thereon dated November 8, 2023, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 to 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information included in this report on pages 75 to 90, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

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

Albany, Georgia
November 8, 2023

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY

July 31, 2023

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

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

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

Through its affiliated group of hospitals, the Corporation improves the health and well-being of Southwest Georgia through clinical services, education, research and partnerships that build health capacity in the community. Each hospital provides community benefits for every citizen in its service area as well as for the medically underserved. The hospitals conduct community needs assessments and pay close attention to the needs of low income and other vulnerable persons and the community at large. The Corporation often works with community groups to identify needs, strengthen existing community programs and plan newly needed services. In addition to providing free and discounted services to people who are uninsured and underinsured, the Corporation provides a wide-ranging array of community benefit services designed to improve community and individual health and to increase access to health care. The Corporation’s excellence in community benefit programs was recognized by the prestigious Foster McGaw Prize awarded to the hospital in 2003 for its broad-based outreach in building collaboratives that make measurable improvements in health status, expand access to care and build community capacity, so that patients receive care closest to their own neighborhoods. Drawing on a dynamic and flexible structure, the community benefit programs are designed to respond to assessed needs and are focused on upstream prevention.

See independent auditor’s report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued

July 31, 2023

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

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

	<u>Charges Foregone</u>	<u>Estimated Unreimbursed Cost</u>
Medicare	\$ 977,000,000	\$ 317,000,000
Medicaid	287,000,000	92,000,000
Indigent/charity	<u>178,000,000</u>	<u>58,000,000</u>
	<u>\$ 1,442,000,000</u>	<u>\$ 467,000,000</u>

The following is a summary of the community benefit activities and health improvement services offered by the hospitals and illustrates the activities and donations during fiscal year 2023.

I. Community Health Improvement Services

A. Community Health Education

The Corporation's affiliated hospitals provided health education services that reached 10,631 individuals in 2023 at a cost of \$295,538. These services included the following free classes and seminars:

- Teen Pregnancy Prevention Education
- Teen Parenting Classes (Network of Trust)
- CPR Training to Teachers
- Safe-Sitter Classes
- Asthma & Epi-Pen Education
- Health Education at Summer Camps
- Breast Cancer Prevention Education
- Shop Talk discussions related to Prostate Cancer and Diabetes
- Opioid Prevention Presentations
- Health Lay-worker training
- Various Cancer Specific Seminars and presentations
- Albany Pink/Run-Walk
- The Ribbon Walk
- Project Elevate Women's Initiative

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

Men's and Women's Health Conferences

The PPMH's men's and women's conferences attracted a total of 569 participants. In June, the Men's Conference attracted 200 participants. The 2023 Men's Health Fair was a screen event that provided prostate cancer screening, blood pressure and glucose check, education on health wellness, and an information presentation with health events. The Women's Conference was held in October 2022 with a focus on breast, lung, and colorectal cancer. The total cost to the organization for both events was \$22,928.

For the PSMC Children's Health Fair, a total of 320 participants were provided weight, BMI and blood pressure readings in addition to free COVID vaccines. Also provided at the event was games, a healthy lunch, fruit and vegetable boxes, as well as back-to-school supplies. The total cost to the organization for this event was \$6,000.

Network of Trust

This is a nationally recognized program aimed at teen mothers to provide parenting skills, attempt to reduce repeat pregnancies, and complete high school. This program also includes a teen father program along with other teen programs. Internal evaluations show teens participating in the program are less likely to repeat a pregnancy prior to graduation. Network of Trust enrolled 19 teen parents (with zero repeat pregnancies) during the 2022/2023 school year at a cost of \$259,405. Program results demonstrate teens that graduated from the two-semester program are less likely to have a second pregnancy prior to age 21. Four of five Network of Trust seniors graduated in 2023. Network of Trust and the school nurse program provided teen pregnancy prevention programming, asthma and epi-pen education and conducted health education at summer camps.

B. Community Based Clinical Services

Flu Shots

The Corporation provides free flu shots to volunteers and students, and homeless shelters. In 2023, the Corporation administered 60 flu shots at an unreimbursed cost of \$1,169.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

I. Community Health Improvement Services, Continued

B. Community Based Clinical Services, Continued

Mammography

PPMH provided 258 mammograms to the uninsured in 2023 at an estimated cost of \$36,120.

School Nurse Program

The Corporation places nurses in nineteen schools in its Primary Service Area with a goal of creating access to care for students and staff, assessing the health care status of each population represented, and effectively establishing referrals for all health care needs. Nurses conducted CPR training, Safe Sitter classes, teen pregnancy prevention education, asthma and epi-pen education and health education summer camps. During the 2022/2023 school year, the school nurse program covered approximately 12,103 student lives. This program operated at a cost of \$431,791 in 2023.

Nurse Family Partnership

The Nurse Family Partnership (NFP) is a home visitation training for first time moms who are eligible for Medicaid/WIC from pregnancy until the child's second birthday. Without a variance from the National Service Office (NSO), the mom should enter the program no later than the 28th week of pregnancy. The BSN nurse provides scheduled visits throughout the pregnancy and until the child turns two. The goal of NFP is to have healthy moms having healthy babies. In 2023, the Corporation spent \$233,333 and provided services to 60 active clients.

Taking Time for Teens

Taking Time for Teens (T3) is a collaboration between Morehouse School of Medicine and Phoebe Putney Network of Trust Targeted population was youth aged 16-19 in Public Health District 8-2. Counties serviced with this program include: Dougherty, Lee, Worth, Terrell, Calhoun, Colquitt, Mitchell, Baker, Miller, Seminole and Early. The purpose of the funded project was to strengthen social and health systems to improve optimal adolescent health, reduce sexual risk behavior that leads to teen pregnancy, and increase positive youth behaviors known to protect against teen pregnancy. Through this program, 3,333 students were reached by implementing pre-approved Evidence Based Programs (EBPs) such as Love Notes, Too Good For Drugs, My Plan A, and SPORT Prevention Plus Wellness. In addition to providing health education to the students, each county formed a Youth Leadership Council (YLC) group. YLC is a team of students selected to serve as leaders in community or school projects.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

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

C. Health Care Support Services

Although the Corporation anticipates reimbursement from various funding sources in fiscal year 2023, the Corporation wanted to highlight these life-saving benefits to the community:

Mobile Units

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

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

In 2023, the mobile units partnered with Albany Area Primary Health Care (AAPHC) and Medicaid providers to host primary care clinics throughout 13 rural Southwest Georgia counties. The mobile units traveled 5,067 miles sponsoring 97 vaccine events with a total of 1,237 vaccines administered, ten wellness events with a total of 95 visits, and 18 health fairs with a total of 130 interactions.

Government Sponsored Eligibility Applications to the Poor and Needy

The Corporation contracts for eligibility on behalf of the poor and needy that may be eligible for Medicaid. In some cases, it can take up to two years to be deemed eligible. In 2023 the Corporation paid \$876,550 to process these applications with 884 receiving Medicaid benefits.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

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

C. Health Care Support Services, Continued

The Light House

The Light House housing in Albany, GA provides a comforting and supportive haven for cancer patients and their families, offering a welcoming and nurturing environment during their challenging journey towards healing and recovery. It is designed to be a home away from home. The Light House affords each guest comfort, privacy, and state of the art accommodations for them and one family member. It's conveniently located across the street from the Phoebe Cancer Center and includes six bedrooms, each with a wheelchair accessible restroom and shower. There's a commons area, a large kitchen, two quiet rooms, a veranda, sunroom and screened-in porch. The Light House provides a comfortable home-like setting where qualified patients can relax between treatments or spend the night to avoid having to travel back and forth to their home. It's a place where patients and families find solace and a caring environment during their most difficult times. The Light House was built on love and faith by the philanthropy giving from the community, survivors, and local business owners. In 2023, the Corporation spent \$22,835 on Light House facility maintenance.

The Phoebe Wellness Center

The Phoebe Wellness and Survivorship Center is a beacon of hope and support for Cancer patients, survivors and thrivers. It offers a comprehensive range of services, programs, and resources aimed at empowering survivors to thrive beyond treatment and their cancer journey. This center provides a holistic approach to physical, emotional, and mental well-being, helping survivors regain their strength, find a sense of community, and embrace life after cancer. The Wellness Center offers a diverse array of services including educational programs, fitness classes, counseling referrals, and support groups, all tailored to meet the unique needs of survivors. It serves as a sanctuary for survivors to heal, connect, share similar experiences, and rediscover a fulfilling and vibrant life, post cancer, after diagnosis, treatment and throughout survivorship and surveillance. In 2023, the Corporation spent \$17,930 on the Phoebe Wellness and Survivorship Center.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

I. Community Health Improvement Services, Continued

C. Health Care Support Services, Continued

Financial Assistance Policy (FAP)

PPHS Hospital Facilities will extend free or discounted care to eligible individuals for all urgent, emergent, or otherwise medically necessary services. Patients whose household income is at or below 200% of the Federal Poverty Guidelines are eligible for free care. Patients whose household income is between 201% and 400% of the Federal Poverty Guidelines qualify for discounted charges based on a sliding fee schedule in the FAP. Phoebe will not charge eligible individuals more for emergency or other medically necessary care than the Amount Generally Billed (AGB) to individuals who have insurance coverage, and is compliant with the requirements for a not-for-profit charitable corporation in accordance with Internal Revenue Service Regulation §1.501(r).

D. Social and Environmental Improvement Activities

PSMC participated in multiple food distributors throughout FY 2023 and provided financial contributions to aid in community garden infrastructure. This was provided at a cost of \$25,310.

II. Health Professions Education

The Corporation recognizes that to continuously improve the Corporation's long-term value to our community and our customers, to encourage life-long learning among employees and to achieve a world-class employer status, it is in the organization's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. PPHS also provides non-employees financial support in pursuing healthcare related degrees. In 2023, 1,335 students received clinical instruction from the Corporation's facilities at a total cost of \$2,199,007.

Nursing Students

In 2023, PPHS provided \$1,622,825 in clinical supervision and training to 1,029 nursing students. In 2021, the nursing clinical team added three full time employees for Academic Clinic Instructors to assist college nursing program supervisors and provided Simulation Lab instruction to all the nursing students.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

II. Health Professions Education, Continued

Other Students

During fall 2022 and spring 2023, the Simulation Center trained medical residents in emergency response and labor and delivery measures. The medical residents attend training in the Simulation Center each quarter.

Simulation & Innovation Center

PPMH's technologically advanced Simulation & Innovation Center is the leading provider of nurse training and development in Southwest Georgia. The Simulation & Innovation Center features a state-of-the-art skills lab and simulators for labor & delivery, NICU, pediatrics, med-surg, surgery, trauma and critical care. Students participate in full patient codes on life-like mannequins that respond to a variety of conditions. What nurses experience in the Simulation & Innovation Center will mirror what one would experience on the floor. In 2023, the Simulation & Innovation Center provided various training to 9,013 participants.

Other Health Professional Education

The Corporation provided an additional \$576,182 in clinical supervision and training to pharmacy, pharmacy techs, and other allied health professionals providing clinical opportunities for 306 students.

III. Subsidized Health Services

A. Other Subsidized Services

Inmate Care

The Corporation provides care to persons in jail for Dougherty County. In 2023 the Corporation provided \$923,036 of unreimbursed medical and drug treatment to 477 inmates.

Indigent Drug Pharmacy

Indigent Drug Pharmacy provides medication upon discharge to patients that are either indigent or uninsured. In 2023, the pharmacy dispensed 3,250 prescriptions to patients at a cost of \$123,971.

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

IV. Financial and In-Kind Support

In 2023, the Corporation provided \$956,421 in cash donations and in-kind support to non-profit organizations in Southwest Georgia. Listed are some highlights:

- PPMH donated 4 properties with a market value of \$216,400 to Habitat for Humanity
- PPHS donated 3 properties with a market value of \$225,900 – 2 to Albany/Dougherty County Land Bank and 1 to Habitat for Humanity
- PPMH provided \$149,550 as a cash donation to Horizons Community Solutions for cancer screenings
- Provided forgone rent to non-profits at a cost of \$95,092
- PPMH purchased Zoll Defibrillator for EMS at a cost of \$26,928
- PSMC provided in-kind support to Healthy Sumter of \$58,543 for advertising, purchasing of a well-able app, etc.
- PWMC donated a cash contribution of \$45,619 to the Worth County Health Department for disease management
- PWMC provided an in-kind contribution of \$63,000 for EMS housing and bay renovations

V. Community Building Activities

A. Economic Development

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

B. Workforce Development

To address long-standing nursing and medical occupational shortages, the Corporation spent \$695,105 in developing and expanding enrollment in nursing and other medical occupational programs in 2023. This funding was provided to the 4C Academy, Albany Technical College, Ignite College and Career Academy and Georgia Southwestern State University.

See independent auditor's report on supplemental information.

V. Community Building Activities, Continued

B. Workforce Development, Continued

Simulation Lab Other Educational Opportunities

The Corporation's \$5.3 million dollar Simulation Plan became operational in 2021. It was built to train workers in a variety of healthcare roles and duplicates hospital environments exactly, including patient and operating rooms, intensive care units, and the emergency center. The following are some training highlights for 2023:

a. **Workforce Development**

Through various investments with our academic partners, the Corporation has enabled the nursing programs to increase student enrollment by providing funding for full and/or part-time faculty for each of the nursing programs, as well as for three full time clinical faculty who are located in the Simulation & Innovation Center.

b. **ASU Summer Health and STEM Camp:**

This camp will provide experiential learning opportunities to high school students in the areas of biology, chemistry/physics and biomedical/healthcare fields. Students will engage in scientific experimentation and demonstrations with ASU faculty in the aforementioned areas. Additionally, students will meet with keynote motivational speakers and personnel at PPMH for a tour of medical facilities.

c. **SOWEGA-AHEC Pathway to Medicine:**

SOWEGA-AHEC, in collaboration with AAPHC and the Phoebe Family Medicine Residency Program, created the Pathway to Med School Program to address the critical need for primary care physicians in Southwest Georgia. Knowing that students from rural communities are more likely to return to a rural area to practice and understanding the need to increase the pipeline of rural students enrolled in Georgia medical schools, it was determined that students from the 38-county region needed to become more competitive in the application process. This year, the Sim-Lab hosted 11 Pathways to Medicine Students and 15 UGA PharmD. In addition, they hosted 15 9th and 10th grade students interested in healthcare.

See independent auditor's report on supplemental information.

V. Community Building Activities, Continued

B. Workforce Development, Continued

Simulation Lab Other Educational Opportunities, Continued

c. SOWEGA-AHEC Pathway to Medicine, Continued:

To determine how to make the students more competitive, AHEC polled the admissions committees from each of the medical schools in Georgia to determine what, beyond MCAT scores and GPA would increase their chances of being accepted. The overwhelming consensus was a much needed and significant structured clinical shadowing and medical research experience. The Albany based Pathway to Med School Program was structured accordingly as a 4-week residential experience to include 50 hours of clinical shadowing in a primary care setting and 75 hours of community-based research to include data collection, interpretation, and presentation.

Southwest Georgia is a medically underserved area (MUA) and by supporting the efforts of local aspiring medical students at the pre-med academic level, we can improve access to healthcare in our communities.

d. 4C Academy

The Simulation Center hosted the faculty from 4C to provide insight on training the center provides. Forty-five students attended hands-on training in the Simulation Center to motivate them to seek/attain a healthcare profession.

e. Young Doctors and Health Professions Program:

The Young Doctors and Health Professions Program is a STEM program designed to expose participants in grades 5-8 to the field of healthcare, while enhancing their competence in mathematics, science, and problem-solving. This group was hosted in the Simulation Center to receive an introduction to various medical devices and supply. They participated in hands on skills (such as listening to heart tones and respiration) to educate them on medical skills and careers. With the addition of the Phoebe Health Science Pathway which begins in 9th grade, the Simulation team has made a concerted effort to reach middle school students to increase their interest in a healthcare career.

See independent auditor's report on supplemental information.

V. Community Building Activities, Continued

B. Workforce Development, Continued

Simulation Lab Other Educational Opportunities, Continued

f. UGA PharmD/ASU/AHEC Camp:

The UGA School of Pharmacy, Albany State University, and SOWEGA AHEC partnered to host a free healthcare career explorations overnight camp for middle school students from Southwest Georgia in order to raise awareness about the area's breadth of training, education, and job opportunities in the following areas: Nursing, Health Sciences (Dental Hygiene, Sonography, Occupational Therapy, Radiology, etc.), Human Performance, Pharmacy, Pharmaceutical Sciences, Medicine, and more. The participants came to the Simulation Center and observed a cardiac arrest simulation, as well as participated in hands on skills and training to increase their knowledge and interest in the nursing profession.

g. Turner Job Corp CNA Students:

Students from Turner Job Corp spent time in the Simulation Center learning about health career opportunities at Phoebe and to participate in hands on training with the skills manakins. Although there is a definite need within our organization for CNAs, we also sought to inform them of funding available for employees to return to school to further their education. Many students were not aware that the hospital hires CNAs and were interested in job opportunities as well as in the funding provided to Phoebe employees.

h. Colony Bank Leadership Academy:

The Colony Bank Leadership Academy aims to encourage high school juniors to recognize their own potential and develop their leadership skills. As part of the curricula, this group attended a day in the Simulation Center to participate in hands on skills (such as listening to heart tones and respirations) to educate them on medical skills and careers in hopes of encouraging them to seek a career in healthcare.

See independent auditor's report on supplemental information.

V. Community Building Activities, Continued

B. Workforce Development, Continued

Simulation Lab Other Educational Opportunities, Continued

i. Junior Leadership Lee:

Junior Leadership Lee County draws together rising high school sophomores, juniors, and seniors who are deeply committed to our future and empowers them with the essential knowledge about every element of our community – from government, healthcare, and education to news, history, and charity. As part of the curricula, this group attended a day in the Simulation Center to participate in hands on skills (such as listening to heart tones and respirations) to educate them on medical skills and careers in hopes of encouraging them to seek a career in healthcare. Dr. Tracy Suber facilitated their session regarding communication.

j. Mini-Simulation User Network (SUN) Conference:

The Simulation Center hosted a free Mini-SUN Conference, sponsored by Laerdal, for 50 nurse educators from around the state of Georgia. The agenda covered critical issues in simulation-based training and education – all of which related to producing better and higher quality learning output to shape the best healthcare workforce possible. There was special emphasis on Healthcare and Obstetric Emergencies, EMS, Virtual Simulation, and Health Equity.

k. Boys & Girls Club of Albany:

The mission of the Boys & Girls Club is to provide a safe environment for kids to grow and thrive, deliver engaging programs focused on academics, health and leadership, and offer trained staff who guide, coach, and motivate kids to be successful. The Boys & Girls Club of Albany visited the Simulation Center to learn more about healthcare careers and participate in hands on training.

C. Coalition Building

In honor of Martin Luther King, Jr. Day, 33 Phoebe employees participated in the January 15, 2023 MLK Day of Service. Phoebe allowed staff to volunteer and remain on the clock for the day of service, located at the 5th Avenue community garden. Phoebe has monetarily supported the community garden since its inception. The volunteer cost of the MLK Day of Service was \$4,855.

See independent auditor's report on supplemental information.

V. Community Building Activities, Continued

Partnership with The Arc of Southwest Georgia

PPHS entered into an employment partnership with The Arc of SWGA that advances employment opportunities for individuals with disabilities. The program is unique in that it is a business-led, transition-to-work program, with training taking place entirely at PPMH. The anticipated outcome for each participant is competitive employment. This means employment in an integrated setting, working alongside coworkers with and without disabilities, year-round work that is not seasonal employment, and 15 or more hours per week at a wage of \$13.00 per hour or higher. To date, there have been 8 individuals hired in positions ranging from food service to human resources.

VI. Community Benefit Operations

The Corporation incurred \$48,560 in dedicated staff to operate the community benefit programs. The Corporation also provided \$49,005 in data management and community dashboard that displays over 180 community health indicators on our website:

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

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

Summary

	<u>2023</u>
Community Health Improvement Services:	
Community Health Education	\$ 301,178
Community Based Clinical Services	704,747
Healthcare Support Services	<u>942,625</u>
Total community health improvement services	<u>1,948,550</u>
Health Professions Education:	
Nurses/nursing students	1,622,825
Other health professional education	<u>576,182</u>
Total health professional education	<u>2,199,007</u>
Subsidized Health Services:	
Other subsidized health services	<u>1,047,007</u>
Total subsidized health services	<u>1,047,007</u>
Financial and In-Kind Support:	
Cash donations	284,063
In-kind donations	<u>672,358</u>
Total financial and in-kind support	<u>956,421</u>
Community Building Activities:	
Workforce development	695,105
Economic development	6,000
Coalition building	<u>4,855</u>
Total community building activities	<u>705,960</u>
Community Benefit Operations:	
Dedicated staff and other resources	<u>97,565</u>
Total community benefit operations	<u>97,565</u>

See independent auditor's report on supplemental information.

PHOEBE PUTNEY HEALTH SYSTEM, INC.

SERVICE TO THE COMMUNITY, Continued
July 31, 2023

Summary, Continued

Other:	<u>2023</u>
Traditional charity care - estimated unreimbursed cost of charity services	\$ 58,000,000
Unpaid cost of Medicare services - estimated unreimbursed cost of Medicare services	317,000,000
Unpaid cost of Medicaid services - estimated unreimbursed cost of Medicaid services	<u>92,000,000</u>
Total other	<u>467,000,000</u>
Total summary	\$ <u>473,954,510</u>

This report has been prepared in accordance with the community benefit reporting guidelines established by Catholic Health Association (CHA) and VHA. The Internal Revenue Services' requirements for reporting community benefits are different than the guidelines under which this report has been prepared.

See independent auditor's report on supplemental information.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Phoebe Putney Health System, Inc. (Corporation), which comprise the consolidated balance sheet as of July 31, 2023, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 8, 2023.

Our report includes a reference to other auditors who audited the financial statements of Phoebe Putney Indemnity, Ltd., a wholly-owned subsidiary, as described in our report on the Corporation's consolidated financial statements. The financial statements of Phoebe Putney Indemnity, Ltd., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Phoebe Putney Indemnity, Ltd.

Report on Internal Control Over Financial Reporting

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

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

Continued

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

Albany, Georgia
November 8, 2023