PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

FINANCIAL STATEMENTS

for the years ended July 31, 2010 and 2009

CONTENTS

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Phoebe Putney Memorial Hospital, Inc.
Albany, Georgia

We have audited the balance sheets of Phoebe Putney Memorial Hospital, Inc. as of July 31, 2010 and 2009, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Phoebe Putney Memorial Hospital, Inc. as of July 31, 2010 and 2009, and the results of its operations and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 29, 2010, on our consideration of Phoebe Putney Memorial Hospital, Inc.'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Draffin & Tucker, LLP
Albany, Georgia
December 29, 2010

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PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

BALANCE SHEETS, July 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 229,671,782	$ 86,367,707
Assets limited as to use – current	1,560,260	1,970,520
Patient accounts receivable, net of allowance for doubtful accounts of $104,000,000 in 2010 and $110,000,000 in 2009	60,829,701	69,233,022
Supplies, at lower of cost (first-in, first-out) or market	6,999,987	7,185,168
Other current assets	3,911,155	3,294,079
Total current assets	302,972,885	168,050,496
Assets limited as to use:		
Internally designated for capital improvements	364,670	355,695
Under bond indenture agreement	1,560,260	1,970,520
Total assets limited as to use	1,924,930	2,326,215
Less amount required to meet current obligations	1,560,260	1,970,520
Assets limited as to use – long-term	364,670	355,695
Property and equipment, net	258,066,981	242,840,771
Other assets:		
Interest in net assets of Phoebe Foundation, Inc.	9,466,143	14,585,354
Deferred financing cost	3,851,269	3,423,521
Other assets	14,429,219	13,998,231
Total other assets	27,746,631	32,007,106
Total assets	$ 589,151,167	$ 443,254,068

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

BALANCE SHEETS, July 31, 2010 and 2009

	2010	2009
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 4,964,176	$ 5,187,787
Accounts payable	19,713,113	22,742,464
Accrued expenses	30,061,101	28,435,407
Estimated third-party payor settlements	4,221,033	2,389,776
Related party payables	20,766,456	7,303,728
Total current liabilities	79,725,879	66,059,162
Long-term debt, net of current portion	218,970,831	124,941,811
Accrued pension cost	83,977,415	61,245,974
Derivative financial instruments	7,199,470	6,137,769
Total liabilities	389,873,595	258,384,716
Net assets:		
Unrestricted	193,792,429	173,379,381
Temporarily restricted	4,428,748	10,507,078
Permanently restricted	1,056,395	982,893
Total net assets	199,277,572	184,869,352
Total liabilities and net assets	$ 589,151,167	$ 443,254,068

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

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
for the years ended July 31, 2010 and 2009

	2010	2009
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ 480,020,700	$ 511,182,269
Other revenue	11,016,781	7,706,119
Total revenues, gains and other support	491,037,481	518,888,388
Expenses:		
Salaries and wages	131,651,943	146,329,963
Employee health and welfare	51,216,329	44,017,188
Medical supplies and other	139,947,190	120,084,292
Professional fees	2,967,401	5,333,110
Purchased services	56,412,028	87,072,699
Depreciation and amortization	27,767,301	25,679,299
Interest	4,604,614	8,403,301
Provisions for bad debts	53,034,946	57,960,388
Total expenses	467,601,752	494,880,240
Operating income	23,435,729	24,008,148
Nonoperating gains (losses):		
Investment income (loss)	32,779	(4,501,527)
Excess revenues (expenses)	23,468,508	19,506,621
Effective change in interest rate swaps	-	1,563,229
Change in interest in net assets of Phoebe Foundation, Inc.	885,616	290,113
Net assets released from restrictions	6,078,330	-
Net actuarial gain	(12,761,647)	(23,864,698)
Amortization of prior service cost	181,422	181,422
Amortization of net loss	2,560,819	1,177,378
Increase (decrease) in unrestricted net assets	20,413,048	(1,145,935)

Continued

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued
for the years ended July 31, 2010 and 2009

	2010	2009
Temporarily restricted net assets:		
Change in interest in net assets of Phoebe Foundation, Inc.	$(6,078,330)	$ 374,285
Permanently restricted net assets:		
Change in interest in net assets of Phoebe Foundation, Inc.	73,502	-
Increase (decrease) in net assets	14,408,220	(771,650)
Net assets, beginning of year	184,869,352	185,641,002
Net assets, end of year	$ 199,277,572	$ 184,869,352

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

STATEMENTS OF CASH FLOWS
for the years ended July 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 14,408,220	$(771,650)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	27,767,301	25,679,299
Effective change in interest rate swaps	-	(1,563,229)
Change in interest in net assets of Phoebe Foundation, Inc.	5,119,212	(664,398)
Changes in:		
Receivables	8,403,321	13,631,530
Supplies	185,181	381,041
Other assets	(4,332,254)	640,534
Accounts payable and accrued expenses	(1,403,657)	8,134,282
Estimated third-party payor settlements	1,831,257	(925,550)
Accrued pension cost	22,731,441	32,119,554
Derivative financial instruments	1,061,701	5,670,636
Net cash provided by operating activities	75,771,723	82,332,049
Cash flows from investing activities:		
Purchase of property and equipment	(40,134,845)	(52,562,787)
Purchase of medical practice	-	(8,571,000)
Sale of investments	372,418	-
Payments from related parties	13,566,950	9,170,506
Net cash used by investing activities	(26,195,477)	(51,963,281)

Continued

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS, Continued
for the years ended July 31, 2010 and 2009

	2010	2009
Cash flows from financing activities:		
Payments on long-term debt	$(5,272,171)	$(115,447,797)
Proceeds from issuance of long-term debt	99,000,000	108,060,000
Net cash provided (used) by financing activities	93,727,829	(7,387,797)
Increase in cash and cash equivalents	143,304,075	22,980,971
Cash and cash equivalents, beginning of year	86,367,707	63,386,736
Cash and cash equivalents, end of year	$ 229,671,782	$ 86,367,707
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 4,000,000	$ 8,000,000

- The Corporation entered into a purchase agreement obligation in the amount of $3,690,000 for a medical practice in 2009.

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

1. Summary of Significant Accounting Policies

Organization

Phoebe Putney Memorial Hospital, Inc., (Corporation) located in Albany, Georgia, is a not-for-profit acute care hospital which operates satellite clinics in the surrounding counties. The Corporation provides inpatient, outpatient and emergency care services for residents of Southwest Georgia. Admitting physicians are primarily practitioners in the local area. The Corporation is a single operating entity and is a wholly owned subsidiary of Phoebe Putney Health System, Inc.

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 was 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 with a nominal annual lease payment.

Use of Estimates

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

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.

Allowance for Doubtful Accounts

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

Continued

1. Summary of Significant Accounting Policies, Continued

Supplies

Supplies, which consist primarily of drugs, food, and medical supplies, are valued at first-in, first-out cost, but not in excess of market.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Derivative Financial Instruments

The Corporation has entered into interest rate swap agreements as part of its interest rate risk management strategy. These arrangements 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 unrestricted net assets. 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 other income during the period of change.

Assets Limited As To Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently, use for other purposes. Amounts required to meet current liabilities of the Corporation have been reclassified in the balance sheet at July 31, 2010 and 2009.

Continued

1. Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. 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 unrestricted support, and are excluded from the excess of revenues over 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 restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Beneficial Interest in Net Assets of Foundation

The Corporation accounts for the activities of its related Foundation 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 the donor. Phoebe Foundation, Inc. accepts assets on behalf of the Corporation.

Goodwill

Goodwill resulted from the acquisition of various medical practices for amounts in excess of the fair value of the net assets acquired. Amortization expense is being recorded over the estimated useful life using the straight-line method.

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.

Continued

1. Summary of Significant Accounting Policies, Continued

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Excess Revenues (Expenses)

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

Net Patient Service Revenue

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

Charity Care

The 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

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 and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Estimated Self-Insurance Cost

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

Income Taxes

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

The Corporation applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the 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 disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of July 31, 2010 and 2009 or for the years then ended. The Corporation's open audit periods are for tax years ended 2007-2009.

Continued

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 in the accompanying statements of operations and changes in net assets for the years ended July 31, 2010 and 2009.

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.

Continued

1. Summary of Significant Accounting Policies, Continued

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2009 financial statements to conform to the fiscal year 2010 presentation. The reclassifications had no impact on the change in net assets in the accompanying financial statements.

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through December 29, 2010, the date the financial statements were issued.

2. 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. The Corporation does not believe that there are any significant credit risks associated with receivables due from third-party payors.

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 18 percent, respectively, of the Corporation's net patient revenue for the year ended July 31, 2010 and 39 percent and 18 percent, respectively, of the Corporation's net patient revenue for the year ended July 31, 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program. The RAC program was created to review Medicare claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments made on or after October 1, 2007. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

Continued

2. Net Patient Service Revenue, Continued

A summary of the payment arrangements with major third-party payors follows:

- Medicare

  Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. 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 fiscal intermediary. 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 Medicare fiscal intermediary through July 31, 2007.

- 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, 2006.

  Effective June 1, 2006, the Corporation began contracting 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

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 $7,888,000 and $11,055,000 for the years ended July 31, 2010 and 2009, 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 $74,000 and $1,917,000 for the years ended July 31, 2010 and 2009, respectively.

- Other Agreements

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

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2010 and 2009 were approximately $695,500,000 and $711,100,000, respectively.

Uncompensated care includes charity and indigent care services of approximately $53,300,000 and $48,700,000 in 2010 and 2009, respectively. The cost of charity and indigent care services provided during 2010 and 2009 were approximately $19,700,000 and $18,300,000, respectively computed by applying a total cost factor to the charges foregone.

Continued

3. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2010 and 2009.

	2010	2009
Gross patient charges	$ 1,122,514,369	$ 1,164,307,568
Uncompensated services:		
Charity and indigent care	53,290,851	48,723,279
Medicare	345,344,620	341,552,353
Medicaid	148,853,787	161,513,107
Other allowances	95,004,411	101,336,560
Bad debts	53,034,946	57,960,388
Total uncompensated care	695,528,615	711,085,687
Less bad debts	53,034,946	57,960,388
Deductions from patient service revenue	642,493,669	653,125,299
Net patient service revenue	$ 480,020,700	$ 511,182,269

4. Investments

Assets Limited As To Use

The composition of assets limited as to use at July 31, 2010 and 2009 is set forth in the following table. Assets limited as to use are stated at fair value.

	2010	2009
By board for capital improvements:		
Money market funds	$ 364,670	$ 355,695
Under bond indenture agreement:		
Government debt securities	1,560,260	1,970,520
Total assets limited as to use	$ 1,924,930	$ 2,326,215

Continued

4. Investments, Continued

Assets Limited As To Use, Continued

The Corporation has classified all marketable securities as trading securities. These trading securities are bought and held for the purpose of selling them in the near term and are reported at fair value, with unrealized gains and losses recognized in earnings. The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market. Gains and losses on securities sold are based on the specific identification method. Investment income for the above trading securities are as follows for the years ending July 31, 2010 and 2009:

	2010	2009
Interest income	$ 8,976	$ 133,168

5. Property and Equipment

A summary of property and equipment at July 31, 2010 and 2009 follows:

	2010	2009
Land	$ 7,429,072	$ 6,310,119
Land improvements	2,306,992	4,857,915
Building	277,102,757	281,484,006
Equipment	226,251,058	218,590,823
	513,089,879	511,242,863
Less accumulated depreciation	279,837,131	293,903,378
	233,252,748	217,339,485
Construction in progress	24,814,233	25,501,286
Net property and equipment	$ 258,066,981	$ 242,840,771

Depreciation expense for the years ended July 31, 2010 and 2009 amounted to approximately $27,400,000 and $23,800,000, respectively.

Construction contracts exist for various projects at year end with a total commitment of $10,600,000. At July 31, 2010, the remaining commitment on these contracts approximated $4,500,000.

Continued

6. Deferred Financing Costs

Bond issue costs and loan origination fees are amortized over the life of the debt instrument. Amortization expense for the years ended July 31, 2010 and 2009 amounted to approximately $2,100,000 and $2,400,000, respectively.

7. Other Assets

A summary of other assets at July 31, 2010 and 2009 follows:

	2010	2009
Goodwill	$ 10,510,667	$ 13,262,948
Long-term receivables	3,303,126	-
Other investment	615,426	735,283
Total other assets	$ 14,429,219	$ 13,998,231

The Goodwill is related to the Corporation's purchase of area health care clinics. The Goodwill is being amortized using the straight-line method.

8. Long-Term Debt

	2010	2009
1993 Series Revenue Anticipation Certificates, payable in varying annual amounts from $1,200,000 in 2011 to $2,120,000 in 2020; bearing interest at 5.40%.	$ 18,180,000	$ 19,380,000
2008A Series Revenue Anticipation Certificates, payable in varying annual amounts from $1,490,000 in 2010 to $3,800,000 in 2032; bearing interest at a daily rate to be adjusted by the Remarketing Agent.	52,600,000	54,090,000
2008B Series Revenue Anticipation Certificates, payable in varying annual amounts from $1,480,000 in 2010 to $3,795,000 in 2032; bearing interest at a daily rate to be adjusted by the Remarketing Agent.	52,490,000	53,970,000

Continued

8. Long-Term Debt, Continued

	2010	2009
2010A Series Revenue Anticipation Certificates, payable in varying annual amounts from $440,000 in 2011 to $11,355,000 in 2039; bearing interest at a monthly rate to be adjusted by the Remarketing Agent.	$ 99,000,000	$ -
Note payable, payable in monthly installments of $102,500 through January 2012; bearing interest at a variable rate adjusted annually.	1,955,033	3,057,203
	224,225,033	130,497,203
Less current portion	4,964,176	5,187,787
	219,260,857	125,309,416
Less unamortized discount	290,026	367,605
	$ 218,970,831	$ 124,941,811

The Series 1993 Bonds are subject to redemption prior to their stated maturities, at the option of the Authority at the direction of the Corporation on or after September 1, 2003 from any funds deposited with the Trustee and available for such purposes, as a whole at any time, or in part from time to time on any interest payment date, at the redemption prices (expressed as a percentage of the principal amount redeemed), plus accrued interest to the redemption date.

The Series 2008A and 2008B Revenue Certificates were issued on October 30, 2008 for the purpose of redeeming the Series 1991, 1996 and 2002 Revenue Certificates.

The Series 2010A Revenue Certificates were issued on July 9, 2010 for the purpose of reimbursing the Corporation for prior additions, extensions and improvements to the Corporation's facilities.

Series 1993, 2008A, 2008B and 2010A Revenue Certificates are secured by all receipts of, and revenue, income and money derived from the Corporation's operation of the Hospital premises.

Under the terms of the 1993 Certificate Indenture, the Corporation is required to maintain certain deposits with a trustee. Such deposits are included with assets whose use is limited in the financial statements. The 1993, 2008A, 2008B, and 2010A Certificate Indentures also place limits on the incurrence of additional borrowings and requires that the Corporation satisfy certain measures of financial performance as long as the notes are outstanding.

Continued

8. Long-Term Debt, Continued

Maturities and sinking fund requirements of long-term debt for the next five years are as follows:

	Principal					Interest	
Year	1993	2008A	2008B	2010A	Note Payable	1993	Note Payable
2011	$ 1,200,000	$ 1,350,000	$ 1,340,000	$ -	$ 1,158,559	$ 911,900	$ 71,441
2012	1,300,000	1,410,000	1,400,000	440,000	796,474	840,650	14,881
2013	1,400,000	1,295,000	1,290,000	730,000	-	763,700	-
2014	1,400,000	1,575,000	1,575,000	355,000	-	683,900	-
2015	1,580,000	1,610,000	1,605,000	285,000	-	604,500	-
Thereafter	11,300,000	45,360,000	45,280,000	97,190,000	-	1,775,500	-
Total	$ 18,180,000	$ 52,600,000	$ 52,490,000	$ 99,000,000	$ 1,955,033	$ 5,580,150	$ 86,322

Series 2008A and 2008B Revenue Certificates bear interest at a daily rate adjusted by SunTrust Robinson Humphrey, Inc. The Corporation may convert the interest rate upon compliance with terms and provisions of the indenture.

The 2010A Revenue Certificates bear interest at a monthly rate adjusted by J. P. Morgan Chase Bank, N.A. The Corporation may convert the interest rate upon compliance with terms and provisions of the indenture.

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 are reported in other liabilities on the balance sheet. The critical terms of the swaps are as follows:

$21.145MM Fixed Pay LIBOR Swap – Non-Hedge

	2010	2009
Notional amount	$ 19,837,277	$ 20,058,698
Fair market value	$(3,502,425)	$(2,442,700)
Life remaining on swap	16 Years	17 Years

Continued

9. Derivative Financial Instruments, Continued

$25MM Fixed Pay LIBOR Swap – Non-Hedge

	2010	2009
Notional amount	$ 23,453,863	$ 23,715,652
Fair market value	$(4,538,824)	$(3,279,366)
Life remaining on swap	16 Years	17 Years

$25MM Fixed Pay LIBOR Swap – Non-Hedge

	2010	2009
Notional amount	$ 23,453,863	$ 23,715,652
Fair market value	$(4,140,961)	$(2,888,035)
Life remaining on swap	16 Years	17 Years

$24.585MM Fixed Pay LIBOR Swap – Non-Hedge

	2010	2009
Notional amount	$ 18,180,000	$ 19,380,000
Fair market value	$(1,613,627)	$(1,084,283)
Life remaining on swap	5 Years	6 Years

Constant Maturity LIBOR Swap – Non-Hedge

	2010	2009
Notional amount	$ 42,462,591	$ 43,435,090
Fair market value	$ 3,235,785	$ 2,141,651
Life remaining on swap	22 Years	23 Years

Constant Maturity LIBOR Swap – Non-Hedge

	2010	2009
Notional amount	$ 42,462,591	$ 43,435,091
Fair market value	$ 3,301,188	$ 2,113,943
Life remaining on swap	22 Years	23 Years

Continued

9. Derivative Financial Instruments, Continued

Constant Maturity LIBOR Swap – Non-Hedge

	2010	2009
Notional amount	$ 84,925,182	$ -
Fair market value	$ 59,394	$ -
Life remaining on swap	3 Years	-

Constant Maturity LIBOR Swap – Non-Hedge

	2010	2009
Notional amount	$ -	$ 88,765,194
Fair market value	$ -	$(698,979)
Life remaining on swap	-	1 Year

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. As the swaps were in a liability position as of July 31, 2010, 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.

Effective results pertaining to the portion of the Corporation's interest rate swaps designated as hedging derivatives are initially included in unrestricted net assets and subsequently reclassified to earnings coincidentally with the interest accruals being hedged. As of July 31, 2010 and 2009, the unrestricted net assets relating to the swaps amounted to a value of $-0- and $1,563,229, respectively. The ineffective portion of the cash flow hedges and the portion of the swap results not designated as a hedging derivative are included in excess revenues (expenses). For the years ending July 31, 2010 and 2009, this earnings impact totaled $(1,061,702) and $(5,670,634), respectively. The accumulated gain (loss) included in unrestricted net assets associated with the Corporation's cash flow hedge was approximately $-0- at July 31, 2010 and 2009.

Continued

10. Temporarily and Permanently Restricted Net Assets

A summary of the restricted net assets at July 31, 2010 and 2009 follows:

	2010	2009
Temporarily Restricted Net Assets		
Restricted by Phoebe Foundation, Inc.	$ 4,428,748	$ 10,507,078
Permanently Restricted Net Assets		
Restricted investments to be held in perpetuity by Phoebe Foundation, Inc.	$ 1,056,395	$ 982,893

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 following table sets forth the defined benefit pension plan funded status and amounts recognized in the financial statements at July 31, 2010 and 2009:

	2010	2009
Plan assets at fair value at July 31	$ 115,195,692	$ 104,988,820
Projected benefit obligation at July 31	199,173,107	166,234,794
Funded status	$(83,977,415)	$(61,245,974)
Amounts recognized in unrestricted net assets:		
Net actuarial loss	$(67,558,507)	$(57,357,679)
Prior service cost not yet recognized in net periodic pension cost	(1,022,230)	(1,203,652)
Deferred pension cost	$(68,580,737)	$(58,561,331)

Continued

11. Pension Plan, Continued

	2010	2009
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	5.60%	6.25%
Rate of compensation increase	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	6.25%	6.25%
Expected long-term return on plan assets	8.75%	8.75%
Rate of compensation increase	4.00%	4.00%

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.

The following table sets forth the components of net periodic cost and other amounts recognized in unrestricted net assets for the years ended July 31, 2010 and 2009:

	2010	2009
Service cost	$ 9,747,975	$ 9,528,907
Interest cost	10,250,760	9,556,531
Expected return on plan assets	(9,028,941)	(10,830,582)
Amortization of prior service cost	181,422	181,422
Amortization of recognized net actuarial loss	2,560,819	1,177,378
Net periodic benefit cost	13,712,035	9,613,656
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	12,761,647	23,864,698
Amortization of prior service cost	(181,422)	(181,422)
Amortization of net actuarial loss	(2,560,819)	(1,177,378)
Total recognized in unrestricted net assets	10,019,406	22,505,898
Total recognized in net periodic benefit cost and unrestricted net assets	$ 23,731,441	$ 32,119,554

Continued

11. Pension Plan, Continued

The change in projected benefit obligation for the defined benefit pension plan for the years ended July 31, 2010 and 2009 included the following components:

	2010	2009
Projected benefit obligation, beginning of year	$ 166,234,794	$ 154,408,308
Service cost	9,747,975	9,528,907
Interest cost	10,250,760	9,556,531
Actuarial (gain) or loss	16,589,580	(3,998,373)
Benefits paid	(3,650,002)	(3,260,579)
Projected benefit obligation, end of year	$ 199,173,107	$ 166,234,794
Accumulated benefit obligation	$ 156,982,304	$ 129,917,393

The change in fair value of plan assets for the years ended July 31, 2010 and 2009 included the following components:

	2010	2009
Plan assets at fair value, beginning of year	$ 104,988,820	$ 125,281,888
Actual return on assets	12,856,874	(17,032,489)
Employer contributions	1,000,000	-
Benefits paid	(3,650,002)	(3,260,579)
Plan assets at fair value, end of year	$ 115,195,692	$ 104,988,820

The Corporation anticipates making a contribution during fiscal year 2011 of $4,845,160.

Continued

11. Pension Plan, Continued

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year Ending July 31	Pension Benefits
2011	$ 4,397,475
2012	$ 4,819,946
2013	$ 5,334,809
2014	$ 5,861,351
2015	$ 6,519,113
2016 – 2020	$ 47,307,125

The expected benefits to be paid are based on the same assumptions used to measure the Corporation's benefit obligation at July 31, 2010.

The actuarial loss and prior service cost to be recognized during the next 12 months beginning August 1, 2010 is as follows:

Amortization of net actuarial loss	$ 3,128,115
Amortization of prior year service costs	181,422
Total	$ 3,309,537

Continued

11. Pension Plan, Continued

Plan Assets

The composition of plan assets at July 31, 2010 and 2009 is as follows:

	Target Allocation	Pension Benefits 2010	Pension Benefits 2009
Asset Category:			
Cash and cash equivalents	0%	2%	4%
Corporate debt securities	12%	4%	6%
Government debt securities	8%	9%	6%
Equity securities	15%	21%	15%
Common collective trusts invested in equity securities	35%	34%	43%
Limited partnerships invested in equity securities	10%	10%	10%
Alternative investments in hedge funds	20%	20%	16%
Total	100%	100%	100%

The plan assets are long-term in nature and are intended to generate returns while preserving capital.

Continued

11. Pension Plan, Continued

The fair values of the Corporation's pension plan assets at July 31, 2010 and 2009, by asset category are as follows:

	Fair Value Measurements At July 31, 2010			
Asset Category	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 2,784,572	$ -	$ 2,784,572	$ -
Corporate debt securities	4,683,752	-	4,683,752	-
Government debt securities	10,212,378	-	10,212,378	-
Equity securities	24,690,541	6,039,224	18,651,317	-
Common collective trusts invested in equity securities	38,561,853	603,994	27,533,337	10,424,522
Limited partnerships invested in equity securities	11,362,666	-	3,561,245	7,801,421
Alternative investments in hedge funds	22,899,930	-	10,459,538	12,440,392
Total	$ 115,195,692	$ 6,643,218	$ 77,886,139	$ 30,666,335

	Fair Value Measurements At July 31, 2009			
Asset Category	Total	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 4,497,889	$ -	$ 4,497,889	$ -
Corporate debt securities	6,744,914	-	6,744,914	-
Government debt securities	6,494,808	-	6,494,808	-
Equity securities	15,855,719	6,802,297	9,053,422	-
Common collective trusts invested in equity securities	44,833,042	-	34,535,443	10,297,599
Limited partnerships invested in equity securities	10,130,961	-	2,955,452	7,175,509
Alternative investments in hedge funds	16,431,487	-	8,287,601	8,143,886
Total	$ 104,988,820	$ 6,802,297	$ 72,569,529	$ 25,616,994

Continued

11. Pension Plan, Continued

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Common Collective Trusts Invested In Equity Securities	Limited Partnerships Invested In Equity Securities	Alternative Investments In Hedge Funds	Total
July 31, 2008	$ 12,388,120	$ 8,214,809	$ 6,609,930	$ 27,212,859
Realized and unrealized gains (losses) included in other nonoperating revenue	(2,677,686)	(1,085,550)	33,956	(3,729,280)
Purchases	587,165	46,250	1,500,000	2,133,415
July 31, 2009	10,297,599	7,175,509	8,143,886	25,616,994
Realized and unrealized gains (losses) included in other nonoperating revenue	7,676	1,064,662	675,854	1,748,192
Purchases	123,848	61,250	4,322,020	4,507,118
Sales	(4,601)	(500,000)	(701,368)	(1,205,969)
July 31, 2010	$ 10,424,522	$ 7,801,421	$ 12,440,392	$ 30,666,335

The Corporation maintains defined contribution pension 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 4% of the employee's annual salary. Matching contribution expenses for the years ended July 31, 2010 and 2009 totaled approximately $1,800,000 and $1,900,000, respectively. Discretionary contribution expense totaled approximately $3,900,000 and $1,800,000 for the years ended July 31, 2010 and 2009, respectively.

Continued

12. Employee Health Insurance

The Corporation has a self-insurance program under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator for claims incurred and paid and has purchased stop-loss insurance coverage for claims in excess of $150,000 for each individual employee. Total expenses related to this plan were approximately $27,700,000 and $21,200,000 for 2010 and 2009, respectively.

13. Malpractice Insurance

The Corporation is covered by a claims made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis through the parent's wholly owned subsidiary, Phoebe Putney Indemnity, LLC (PPI), located in South Carolina.

Effective August 1, 2006, PPI issued a claims-made policy covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability of the Corporation with a retroactive date of January 1, 1990. Effective August 1, 2007 and renewing annually, PPI issued a policy with limits of $5,000,000 per occurrence, with an annual aggregate of $15,000,000.

PPI also provides excess liability coverage to the Corporation, which covers $25,000,000 per occurrence in excess of the underlying insurance coverage of $30,000,000 for the policy years ending July 31, 2010 and 2009. The excess policy has an annual aggregate limit of $25,000,000. All of the risk related to this coverage has been ceded to unrelated reinsurers via a contract of reinsurance.

Various claims and assertions have been made against the 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

14. Concentrations of Credit Risk

The Corporation is located in Albany, Georgia. 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, 2010 and 2009 was as follows:

	2010	2009
Medicare	37%	39%
Medicaid	20%	18%
Blue Cross	9%	8%
Commercial	26%	27%
Patients	8%	8%
Total	100%	100%

At July 31, 2010, the Corporation has 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. Related Party Transactions

	2010	2009
Due from Phoebe Foundation, Inc.	$ 522,784	$ 983,367
Due from Phoebe Putney Health Ventures, Inc.	148,633	168,024
Due from Phoebe Physician Group, Inc.	-	2,909,462
Due to Phoebe Putney Health System, Inc.	(6,330,504)	(11,364,581)
Due to Phoebe Physician Group, Inc.	(15,107,369)	-
Net related party transactions	$(20,766,456)	$(7,303,728)

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

Continued

16. Related Organization

Phoebe Foundation, Inc. (Foundation) was established to raise funds to support the operation of the Corporation. The Foundation's bylaws provide that all funds raised, except for funds required for the operation of the Foundation, be distributed to or be held for the benefit of the Corporation. The Foundation's general funds, which represent the Foundation's unrestricted resources, are distributed to the Corporation in amounts and in periods determined by the Foundation's Board of Trustees, who may also restrict the use of general funds for hospital plant replacement or expansion or other specific purposes. Plant replacement and expansion funds, specific-purpose funds, and assets obtained from endowment income of the Foundation are distributed to the Corporation as required to comply with the purposes specified by donors. The Corporation's interest in the net assets of the Foundation is reported as an other asset in the balance sheets.

	2010	2009
Assets:		
Cash and cash equivalents	$ 122,411	$ 732,150
Investments	9,205,283	14,033,001
Other assets	677,629	800,338
Total assets	$ 10,005,323	$ 15,565,489
Liabilities and net assets:		
Accounts payable	$ 73,844	$ 14,550
Other liabilities	465,336	965,584
Total liabilities	539,180	980,134
Net assets	9,466,143	14,585,355
Total liabilities and net assets	$ 10,005,323	$ 15,565,489
Revenue and support	$ 1,377,191	$ 2,092,589
Expenses	6,896,001	1,108,223
Excess of revenue and support (expenses)	(5,518,810)	984,366
Other changes in net assets	399,598	(319,967)
Net assets, beginning of year	14,585,355	13,920,956
Net assets, end of year	$ 9,466,143	$ 14,585,355

Continued

17. Functional Expenses

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

	July 31, 2010	July 31, 2009
Patient care services	$ 270,497,907	$ 313,558,271
General and administrative	111,696,984	89,278,981
Depreciation and amortization	27,767,301	25,679,299
Provision for bad debts	53,034,946	57,960,388
Interest expense	4,604,614	8,403,301
Total	$ 467,601,752	$ 494,880,240

18. 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: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

- Assets Limited As To Use: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

- Accounts Payable and Accrued Expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

- Estimated Third-Party Payor Settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

- Derivative Financial Instruments: The carrying amount reported in the balance sheet for derivative financial instruments approximates its fair value.

- Long-Term Debt: Fair values of the Corporation's revenue notes are based on current traded value. The fair value of the Corporation's remaining long-term debt is estimated using discounted cash flow analyses, based on the Corporation's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount reported in the balance sheet for long-term debt approximates its fair value.

Continued

19. Fair Value Measurement

Fair values of assets and liabilities measured on a recurring basis at July 31, 2010 and 2009 is as follows:

		Fair Value Measurements At Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets For Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
July 31, 2010				
Assets:				
Money market funds	$ 5,171	$ -	$ 5,171	$ -
Certificates of deposit	359,499	-	359,499	-
Government debt securities	1,560,260	-	1,560,260	-
Total assets	$ 1,924,930	$ -	$ 1,924,930	$ -
Liabilities:				
Derivatives	$ 7,199,470	$ -	$ 7,199,470	$ -
July 31, 2009				
Assets:				
Money market funds	$ 5,172	$ -	$ 5,172	$ -
Certificates of deposit	350,523	-	350,523	-
Government debt securities	1,970,520	-	1,970,520	-
Total assets	$ 2,326,215	$ -	$ 2,326,215	$ -
Liabilities:				
Derivatives	$ 6,137,769	$ -	$ 6,137,769	$ -

Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Valuation techniques utilized to determine fair value are consistently applied.

All assets and liabilities have been valued using a market approach.

Continued

20. Commitments and Contingencies

Compliance Plan

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. The 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.

Health Care Reform

In recent years, there has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare on the national or at the state level. In 2010, legislation was enacted which included cost controls on hospitals, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of certain provisions will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Corporation.

Litigation

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

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

PHOEBE PUTNEY MEMORIAL HOSPITAL, INC.
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

Phoebe Putney Memorial Hospital, Inc.
Albany, Georgia

We have audited the financial statements of Phoebe Putney Memorial Hospital, Inc. as of July 31, 2010 and 2009 and for the years then ended and our report thereon dated December 29, 2010, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements, as a whole. The information included in this report on pages 38 to 51, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Draffin & Tucker, LLP
Albany, Georgia
December 29, 2010

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SERVICE TO THE COMMUNITY

As discussed herein, Phoebe Putney Memorial Hospital 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. In this regard, the governing body of the Corporation is composed of prominent citizens in the community. Medical staff privileges in the Hospital are available to all qualified physicians in the area, consistent with the size and nature of the facilities. The Hospital operates a full-time emergency room open to all regardless of the ability to pay for these services. Physicians who are members of the Hospital medical staff admit as patients those unable to pay for care and those able to pay for care, either themselves or through third-party payors such as private health insurance or government programs such as Medicare and Medicaid.

Consistent with its charitable mission, 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 its mission and serving the citizens 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.

Phoebe Putney Memorial Hospital is a not-for-profit health care organization that exists to serve the community. The Hospital opened in 1911 to serve the community by caring for the sick regardless of ability to pay. As a not-for-profit hospital, the Hospital has no stockholders or owners. All revenue after expenses is reinvested in our mission to care for the citizens of our community – into clinical care, health programs, state-of-the-art technology and facilities, research and teaching and training of medical professionals now and for the future.

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. The Corporation provides community benefits for all citizens in its service area as well as the medically underserved. The Corporation conducts community needs assessments and pays 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. It provides a wide-ranging array of community benefit services designed to improve community health and the health of individuals and to increase access to health care, in addition to providing free and discounted services to people who are uninsured and underinsured. 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.

Continued

As Southwest Georgia's leading provider of cost-effective, patient-centered health care, Phoebe Putney Memorial Hospital is also the region's largest employer with more than 3,600 members of the Phoebe Family caring for patients.

In carrying out its mission of being the leading provider of quality, cost effective, patient-center health services to all residents of Southwest Georgia, the Board of Directors has established a policy under which the Hospital provides care to needy members of its communities, regardless of their ability to pay for these services. Under these programs, the Corporation provides care to patients at payment rates that are determined by the federal and state governments, regardless of actual cost. In some cases, these programs pay the Corporation at amounts that are less than its cost of providing services. The following table summarizes the amounts of charges foregone (i.e., contractual adjustments) and estimates the losses incurred by the Corporation due to inadequate payments by these programs and for indigent/charity. This table does not include discounts offered by the Corporation under managed care and other agreements:

	Charges Foregone	Estimated Unreimbursed Cost
Medicare	$ 345,300,000	$ 54,400,000
Medicaid	148,900,000	24,400,000
Indigent/charity	53,300,000	19,700,000
	$ 547,500,000	$ 98,500,000

The following is a summary of the community benefit activities and health improvement services offered by the Hospital and illustrates the activities and donations during fiscal year 2010.

I. Community Health Improvement Services

A. Community Health Education

Phoebe Putney Memorial Hospital provides health education services that reached 37,651 individuals in 2010 at a cost of $939,000. These services included the following free classes and seminars:

- Prepared childbirth classes
- Refresher childbirth classes
- Pregnancy classes
- Breastfeeding classes
- Lactation consulting
- Baby care basics classes

Continued

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

- Infant massage classes
- Tours of post partum and labor and delivery
- Special Tots classes
- Maternity coordinator visits
- Big Brother/Big Sister classes
- Safe sitter classes
- Golden Key Health Seminars

The Corporation is involved in many activities aimed at educating the community about health-related topics. Examples of these activities are a periodic health information newsletter published in the local newspaper at a cost of $4,500; a comprehensive health information magazine-format newsletter at a cost of $45,000; a monthly health information newsletter distributed to 20,000 senior citizens at a cost of $41,000 and frequent ongoing health seminars held at Phoebe Northwest free of charge and attracting audiences ranging from 30 to 150 persons.

The Corporation also produces public service television campaigns called “Do It For Life,” frequently featuring celebrity personalities. These campaigns urge viewers to adopt healthy lifestyle changes and to participate in screenings for cancer, heart disease, diabetes and other diseases. Videos on heart and stroke prevention and action, as well as videos on cancer treatment care, are available to the general public and to patients. Many staff members of the Corporation also lend their time to schools and civic organizations to speak on health issues.

Men and Women’s Health Conferences

The Corporation holds Men’s and Women’s Annual Health Conferences that provide health screenings for PSA, cholesterol, HIV/AID, blood pressure, hearing and vision, health information, speakers and fellowship to more than 1,350 attendees. The health conference programs provide outreach, health screenings, educational programs, and health conferences and events. These programs target men and women at risk of poor health status. The programs target men and women without a primary care physician and who are uninsured, and men and women without knowledge of recommended preventive health care services. The Corporation also runs public service television spots on breast cancer awareness and breast health, as well as announcements on prostate cancer, heart health and smoking cessation. The following are examples of Health Initiative programs:

Continued

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

Men and Women's Health Conferences, Continued

- **Men on the Move –** A faith based initiative, which began in 2001 to solicit congregational support of men around the issues affecting men's health. We began by contacting area pastors and informing them of our interest to bring a men's health and wellness message to their churches. Twenty churches of different sizes and denominations participate, with no less than 25 men per church taking active roles for the initiative. These participants have become our membership base of *Men's Health Advocates* that we call **"Men on the Move."** These men volunteer their time in assisting in outreach and program logistics.

- **Men at Work –** This event has taken place for the last six years, serving the city of Albany, Dougherty County and the Water, Gas and Light male employees. This is a program that the Corporation sponsors in partnership with the American Cancer Society, Dr. Ajayi/Southwest GA Urology Clinic, the City/County and Subway, who supplies free food for the event. This event is held in our downtown Government Center and the men are allowed a liberal leave so that they can get their PSA screenings, visit our various educational booths, and have lunch with the doctor. At each event over 200 men are served.

- **Seminars/Screenings** - These programs are held twice a month at churches and other community locations, including the Phoebe Fitness Center. These educational/awareness events cover topics such as erectile dysfunction, heart health, nutrition and fitness. They may also include physician-led workshops, free screenings which include: PSA, cholesterol, HIV/AID, blood pressure, hearing and vision.

- **Men's Prostate Health Clinic** – This annual event is in its fourteenth year. Men are given a digital rectal exam as well as a PSA. DRE's are performed by our Radiation Oncologist and physicians from Albany Urology, who volunteer their time. Over 250 men are reached at this event.

Golden Key

This is a membership organization for people age 55 and older. With over 22,700 members, Golden Key offers programs that encourage healthy lifestyles including the privilege of walking at the Hospital's Physical Medicine complex. To its members, it provided a bi-monthly newsletter (Key Notes). In 2010, the unreimbursed cost was $150,000.

Continued

I. Community Health Improvement Services, Continued

A. Community Health Education, Continued

Network of Trust

This is a nationally recognized program aimed at teen mothers to encourage them to remain in school, provide parenting skills and attempt to reduce repeat pregnancies. This program also includes a teen father program along with other teenaged children programs. Network of Trust enrolled 210 teen parents during the 2009/2010 school year. The program's services operated at a net unreimbursed cost of $362,000 in 2010.

B. Community Based Clinical Services

Flu Shots

The Corporation provides free flu shots to volunteers and employees' family members. In 2010, the Corporation administered 518 flu shots at an unreimbursed cost of $15,000.

Health Promotion and Wellness Programs

In 2010, the Corporation provided various Health Fairs and Wellness Programs to 468 persons in the community at an unreimbursed cost of $7,000. The following are some examples of the Health Fairs and Wellness Programs:

- Cardiac Healthy Eating
- Pretty in Pink Health Fair
- Nutrition for Cancer Survivors
- Healthy at Any Age
- Nurturing Mind and Body
- Risks of Multiple Medications
- Multi-Cultural Health Fairs
- Healing for the Surviving Soul
- Teen Maze
- Label Reading

Continued

I. Community Health Improvement Services, Continued

B. Community Based Clinical Services, Continued

School Nurse Program

The Corporation places nurses in sixteen elementary schools, six middle schools, and four high schools in Dougherty County with a goal of creating access to care for students, assessing the health care status of each population represented and effectively establishing referrals for all health care needs. Nurses also conducted the Eighth Grade Health Fairs. During the 2009/2010 school year, the school nurse program covered 64,271 student visits. This program operated at a net unreimbursed cost of $1,453,000 in 2010.

C. Health Care Support Services

New Foundations

The Corporation offers New Foundation Breast Forms and Fashion Boutique. New Foundations caters to the physical and mental well-being of women and their families. They provide one-on-one post mastectomy consultation to help women overcome their anxieties and feel better about themselves. They carry a large variety of prosthesis and also have a wide selection of clothing. They conduct support groups and help patients with breast cancer issues. In 2010, this department saw 1,166 patients and operated at an unreimbursed cost of $198,000.

Lights of Love Vans

Lights of Love donated vans to the Corporation to transport cancer patients to and from the Hospital for their treatments. In 2010, the Corporation provided 2,918 patient transports at a cost of $137,000.

Phoebe Care Representatives

Phoebe Care Representatives assist patients and citizens with pre-qualifying for free or reduced-cost medical care before medical attention is needed by applying for the Phoebe Care Card. This is accepted at the Hospital as well as at hospital-affiliated specialty clinics. To ensure this program is accessible and understood by its intended beneficiaries, the Corporation employs Phoebe Care Representatives to assist patients in various ways. Their services include helping with applications to medical assistance programs not limited to the Phoebe Care Card and providing information on how to access assistance with medicine, food, clothing, shelter, medical transportation and more.

Continued

I. Community Health Improvement Services, Continued

C. Health Care Support Services, Continued

Phoebe Care Representatives, Continued

The Phoebe Cares Department assisted 5,158 patients and operated at a net unreimbursed cost of $378,000 in 2010. Patients who qualify for the Phoebe Care Card are provided millions of dollars of uncompensated care annually, and the total amount of community benefit provided by the program is included in the amount of charity care reported in the Corporation's financial statement.

- Indigent Financial Assistance

  Patients whose income is below 125% of the Federal Poverty Levels are classified as indigent and receive care at no cost.

- Charity Financial Assistance

  Patients whose income level is between 126% - 200% of the Federal Poverty Levels will be classified as charity. These patients will be responsible for a percentage of the Hospital charges. This percentage will be based on calculations using the Federal Poverty Levels that are published in the "Federal Register" each year. If it is determined the patient responsibility will be an undue hardship on the patient/guarantor, these cases will be reviewed on an individual basis with the Phoebe Cares Supervisor for possible catastrophic charity based on sliding scale guidelines.

- Catastrophic Financial Assistance

  Patients whose income exceeds 200% of the Federal Poverty Levels and whose hospital charges exceed 25% of their annual income, resulting in excessive hardship, are eligible for a discount up to 75% of the patient balance. The patient may pay the remaining balance over 24 months.

Continued

II. Health Professions Education

The Corporation recognizes that to continuously improve the Hospital'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 Hospital's best interest to provide opportunities that will assist eligible employees in pursuing formal, healthcare related educational opportunities. The Corporation also provides non-employees financial support in pursuing healthcare related degrees. In 2010, the Corporation provided $754,000 in clinical supervision and training of nursing students, and an additional $147,000 in clinical supervision and training to pharmacy, pharmacy techs and other health professionals.

III. Subsidized Health Services

A. Hospital Outpatient Services

Phoebe Family Medical Centers

The Corporation has a strong commitment to primary care for the Southwest Georgia region. Our family medical centers in our surrounding counties are a network of care that serves the entire family for those who reside outside of Albany. In 2010, the rural clinics operated at a net loss of $252,000, the Lee County clinic operated at a net loss of $349,000 and the Pelham clinic operated at a net loss of $163,000.

Convenient Cares

Phoebe's Convenient Care provides treatment for minor injuries and ailments in a more timely fashion and at a more reasonable cost than an emergency center. In 2010, the clinics operated at a net loss of $1,085,000.

Phoebe Specialty Clinics

- The Behavioral Health Clinic at Phoebe provides treatment for adults and adolescents with addictive diseases and/or psychiatric disorders. In 2010, this Clinic operated at a net loss of $600,000.

- The Corporation operates a specialty clinic encompassing Endocrinology, Rheumatology, and Physiatry. The clinic offers medical care on a referral basis to inpatients and outpatients with endocrine or rheumatoid problems or with physical medicine or rehabilitation needs. The clinic operated at a net loss of $297,000 in 2010.

Continued

III. Subsidized Health Services, Continued

A. Hospital Outpatient Services, Continued

Phoebe Specialty Clinics, Continued

- Internal Medicine provides primary and consultative medical care of adults, with emphasis on diagnosis, preventive health and continuity of care in both outpatient and inpatient settings. The Hospital opened a second location during 2006. In 2010, these clinics operated at a net loss of $334,000.
- Neurosurgery provides a local neurosurgeon to our community. In 2010, this department operated at a net loss of $111,000.
- The Corporation offers a Palliative Care Clinic. This clinic is primarily directed at providing relief to a terminally ill person through symptom management and pain management. In 2010, this clinic operated at a net loss of $77,000.
- Midwifery Clinic was opened to provide access to care for Medicaid recipients after many local physicians stopped accepting Medicaid as reimbursement. The clinic was transferred to Albany Area Primary Health Care to enhance patient access. In 2010, this clinic operated at a net loss of $304,000.
- Inpatient Medical Specialist practice manages care for all inpatient admissions while in the Hospital and coordinates care with the patient's primary physicians. In 2010, this group operated at a net loss of $782,000.
- Maternal/Fetal Medicine program is for high risk mothers and pregnant women who need specialized care. In 2010, this clinic operated at a net loss of $113,000.
- The Corporation operates a Cardiovascular Surgery program which performs open heart, thoracic and vascular procedures, including peripheral vascular intervention procedures. This group operated at a net loss of $609,000.
- Lee QuickCare Clinic provides walk-in treatment for common illnesses and conditions after hours, 6 p.m. to 10 p.m. Mondays through Fridays. The staff serves non-urgent patients and can prescribe medications when indicated. The clinic operated at a net loss of $10,000.

Continued

III. Subsidized Health Services, Continued

A. Hospital Outpatient Services, Continued

Phoebe Specialty Clinics, Continued

- The Corporation operates a Surgical Oncology Department in its Cancer Center. This practice surgically treats and manages cancers primarily of the esophagus, stomach, liver, pancreas, colon, breast and skin, and soft tissues. In 2010, this department operated at a net loss of $67,000.

- The Corporation operates a Wound Care and Hyperbaric Center with two satellite clinics in Sylvester and Americus, Georgia for advanced wound care treatments. The Center provides treatment for chronic wounds that have resisted healing and hyperbaric oxygen therapy. In 2010, the Center operated at a net loss of $27,000.

Residency Program

The Southwest Georgia Family Medicine Residency Program is an award winning facility continuously addressing the shortage of health care professionals in the region. Their primary mission is to train family physicians to practice in rural Southwest Georgia.

Established in 1993, this program offers a rich opportunity for physicians to develop as strong clinicians capable of delivering high-quality primary care in any setting. The need for medical services in this rural region is great. The region has high incidences of cancer, heart attack, stroke and other diseases, and the need for medical and outreach services are tremendous. This department operated at a net loss of $232,000 in 2010.

B. Other Subsidized Services

Inmate Care

The Corporation provides care to persons in jail for Dougherty County. In 2010, the Corporation provided $1,065,000 of unreimbursed medical treatment to 619 inmates.

Indigent Drug Pharmacy

Indigent Drug Pharmacy provides medication upon discharge to patients that are either indigent or uninsured. In 2010, the pharmacy assisted 6,114 patients at a cost of $172,000.

Continued

IV. Clinical Research

The Corporation offers clinical trials to cancer patients who are residents of Southwest Georgia. In 2010, forty-one patients elected to participate at an estimated cost of $1,065,000.

V. Financial and In-Kind Support

In 2010, The Corporation provided $960,000 in cash donations and in-kind support to non-profit organizations in Southwest Georgia. Listed are some highlights:

- The Southwest Georgia Cancer Coalition received $375,000 for staff support and various projects.
- The American Heart Association received a $25,000 sponsorship for continued support of the START Program.
- The Corporation provided rent free space to fourteen private, not-for-profit organizations. In 2010, the estimated forgone rent and improvements were $237,000.
- The Corporation made a commemorative donation of $12,000 to the Albany Civil Rights Museum's history book, honoring the corporation's 100th anniversary and the role of Judge Francis Flagg Putney in establishing Phoebe Putney Memorial Hospital.
- The Lily Pad received $40,000 for the purchase of a Secure Digital Forensic Imaging-Telemedicine device and related computer equipment to meet the needs of the Sexual Assault Forensic Nurse Examiners.
- The Southwest Georgia Area Health Education Center (SOWEGA-AHEC) received $100,000 in assistance to improve access to healthcare by improving the number and distribution of healthcare providers in 38 counties in southwest Georgia.

VI. Community Building Activities

A. Physical Improvements and Housing

The Corporation has a mission to provide programs and resources to build and maintain healthy communities in the broadest definition of health, both inside and outside the hospital walls. These programs are dynamic in nature and designed to meet needs as they arise in the community by increasing access to care and removing barriers to care. In 2010, the Corporation contributed $28,000 as follows:

Continued

VI. Community Building Activities. Continued

A. Physical Improvements and Housing, Continued

- The Ramp project, in collaboration with the SOWEGA Council on Aging, engages volunteers who build handicap-accessible ramps for disabled or elderly people who otherwise would not be discharged from the Hospital and/or are often homebound. In 2010, this program provided ramps to 65 households and operated at a net unreimbursed cost of $23,000.

- Rebuilding Together Albany received $5,000 to rebuild homes for low income residents.

B. Economic Development

As a corporate citizen, the Corporation is involved in various economic development activities throughout the year. In 2010, the Corporation contributed $62,000 to various economic development initiatives in the community.

C. Workforce Development

The Corporation is actively involved with the community to help address the health care work force shortage. In 2010, the Corporation contributed $2,150,000 to various community higher education institutions in the community.

- The Corporation contributed $750,000 to Darton College and $1,000,000 to Georgia Southwestern State University to support programmatic and facilities improvements for nursing and allied health sciences. These institutions are a major pipeline for registered nurses, technicians and emergency medicine personnel.

- The Corporation contributed $400,000 to Albany Technical College to support programmatic expansions in allied health curriculum including online learning programs aimed at increasing the percentage of the adult population pursuing post-secondary training.

VII. Community Benefit Operations

The Corporation incurred $95,000 in support staff costs to support its community benefit efforts.

Continued

Summary

	2010
Community Health Improvement Services:	
Community Health Education	$ 939,000
Community Based Clinical Services	1,475,000
Health Care Support Services	713,000
Total community health improvement services	**3,127,000**
Health Professions Education:	
Nurses/nursing students	754,000
Other health professional education	147,000
Total health professions education	**901,000**
Subsidized Health Services:	
Hospital outpatient services	4,812,000
Behavioral health services	600,000
Other subsidized health services	1,237,000
Total subsidized health services	**6,649,000**
Research:	
Clinical research	1,065,000
Total research	**1,065,000**
Financial and In-Kind Support:	
Cash donations	723,000
In-kind donations	237,000
Total financial and in-kind support	**960,000**
Community Building Activities:	
Physical improvements and housing	28,000
Economic development	62,000
Workforce development	2,150,000
Total community building activities	**2,240,000**

Continued

Summary, Continued

	2010
Community Benefit Operations;	
Dedicated staff and other resources	$ 95,000
Total community benefit operations	**95,000**
Traditional charity care – estimated unreimbursed cost of charity services	19,700,000
Unpaid cost of Medicare services – estimated unreimbursed cost of Medicare services	54,400,000
Unpaid cost of Medicaid services – estimated unreimbursed cost of Medicaid services	24,400,000
Total other	**98,500,000**
Total summary	**$ 113,537,000**