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Executive Summary

Study Highlights

The Board of Trustees of the Albany-Dougherty County Hospital Authority requested that PricewaterhouseCoopers complete a comparison of Phoebe Putney Memorial Hospital operations to relevant peer groups and national standards for the purpose of assisting in evaluating their obligations under the Lease Agreement. The analysis provides data to support the Trustees in evaluating the following questions with regard to the lessee's performance.

- Has the financial management been of a caliber that we are confident that the debt service will be met and the organization will continue to operate in the foreseeable future?
- Has the quality of care been at a level for the lessee to continue to participate in health insurance plans?
- Have the physical assets been adequately maintained? At the termination of the Lease, what are the assets that would be returned to us?
- Has the Lease resulted in a reduction of cost to the community?
- Has the lessee met its obligations regarding the delivery of care to the indigent?
- Has the lessee maintained its tax exempt status?

The analyses were completed through evaluation of available, comparative data sources. Phoebe Putney was compared to the Standard and Poor's AA rated medians and to the operations of comparable size hospitals that operate as Georgia Hospital Authorities as well as free-standing hospitals in the southeast of comparable size to Phoebe Putney and in counties of similar population to Dougherty County.

Key Findings

Has the financial management been of a caliber that we are confident that the debt service will be met and the organization will continue to operate in the foreseeable future?

- From a Financial Management standpoint, Phoebe Putney maintains a "AA" bond rating, which represents a top rating for not for profit hospitals with outstanding tax exempt debt.
- Phoebe Putney's operating margin percent, long-term debt to capitalization, and liquidity ratios approximate or favorably exceed median "AA" values.
- Net patient revenue per admission and operating cost per admission are comparable to both the peer groups.

Has the quality of care been at a level for the lessee to continue to participate in health insurance plans?

- Phoebe Putney was compared to its peer group hospitals in the areas of quality using the quality indicators of inpatient mortality and complication rates, utilizing HealthShare One™ methodologies and 2003 MedPAR data.
- According to Healthshare One, Phoebe Putney compared favorably overall with the peer groups. In more than half the specific clinical quality comparisons, Phoebe Putney performed, on a relative basis, above the average. There were specific instances where the data indicated Phoebe Putney performed at or below the average of this peer comparison data.

It should be noted that at any hospital the major driver of quality of care is still the physician. Physicians control clinical care decisions, and through their actions and responsibilities control by far the majority of factors affecting quality of care.

Have the physical assets been adequately maintained? At the termination of the Lease, what are the assets that would be returned to us?

- Phoebe Putney's Average Age of Plant compares favorably to the median Standard and Poor's AA rated hospitals, indicating a more up to date facility and investment in current technology.

- Investment in plant and equipment has increased significantly over the term of the Lease, including $145 million on services and equipment beyond routine replacement and upkeep requirements. This includes a combination of updated facilities and expansion into specialized new service offerings (e.g., neonatal intensive care, hospice, and private practice residency programs)

Has the Lease resulted in a reduction of cost to the community?

- Costs to the community are evaluated based on average charges per admission, in which Phoebe compares favorably to its peers.

- More specific analyses include average charges by service line or Diagnosis Related Group ("DRG"). Charges and length of stay by service line (and severity adjusted) further support that Phoebe Putney's rates are reasonable and hospital inpatient stays compare favorably to its peers.

Has the lessee met its obligations regarding the delivery of care to the indigent?

- Phoebe Putney has met its requirement per the Lease Agreement to maintain indigent care at a level of at least 3% of gross revenues (adjusted for certain contractual adjustments and bad debts). Phoebe Putney significantly increased its charity care percentage over the last five years.

- Phoebe Putney provides a higher level of uncompensated charity care than the average of its Georgia peers.

Has the lessee maintained its tax exempt status?

- Hospitals maintain exempt status until revoked.

- Phoebe Putney compared favorably to other tax exempt providers in its peer groups when comparing community benefit as disclosed on Form 990.

- Phoebe has significantly invested in expanding service capabilities and access to an expanded service area during the term of the Lease.

Overview of Objective and Approach

Under the Lease and Transfer Agreement (the "Lease") between the Hospital Authority of Albany-Dougherty County, Georgia (the "Authority") and Phoebe Putney Memorial Hospital, Inc., we have assessed the operating requirements with which Phoebe Putney Memorial Hospital, Inc. ("Phoebe Putney") is obligated to comply within six categories. They are:

- Financial Management
- Quality Care
- Maintenance of and Investment in Physical Assets
- Costs to the Community
- Indigent Care
- Tax Exempt Status

The Lease includes a number of protections for the Authority—requirements that are measured and administered by independent parties and represent obvious pass/fail tests regarding each of these areas. For example, the Lease requires continued operation as a 501(c)3 under the IRS Code. This is very straightforward because the lessee has this status until it is revoked by the IRS. As an example in the area of financial management, the Lease requires Phoebe Putney's management to maintain a measurable level of financial performance by maintaining compliance with defined covenants contained within the debt instruments. This standard is audited annually by Phoebe Putney's external auditors. If there were non-compliance with the debt covenants, the auditors would disclose this circumstance. Additionally, the bond trustee, or other credit institution would take action. This report does not address Lease requirements that are monitored by others.

Many other requirements of the Lease are less straightforward, making it more challenging to define, measure and evaluate. For example, the Lease requires that Phoebe Putney maintain a level of quality of care that allows them continued participation with insurance payers. However, the Lease is silent about which specific quality indicators should be used. Additionally, this language did not anticipate the evolution of quality metrics applied by health insurance payers, nor the wide disparity of quality indicators which the payers will accept. Said another way, some consider the quality standard of payers as the minimum standard. Another example of a Lease requirement that is challenging is the language referring to maintenance and repair of the physical plant. The standards are somewhat ill-defined, and can be costly to evaluate.

It is important to note that it is solely in the Authority's judgment to determine if Phoebe Putney has complied with its obligations under the Lease. Over the term of the Lease, the Authority Board has provided the primary monitoring function regarding Lease compliance. Over the years, the Board has concluded that Phoebe Putney is in compliance. Their judgment has been based, in part, on the following:

- Review of audited financial statements and other financial data
- Personal familiarity with the physical plant and capital expenditures of Phoebe Putney
- Growth in the nature and quality of services provided in the community
- Continued participation of Phoebe Putney in major payer plans in the market
- Continued 501(c)3 status
- Independent judgment of the bond rating agencies regarding the financial strength of the organization, and
- The absence of any negative regulatory action regarding quality, licensure or other regulatory compliance.

The Authority Board has indicated that their obligations regarding compliance with the Lease have been adequately addressed by their monitoring and review over the years. This monitoring has allowed the Authority Board to conclude that Phoebe Putney has been in substantial compliance throughout the Lease term.

Given the current environment nationwide regarding the operation of tax exempt entities in general and tax exempt hospitals specifically, the Authority Board has elected to perform a more comprehensive assessment of these six areas—a broader "businessman's" view. The intent of this analysis is not to address every requirement in the Lease, but to provide comparative data for review by the Authority Board to determine if there are any areas of concern regarding Phoebe Putney's operations under the Lease.

Analytical Approach

To accomplish the Authority's objective, Phoebe Putney's performance was compared, in the six identified areas, to similar hospitals, or its "peers". Peers however, can be defined in many different ways. For that reason, specific peer groups have been defined that in the aggregate provide a comprehensive comparative landscape.

The nature of a benchmarking analysis is such that any negative comparisons of the target, Phoebe Putney, cannot be taken as an indication of non-compliance. It is reasonable to conclude however, that more detailed analysis is justified in an area where a comparative or trending analysis appears unfavorable.

The gathering of operating and financial data for hospitals is a difficult proposition. Because of the multiple sources of data and the infinite number of methodologies employed by each hospital to arrive at the numbers presented, data is inconsistent. This makes any comparison of hospital data challenging. Data errors can lead to incomplete or misleading analysis results. Data standardization is of utmost importance when doing an analytical comparison.

Hospitals are generally not subject to uniform financial reporting to the public, except in filing Medicare Cost Reports. All hospitals who receive federal funds via Medicare must submit a cost report each year, and the cost reports contain standard data elements. Variation in the actual data reported by the individual hospitals in their filings raises some issues regarding data quality. Even taking that into account, cost reports serve as an optimal platform for standardized data collection and analysis.

Profile of Comparison Groups

For the purposes of this analysis three peer groups were selected for comparison to Phoebe Putney's performance. These peer groups were defined to provide the Authority Board a comprehensive picture of how Phoebe Putney performs relative to its peers. In order to provide the Authority Board with a comprehensive view, the peer groups represent financial, demographic, and regulatory dimensions. The financial peers have been defined as those hospitals across the country that have comparable financial strength and operating performance. These hospitals have the same Standard and Poor's bond rating as Phoebe Putney. Demographic peer hospitals were defined as southeastern hospitals that have a dominant position in their market and serve a similar size rural market. Finally, the regulatory comparison group is comprised of similar sized Georgia hospitals that operate as a hospital authority hospital. Supplemental information regarding the comparison groups is included in the appendix.

Comparative Analyses

Financial Management

Among tax exempt entities there is a catch phrase, "No margin, no mission." It is a reminder to organization leaders, both Boards and Management, that if the organization does not generate more revenue than expenses, it will eventually be unable to fulfill its charitable purpose. For tax exempt hospitals, this is particularly important because healthcare is a capital intensive industry. Organizations must continually invest in equipment and buildings just to maintain the quality of care and access to services which are the cornerstone of their mission, and that takes strong operational and financial performance.

There is no single industry standard to empirically measure the success of the financial stewardship of an organization. It is reasonable however to draw conclusions based on comparisons to the standards relied on by the financial markets.

Because the not–for-profit healthcare market relies heavily on tax exempt bonds as a source of capital, it is common to rank financial performance using the bond ratings assigned by major rating agencies. Phoebe Putney's underlying debt is rated AA by Standard and Poor's ("S&P"), one of the primary rating agencies. This is an indication of financial strength and performance over time. For the purpose of this analysis, we compared Phoebe Putney to the median performance for three levels of S&P bond ratings: AA, A, and BBB. The highest bond rating category is AA and the lowest investment grade bond rating category is BBB. The vast majority of hospital debt is rated in either the A or BBB categories.

The level of capital investment required to stay current with technology advances in medicine is staggering. If a hospital is poorly managed and has limited access to capital, the ability to replace or improve the physical plant is limited. This can affect quality of care and access to care - two key barometers of community benefit. Additionally, poorly run hospitals are viewed as higher risk by the capital markets, which translates into higher interest costs that must be absorbed by the hospital, and ultimately the community.

Conversely, those organizations with broad access to capital have the resources to maintain the physical plant and replace clinical technology, or develop new treatment alternatives for the consumer. New services and equipment typically correlate with improved patient access and even, in some cases, better quality of care.

The rigorous financial management that results in a higher bond rating also results in a lower cost of capital, or borrowing rate. Investors are willing to accept lower rates of return because the organization's financial track record indicates a lower risk of default. Lower borrowing rates translate into lower interest costs, and ultimately, savings to the community.

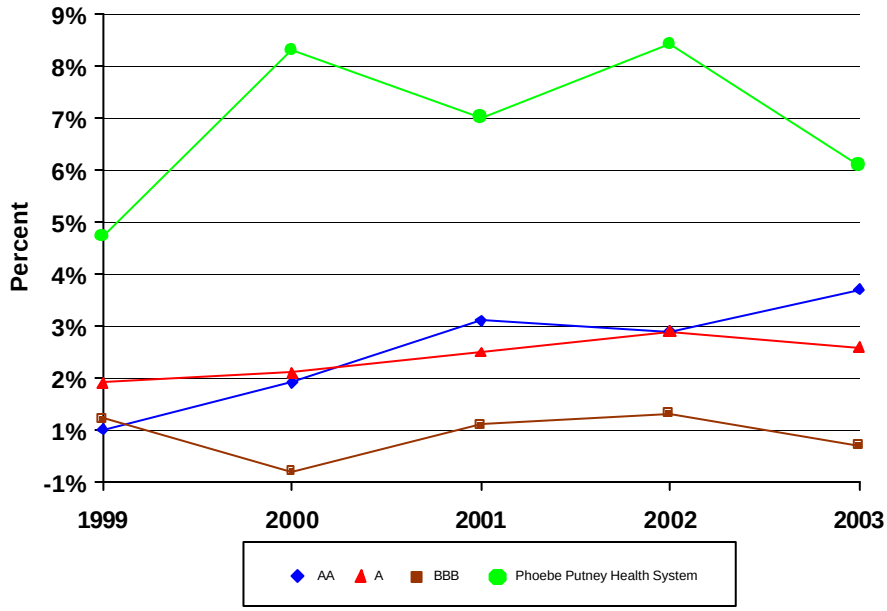
The difference in annual interest costs for a AA healthcare rated organization compared to a BBB both issuing $150 million in tax exempt bonds in 2004 was approximately $1.3 million. It is important to note that this savings occurs every year that the debt is outstanding.

To provide the Authority Board with data to support its assessment, three financial dimensions have been selected: operating performance, liquidity and capital.

Operating Performance

The primary benchmark operating performance indicator for a tax exempt hospital is operating margin, defined as operating income divided by total operating revenues. Two additional indicators separately benchmark patient revenue and operating expenses, net patient revenues per admission and operating cost per admission. The following graph compares Phoebe Putney's historical operating margin to the selected S&P medians.

Exhibit 1 - Operating Margin Trend Comparison

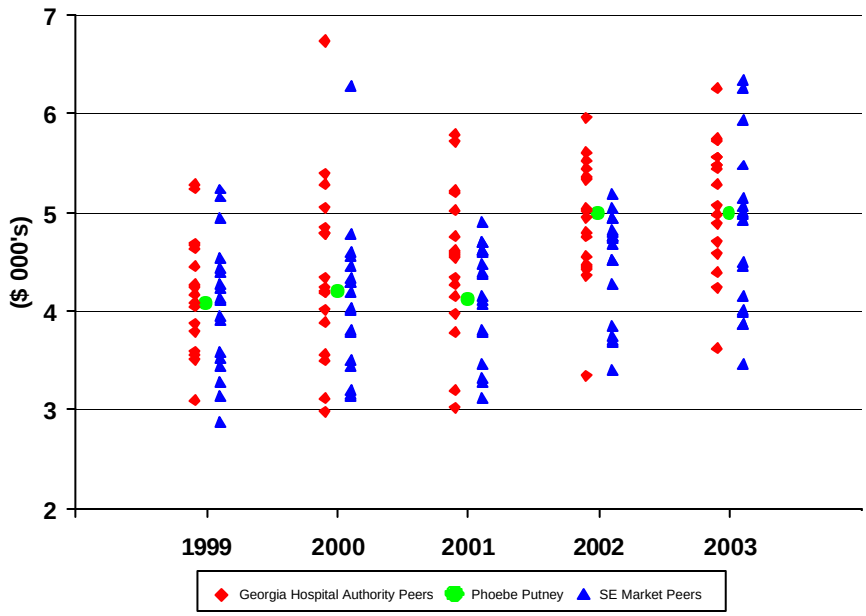


Sources: Standard and Poor's US Not-For-Profit Median Health Care Ratios Reports
Phoebe Putney Health System Audited Financial Statement

Net Patient Revenue per Admission

This calculation provides a view of the average revenue collected from patients for the services provided to those patients. The following chart depicts a comparison of this ratio for Phoebe Putney and the Georgia and Southeast peer groups.

Exhibit 2- Net Patient Revenue per Admission[1]



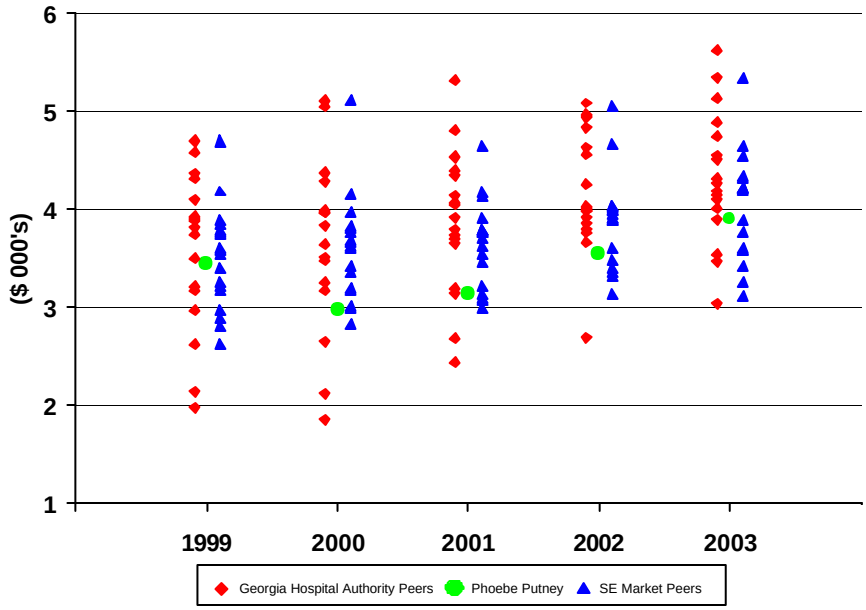
[1]Adjusted for inpatient and outpatient volume and revenue, and differences in patient acuity levels.

Source: Solucient Provider View

Operating Cost per Admission

This calculation provides a view of how well a hospital has managed direct patient care costs. The following chart depicts a comparison of this ratio for Phoebe Putney and the Georgia and Southeast peer groups.

Exhibit 3 - Operating Cost per Admission[1]



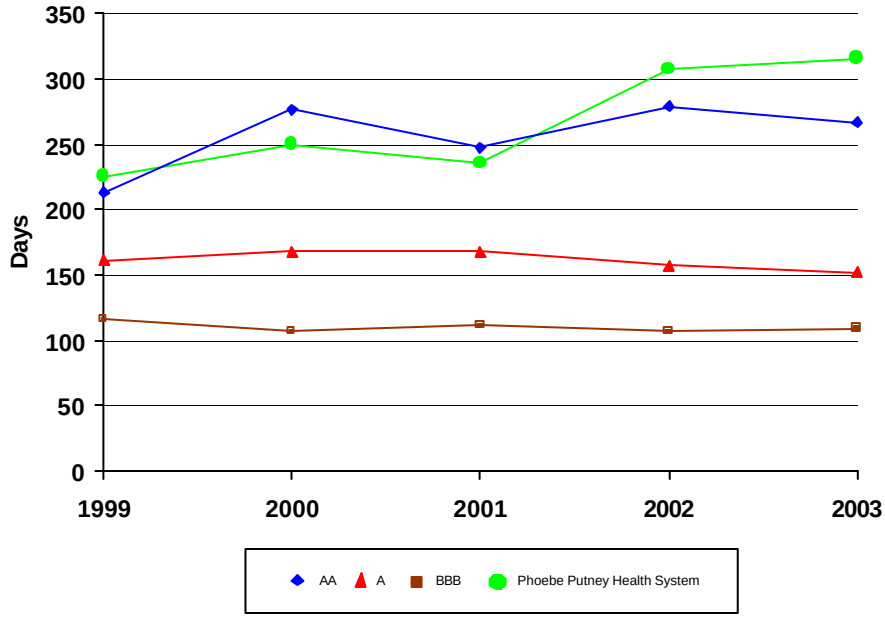
[1]Adjusted to account for inpatient and outpatient volume and costs, and to account for differences in patient acuity levels.
Source: Solucient Provider View

Liquidity

Liquidity is a measure of the degree of cash (or assets easily convertible to cash, such as investments) available to pay for operating expenses, capital needs and other obligations. Liquidity, principally expressed as days cash on hand, is one of the top performance indicators that the rating agencies and capital markets consider when assessing a hospital's financial strength. Arguably this metric is a primary driver of a hospital's ability to access a lower borrowing rate.

The following graph compares Phoebe Putney's days cash on hand to the comparable S&P medians.

Exhibit 4 - Days Cash on Hand Trend Comparison



Sources: Standard and Poor's US Not-For-Profit Median Health Care Ratios Reports
Phoebe Putney Health System Audited Financial Statements

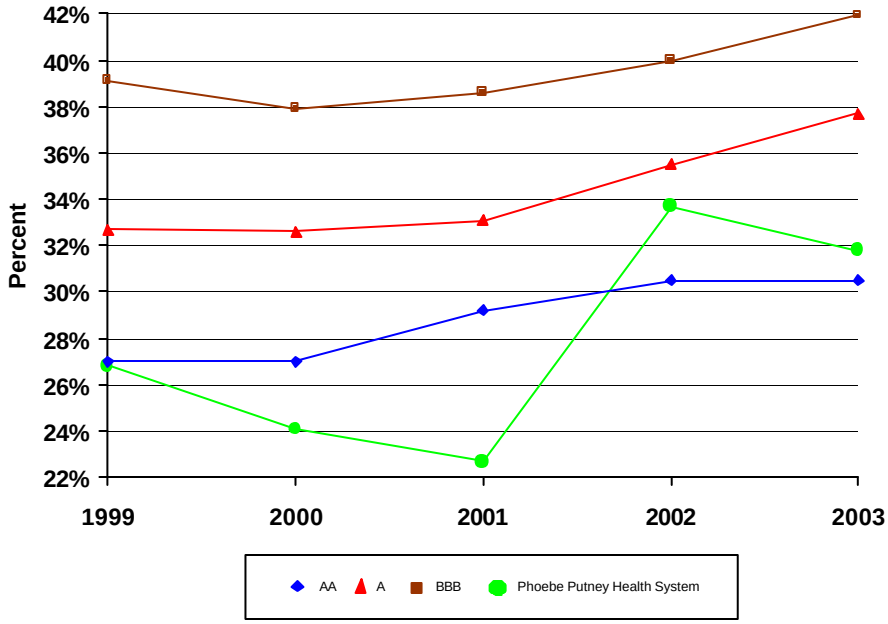
Capital

While efficient access to capital is critical to healthcare organizations today, it is also important to maintain an appropriate balance between externally generated capital and capital generated through efficient operations. This balance is measured by the ratio of long-term debt to capitalization. A higher ratio is an indication that the organization has generated less of its capital through operations and more through the issuance of debt.

The debt/capitalization ratio can be used in a comparative manner to identify not only the ratio itself, but to indicate the borrowing capacity a hospital has left. This borrowing capacity can be used to fund new equipment, new programs and new services. A lower debt/capitalization ratio can indicate strong financial operations and lower risk of default on debt.

The following graph compares Phoebe Putney's historical debt/capitalization ratio to the selected S&P medians.

Exhibit 5 - Long Term Debt to Capitalization Trend Comparison



Sources: Standard and Poor's US Not-For-Profit Median Health Care Ratios Reports
Phoebe Putney Health System Audited Financial Statements

Quality of Care

The Lease specifies that the quality of care should be at a level to allow Phoebe Putney to continue to participate in health insurance plans. Therefore, the Authority has a responsibility to monitor the quality of care provided to the community. For community boards this is a particular challenge. It should be noted that at any hospital the major driver of quality of care is still the physician. Physicians control clinical care decisions, and through their actions and responsibilities control by far the majority of factors affecting quality of care.

There is substantial debate in the industry regarding how to measure quality. Most of the efforts to gather and publish quality metrics have not evolved their processes to a level that any single quality indicator is broadly accepted. The measurement of quality is further complicated by the inconsistency in data reporting by hospitals. For example, what to a consumer would appear to be a patient having a bad outcome may in fact be the highest quality care a patient could receive, given the situation. In spite of these challenges, it is possible to derive a statistical picture of the relative quality of care delivered by a healthcare organization as compared to other organizations. It is important to note that a lower statistical measure of quality does not definitively indicate poor quality. It does however demonstrate an area of clinical operation that might warrant further evaluation in more detail to determine whether there are, in fact, quality concerns.

Health insurance plans are utilizing specialty data vendors to provide these statistically based quality rankings for use internally by the payer and on-line for the consumers enrolled in their plans. The approach used in this analysis is based on the on-line tools available to such health plans that allow consumers to make healthcare decisions based on relative quality data for selected hospitals. One company that provides such relative quality data on healthcare providers is HealthShare One™ ("HealthShare One"). HealthShare One uses claims data submitted by hospitals related to Medicare patients and provides a variety of analyses based on this data. One such analysis involves comparing severity adjusted mortality data and complications of care data at a service line level. Phoebe Putney's data was compared to quality related data from HealthShare One in seven major clinical service areas to the same data for the hospitals in the Regional and Southeast Comparison groups. According to HealthShare One, Phoebe Putney compared favorably overall with the peer groups. In more than half the specific clinical quality comparisons, Phoebe Putney performed, on a relative basis, above the average. There were specific instances where the data indicated Phoebe Putney performed at or below the average of this peer comparison data.

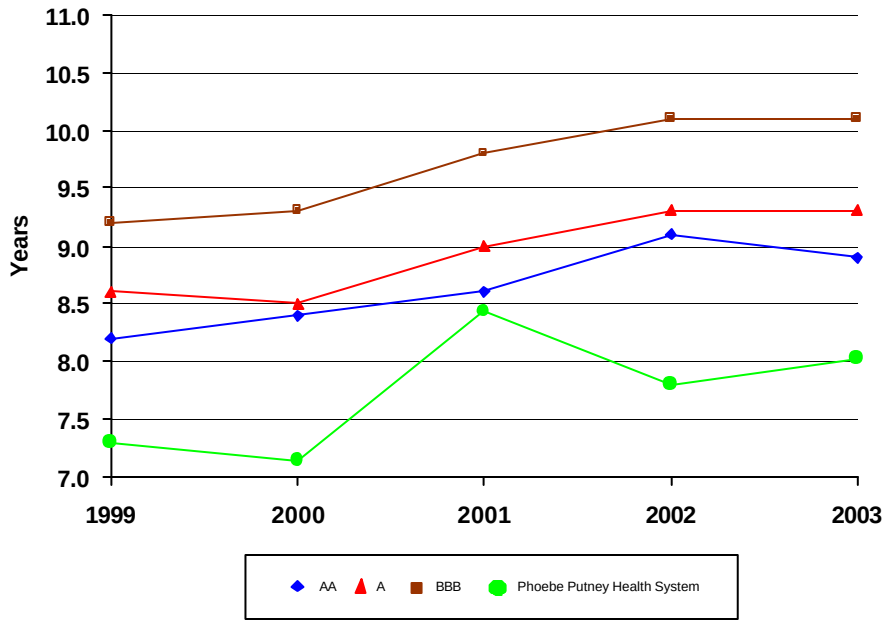
Maintenance of and Investment in Assets

For obvious operating, clinical, and quality reasons it is critical that hospital management maintain the integrity of its physical assets—both buildings and equipment. It is equally important, particularly in tax-exempt organizations with a mission of community service, that hospitals operate in a manner that allows for expansion and addition of programs and services to meet the ever changing healthcare needs of the community. In the case of the Authority, this evaluation has unique significance because all the assets of the entity revert to the Authority at the termination of the Lease. Therefore, the fundamental questions for the Authority Board are, "Is our lessee appropriately maintaining the assets transferred to them?" and "What is the value and quality of the assets that will be returned to us?"

To evaluate the performance of the lessee in this area, it is possible for the Authority Board to commission comprehensive engineering reviews of the physical plant and the evaluation of each piece of equipment to absolutely ascertain the integrity of the physical plant. To the average business person, however, the cost of (and time to complete) this approach would be prohibitive unless other evidence arose to indicate a significant patient or employee safety issue.

An analysis of average age of plant as compared to peer organizations is a more time and cost effective approach. A hospital's average age of plant is an indicator of how effectively a hospital is replacing its assets as they depreciate (or wear out) over time. Having a higher average age of plant could indicate that a hospital's facilities and equipment are not the most up-to-date and efficient. The following graphs depict Phoebe Putney's historical average age of plant as compared to S&P medians.

Exhibit 6 - Average Age of Plant Trend Comparison



Sources: Standard and Poor's US Not-For-Profit Median Health Care Ratios Reports
Phoebe Putney Health System Audited Financial Statements

New Service Offerings

The introduction of new service offerings is an expensive undertaking, yet it provides a tangible benefit to the surrounding community. With the introduction of new services to a community, local residents may no longer have long commutes and overnight stays to seek the care that they need. The services are offered in a convenient setting, which puts less strain on the patient and their family.

The costs associated with bringing a new service to a community can be significant. There is the cost of the equipment and technology needed to perform the new service, the additional space and staff requirements, and the cost of recruiting and placing the physicians. The recruitment process also extends beyond the staffing of new service offerings. In all communities there are instances where physicians either retire from practice or move away. The vacation of these positions limits access to care within the community that therefore must be filled with new resources.

According to the audited financial statements of Phoebe Putney Memorial Hospital, Inc., between the years 1991 and 2004, Phoebe Putney expended approximately $316 million on capital expenditures. Of that amount, approximately $145 million was spent on services and equipment beyond routine replacement and upkeep requirements.

In addition to meeting ongoing routine capital needs, and in addition to providing the services and activities outlined in the Notes to Phoebe Putney's Annual Financial Statements, Phoebe Putney has also expended time and resources to develop and provide new services to the community. In this context, new services means services, or subspecialties, not provided by Phoebe Putney prior to 1991.

Based on documentation provided by management, some of the new services and programs that Phoebe Putney developed since inception of the Lease are:

- Sickle cell program
- Neonatal intensive care program
- Community hospice program
- Maternal fetal medicine services
- Oncology – radioactive seed implant treatment services
- Blood stem cell transplant program
- Comprehensive wound care and hyperbarics programs
- Stereotactic breast biopsy services
- Neonatal transport
- Southwest Georgia residency program
- Infectious disease physician services
- Gateway to Care – Indigent medicine program–access to discounted drug cost programs for indigent patients
- Morningside Assisted Living Center
- Phoebe Worth Hospital
- Convenient Care- Phoebe Northwest, Phoebe East, and South Albany (opening July 2005)
- Lymphadema Treatment Services

This list of program development initiatives does not include any service or program *expansion* projects undertaken during this time period.

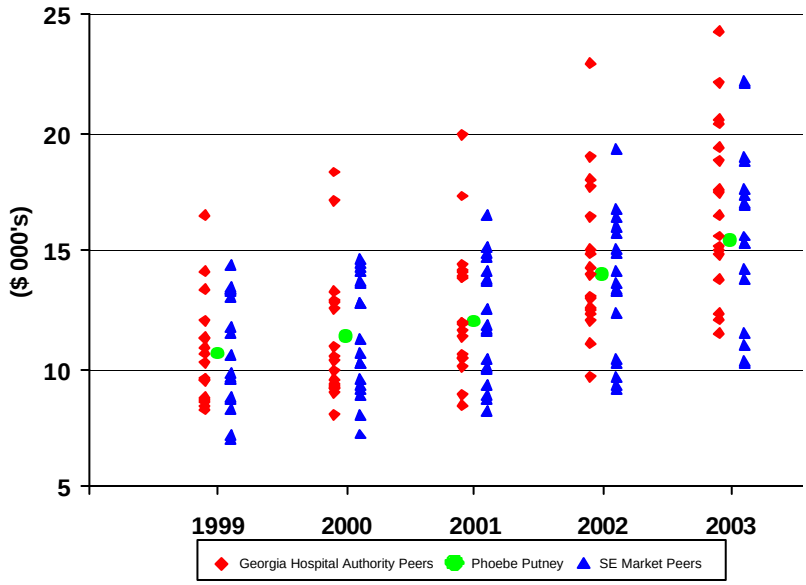
Cost to the Community

The Lease documents indicate that one of the intents of the parties for leasing the hospital assets to a separate entity is to reduce the cost of care to the community. Expecting a reduction in the absolute cost of care is unreasonable given the increased costs associated with medical advances since the Lease inception. It is reasonable, however, to consider how Phoebe Putney has performed in managing the cost of care in comparison to peer hospitals faced with the same challenges and opportunities. The Lease contemplates the idea of "cost to the community". This is not a concept used or quantified in healthcare finance.

Today, a significant portion of hospital revenue is established by government payers, primarily Medicare and Medicaid. The remaining payers negotiate payment rates with each hospital. For Phoebe Putney all non-governmental contract rates are based on discounts from charges. Therefore, to evaluate the "cost to community" it is reasonable to evaluate charges and length of stay as the drivers of cost to the community.

One industry standard for comparing the charges to a community is charges per admission. The following chart depicts this comparison for Phoebe Putney and the Georgia and southeast peer groups.

Exhibit 7 - Charges per Admission[1]

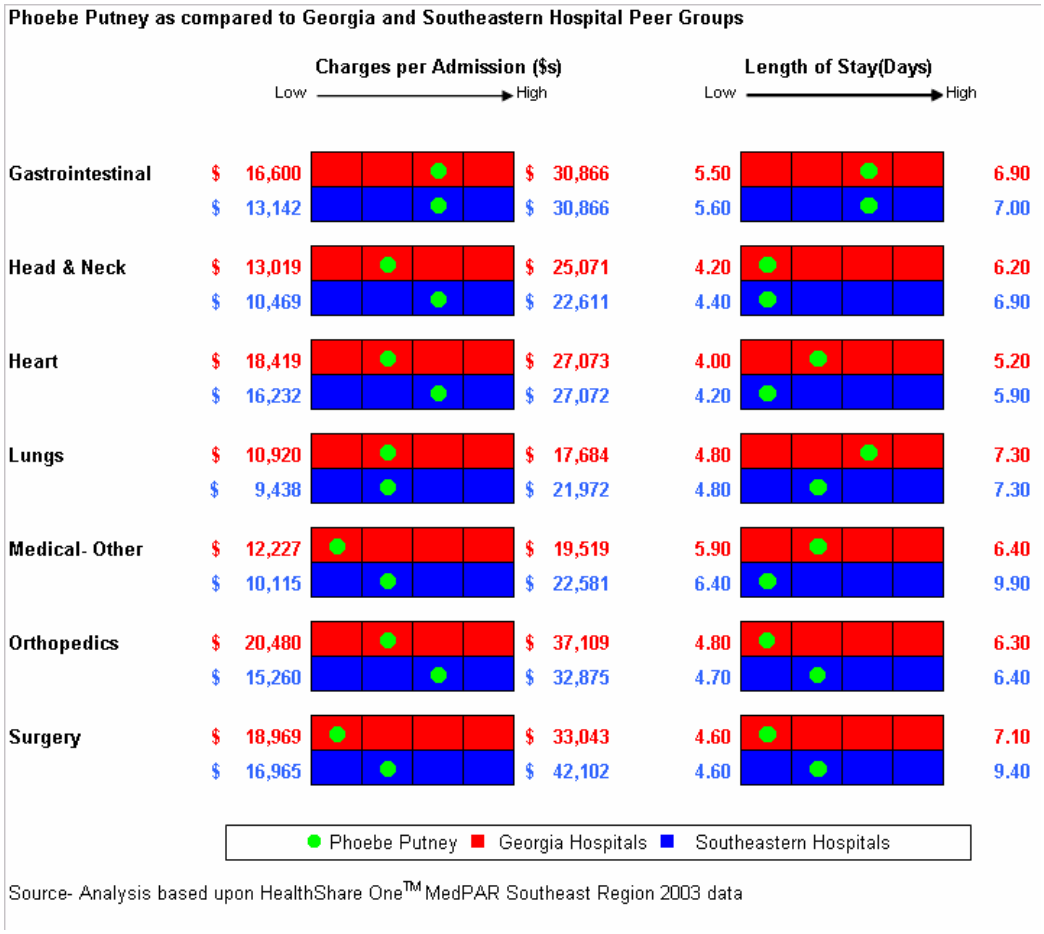


[1]Adjusted to account for inpatient and outpatient volume and charges

Source: Solucient Provider View

A more granular comparison of the drivers of cost to the community is comparing average charge and average length of stay (ALOS) for the major service lines to peer hospitals. The following chart illustrates this comparison, with the Georgia and Southeast peer groups.

Exhibit 8 - Drivers of Cost to the Community



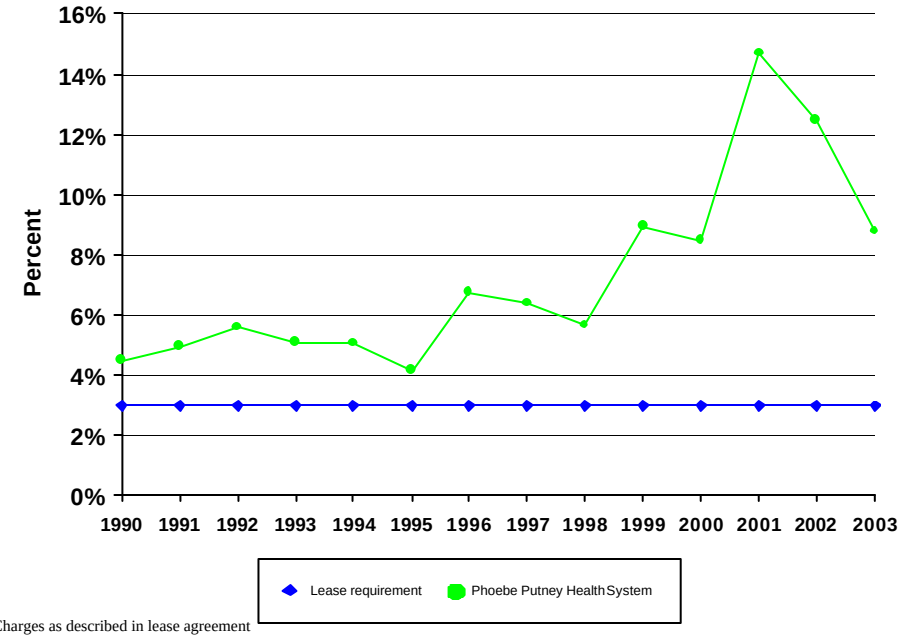
Source- Analysis based upon HealthShare One™ MedPAR Southeast Region 2003 data

Indigent Care

The Lease terms contemplate the provision of indigent care in a manner and at a level similar to that provided before the Lease. In fact, this is one area in which the Lease provides a specific calculation of the level of indigent care to be provided by the Lessee. Through the Lease, Phoebe Putney agreed to provide healthcare services to the indigent population in its market at a level of at least 3% of gross patient charges less certain contractual allowances and bad debts. This analysis appears to be fairly straightforward, but, in fact, is not. Over the term of the Lease, methodologies for establishing which patient accounts meet the indigent care requirements have changed.

The following chart illustrates, for each of the last thirteen years, indigent care at Phoebe Putney as a percentage of adjusted hospital charges, as defined in the Lease.

Exhibit 9 - Indigent/Charity Care Deductions as % of Charges[1] Since Lease Inception



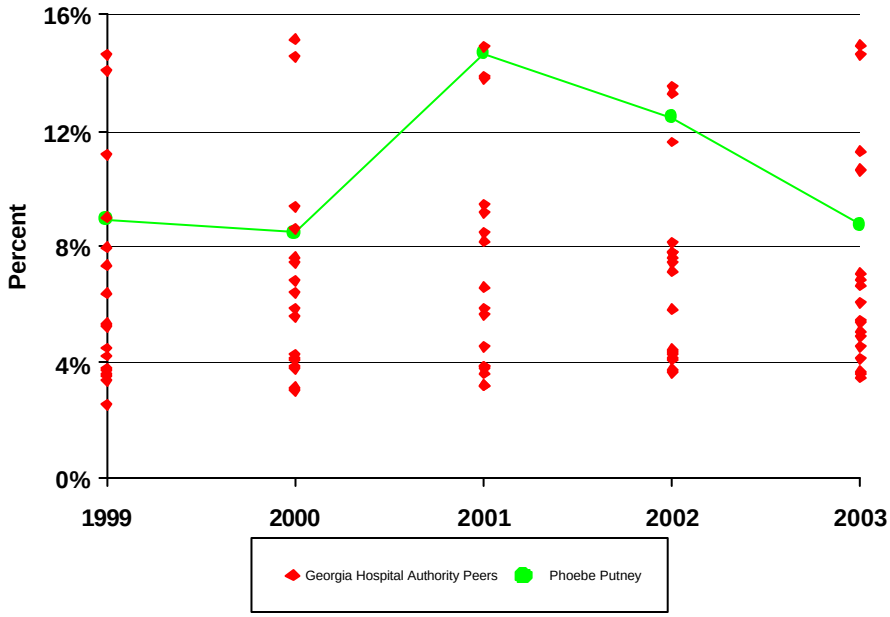
[1]Charges as described in lease agreement

Source: Annual Hospital Financial Survey Georgia Department of Community Health

Generally, each hospital establishes its own criteria for an individual to qualify for indigent care - there is no universally accepted standard. Additionally, the determination of an individual's eligibility for indigent care has historically required that the individual apply for indigent care designation and provide the documentation needed to support the level of income claimed. Many individuals who economically would qualify for indigent care are not willing to comply with the application process and therefore, those cases have been classified as bad debts rather than indigent care.

All Georgia hospitals report annually their level of indigent care provided. The methodology for reporting is established by the state and, presumably, hospitals comply with the state methodology. This provides a source for independent evaluation of indigent care. The chart below compares indigent care reported by Phoebe Putney to that reported by the hospital authority comparison group.

Exhibit 10 - Indigent/Charity Care Deductions as % of Charges[1] Comparison



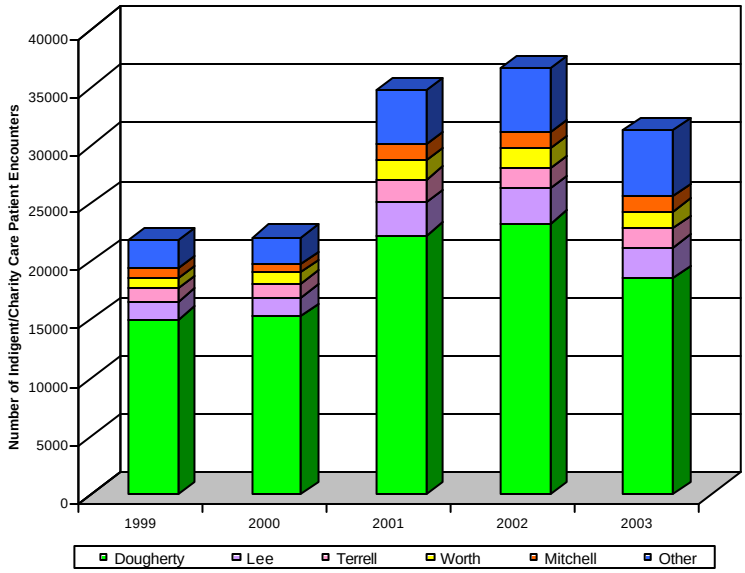
[1]Charges as described in lease agreement

Source: Annual Hospital Financial Survey Georgia Department of Community Health

The indigent care terms of the Lease seem to reflect an intent that Phoebe Putney continue to serve Dougherty County citizens under the same policies as had been in existence prior to the Lease. It is reasonable to evaluate the trend of indigent care by the county of residence.

The following chart illustrates, for each of the last five years the county of origin of the indigent patients that were provided healthcare at Phoebe Putney.

Exhibit 11 - Indigent/Charity Care Patient Origin by County



Source: Annual Hospital Financial Survey

Tax Exempt Status

The Lease requires continued operation as a tax exempt entity under Section 501(c)3 of the Internal Revenue Code. On the surface this evaluation is straightforward – after the initial approval, an organization maintains its status until it is revoked.

In addition, tax exempt organizations must provide a community benefit. There are no set parameters as to what that encompasses or the level of benefit to be provided.

To further complicate the evaluation, reporting of community benefit on Form 990 is not standardized. In the current public dialogue surrounding tax-exempt hospitals, an informal industry standard is evolving. A qualitative review of community benefit reporting is possible. While it does not establish the level of community benefit provided across a comparison group, it may be an indication of the importance placed by management on its responsibilities to its community.

The chart below illustrates the level of disclosure by the Georgia and southeastern comparison of groups in 2002 on the Form 990s filed. Of the 32 hospitals in Georgia and southeast comparison groups, only 17 had 990 filed and described their community benefits. No conclusions can be drawn regarding the remaining hospitals. Phoebe Putney's 990 disclosure is more comprehensive that the majority of its peers.

Exhibit 12 - Federal 990 Community Benefit Reporting Comparison

Federal 990 Community Benefit Reporting Comparison

Hospital Name	Total Community Benefit	Charity Care Costs	Charity Care Charges	Unreimbursed Medicare Costs	Unreimbursed Medicaid Costs	Medicare Contractuals	Medicaid Contractuals	Bad Debts	Partial Indigent Care Reimb	Loss on Services Provided	Cash Contributions	Unreimbursed Outreach Programs	Employee Volunteer Time	Physician Education	Research	Quality/Specialty Services	
Partners Healthcare System	$	$			$			$						$	$	$		
Phoebe Putney Memorial Hospital	$	$		$	$						•	•	$	•				
Hospital A												•	•					
Hospital B													•	$				•
Hospital C			$										•					
Hospital D			$					•					•	•	•			•
Hospital E													•	$				•
Hospital F												•						
Hospital G			$								•		•	•	•	•		
Hospital H			$					$	$		•		•		•			•
Hospital I						•	•	•										
Hospital J			$						$		$		$					•
Hospital K			$			$	$											
Hospital L			$			$	$						•					
Hospital M	$	$		$	$								•	$				
Hospital N	$	$				$	$						$	$				
Hospital O		$		$	$								$	•				
Hospital P		$																

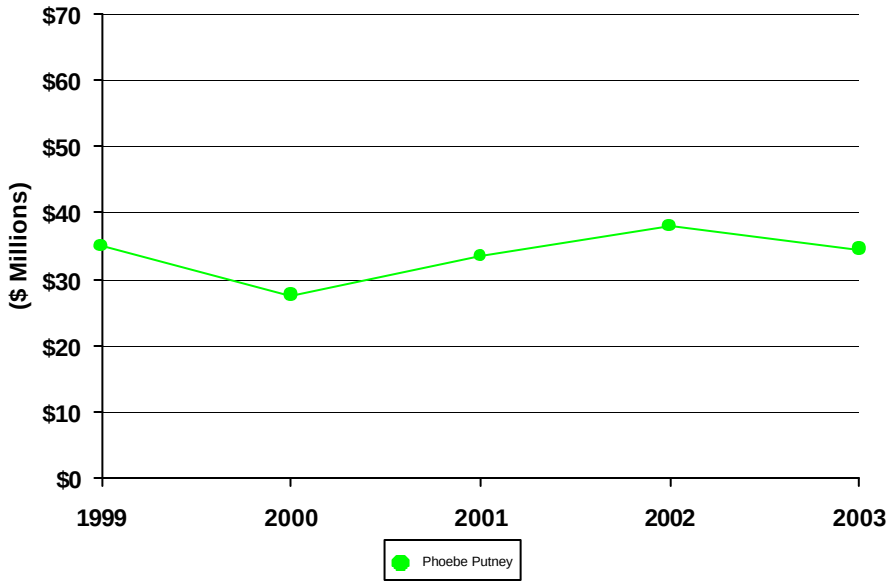
$-Community benefit disclosed with actual dollar amount

• -Community benefit described but not quantified.

Source: Federal Form 990 Part III (2002)

Phoebe Putney does not only disclose their community benefits in the 990 but also in their audit reports. The chart below represents this value.

Exhibit 13 - Total Contributions to the Community



Source: Phoebe Putney Memorial Hospital
Notes to Audited Financial Statements

Access to Care

Community benefits can be in many forms including the provision of charity care, community health programs which the hospital sponsors or participates in, having an open medical staff and operating an ER that is open to all, including the indigent population. However, community benefit also includes some less quantifiable components such as improved access to care and the introduction of new services previously not available in the area.

Access can be defined in two key ways: 1) access to physician providers including internal medicine and family practice physicians, as well as to obstetricians and other specialists; and 2) access to services for the treatment, prevention and education around various healthcare needs.

To evaluate the benefit to the community in terms of broader access to care, it is reasonable to compare the access points of the health system at Lease inception to today. The following maps provided by Phoebe Putney staff illustrate the expansion of services to southwest Georgia over the term of the Lease.

Exhibit 14 - Access to Care (At Lease Inception)

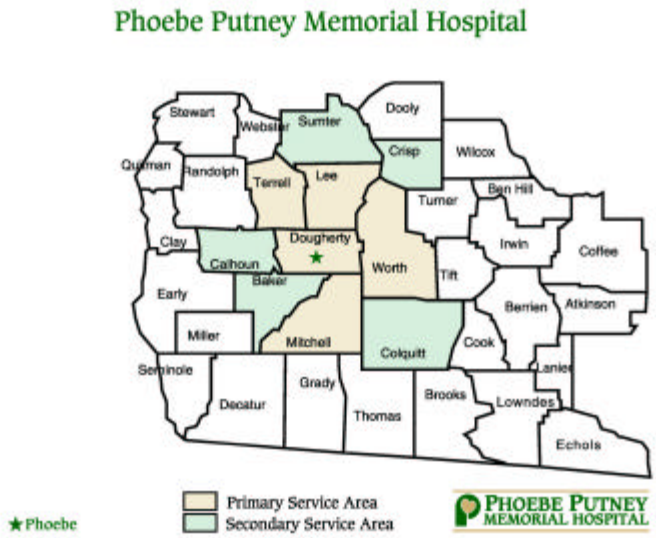
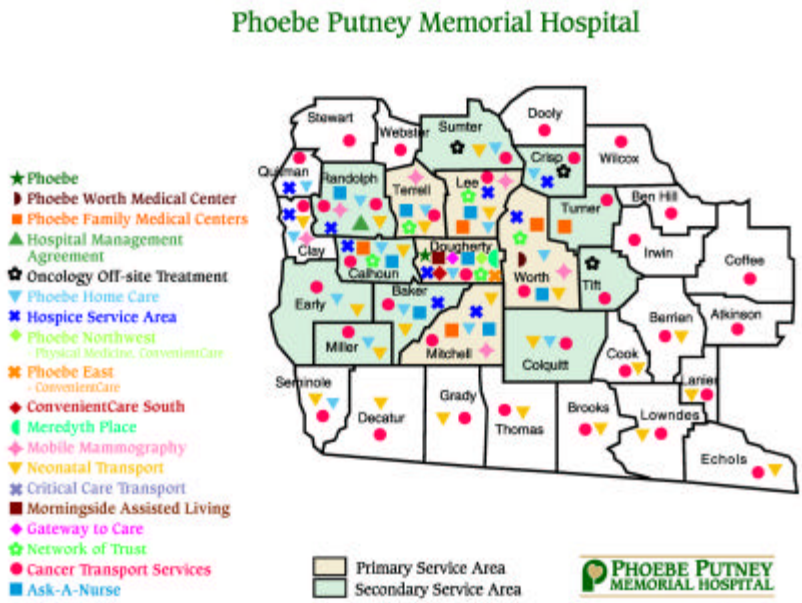


Exhibit 15 - Access to Care (Today)



Appendix A

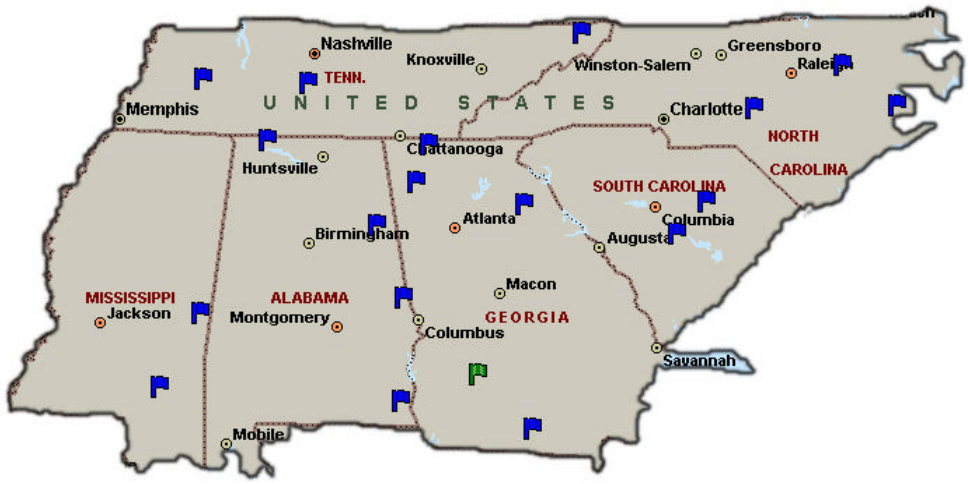
National Comparison Group

The first comparison group is comprised of free standing AA rated hospitals nationwide, as rated by Standard & Poor's ("S&P"). The ratings data presented here is based on the "Hospital Tax Exempt Median Ratio Report" from S&P. The AA rated list includes approximately 250 different organizations. There are 14 free standing AA rated hospitals (those with a single site facility that may or may not have a number of subsidiaries. In order to provide the Authority with an industry-wide perspective, the S&P medians were also provided for other investment grade bond ratings. S&P does not provide the names of the organizations that are included in each category.

Regional Comparison Group

The second comparison group is focused regionally. It is made up of hospitals similar in size to Phoebe Putney in southeastern communities that are themselves similar in population size to Dougherty County. This map illustrates the states included:

Based on 2000 census data for each state, counties were identified with a population similar to that of Dougherty County. Counties in major metropolitan areas, such as Atlanta, were excluded. The healthcare dynamics in metropolitan areas are dramatically different than in more rural markets. Population density, the trend toward specialization of hospital service lines and the propensity of hospitals to align into large health systems are some of the issues that invalidate county population as a measure of comparability. In cases where more than one hospital serviced the area, we selected the one similar in size to Phoebe Putney.



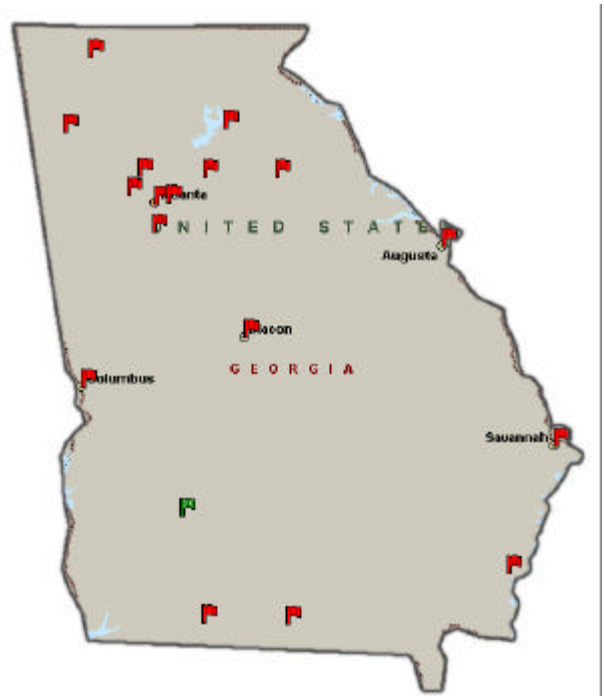
Southeast Comparable Hospitals

Hospital	City	State	County
Phoebe Putney Memorial Hospital	Albany	Georgia	Dougherty
Northeast Alabama Regional Medical Ctr	Anniston	Alabama	Calhoun
Southeast Alabama Medical Center	Dothan	Alabama	Houston
Eliza Coffee Memorial Hospital	Florence	Alabama	Lauderdale
East Alabama Medical Center	Opelika	Alabama	Lee
Athens Regional Medical Center	Athens	Georgia	Clarke
Floyd Medical Center	Rome	Georgia	Floyd
South Georgia Medical Center	Valdosta	Georgia	Lowndes
Hamilton Medical Center	Dalton	Georgia	Whitfield
Forrest General Hospital	Hattiesburg	Mississippi	Forrest
Jeff Anderson Regional Medical Center	Meridian	Mississippi	Lauderdale
Craven Regional Medical Center	New Bern	North Carolina	Craven
FirstHealth Moore Regional Hospital	Pinehurst	North Carolina	Moore
Wilson Memorial Hospital	Wilson	North Carolina	Wilson
The Regional Medical Center--Orangeburg	Orangeburg	South Carolina	Orangeburg
Tuomey Regional Medical Center	Sumter	South Carolina	Sumter
Jackson--Madison County General Hospital	Jackson	Tennessee	Madison
Maury Regional Hospital	Columbia	Tennessee	Maury
Johnson City Medical Center Hospital	Johnson City	Tennessee	Washington

The southeast comparison hospitals were chosen based upon similar county population (70,000 – 110,000) in a six state southeast region. Hospitals in large metropolitan areas were also excluded (Atlanta, Birmingham, Jackson, Memphis, Nashville, Knoxville, Columbia, and Raleigh. A selection criterion was also applied on total beds (250 – 700) and acute bed size (200 – 500).

Local Comparison Group

The third comparison group consists of Georgia hospitals of comparable size that operate under a hospital authority structure (similar to how Phoebe Putney is structured with the Hospital Authority of Albany-Dougherty County).



Georgia Hospital Authority Comparable Group

Hospital	City	County	Authority Name
Phoebe Putney Memorial Hospital	Albany	Dougherty	Hospital Authority of Albany-Dougherty County, Georgia
Floyd Medical Center	Rome	Floyd	Hospital Authority of Floyd County
Southern Regional Medical Center	Riverdale	Clayton	Clayton County Hospital Authority
Cobb Hospital & Medical Center	Austell	Cobb	Hospital Authority of Cobb County
Southeast Georgia Regional Medical Ctr	Brunswick	Glynn	Glynn-Brunswick Memorial Hospital Authority
Athens Regional Medical Center	Athens	Clarke	Hospital Authority of Clarke County Georgia
John D Archbold Memorial Hospital	Thomasville	Thomas	Hospital Authority of the City of Thomasville
South Georgia Medical Center	Valdosta	Lowndes	Hospital Authority of Valdosta and Lowndes County, Georgia
Northside Hospital	Atlanta	Fulton	Hospital Authority of Fulton County
WellStar Kennestone Hospital	Marietta	Cobb	Cobb County Kennestone Hospital Authority
Gwinnett Hospital System	Lawrenceville	Gwinnett	Hospital Authority of Gwinnett County, Georgia
Memorial Medical Center	Savannah	Chatham	Chatham County Hospital Authority
The Medical Center	Columbus	Muscogee	The Medical Center Hospital Authority
DeKalb Medical Center	Decatur	DeKalb	DeKalb County Hospital Authority
Medical Center of Central Georgia	Macon	Bibb	Macon-Bibb County Hospital Authority
University Health Services	Augusta	Richmond	Richmond County Hospital Authority
Northeast Georgia Medical Center	Gainesville	Hall	The Hospital Authority of Hall County and the City of Gainesville
Hamilton Medical Center	Dalton	Whitfield	The Dalton-Whitfield County Hospital Authority

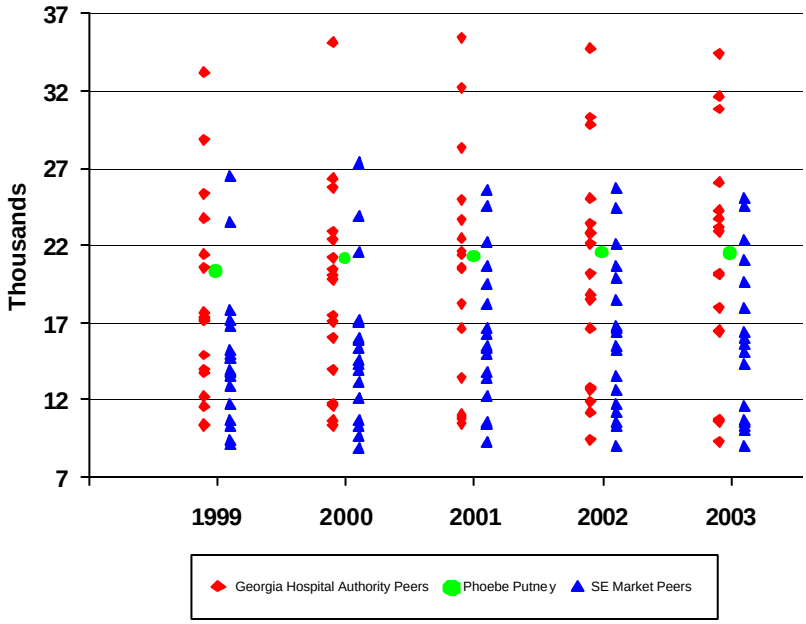
The Georgia Hospital Authority comparison hospitals were chosen based upon whether they were a Hospital Authority hospital. A selection criterion was also applied on total beds (250 – 700) and acute bed size (200 – 500).

Statistical Comparison of Peer Groups

In order to provide a profile of the comparison groups, key metrics for each of the years 1999 through 2003 were analyzed for each of the hospitals in the Georgia and southeast comparison groups. This comparison tests the validity of the selected organizations as economic peers to Phoebe Putney.

An appropriate initial comparative indicator is hospital size, generally defined by total patient volume and total patient net revenues. Patient volumes are principally defined as hospital admissions. The following graph compares Phoebe Putney's historical admissions to those of the Georgia and Southeast peer groups.

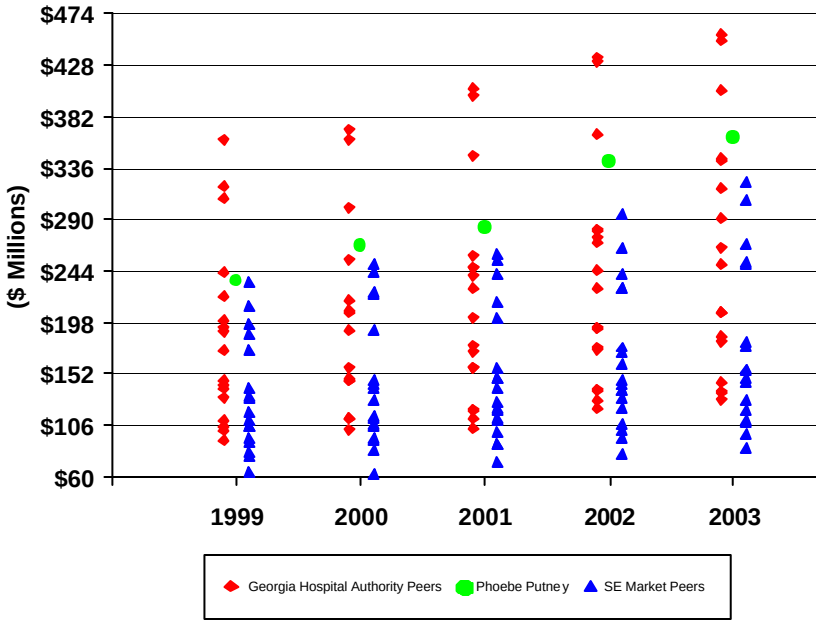
Exhibit 16 - Hospital Admissions



Source: Solucient Provider View

A second comparative indicator of hospital size is net patient revenue. Net patient revenue represents the total patient related revenue a hospital expects to collect during a given year. Following is a comparison of Phoebe Putney's historical net patient revenue to that of the Georgia and Southeast peer groups.

Exhibit 17 - Net Patient Service Revenue



Source: Solucient Provider View

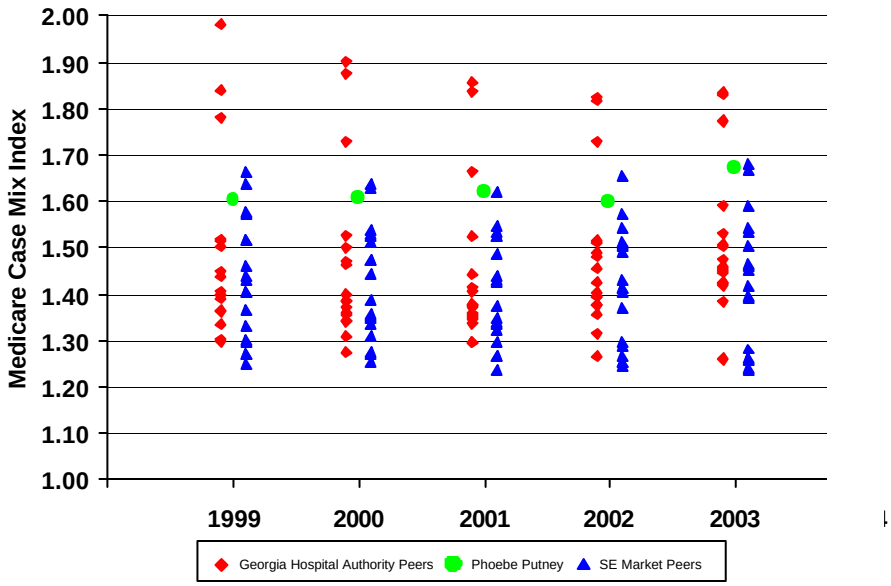
Another key factor in determining the ability to compare different hospitals involves assessing how similar are the types of patients that they treat.

The industry uses a standard for measuring the average acuity of a hospital's patient base. That standard for the acuity level of a hospital is defined primarily by its Case Mix Index ("CMI"). CMI is the acuity system used by Medicare to reflect the standard resource consumption and, consequently, payment for specific diagnoses. Every Diagnosis Related Group (DRG) has a specified relative weight. This weighting provides a statistical basis for comparing the acuity and suspected resource consumption. The following chart illustrates the relative weights of three DRGs.

DRG	Description	2003 Relative Weight
143	Chest Pain	0.5391
127	Heart Failure and Shock	1.0039
475	Respiratory System Diagnosis with Ventilator	3.6632

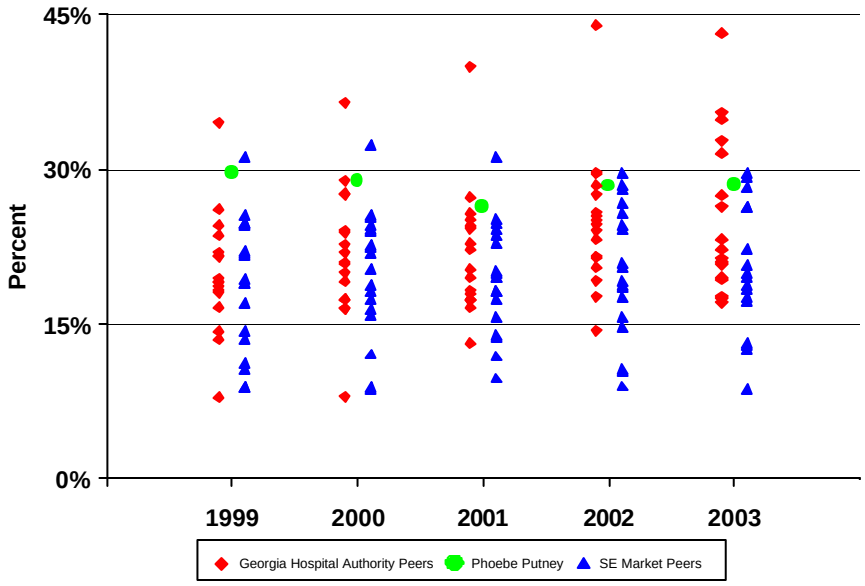
CMI for a single hospital is the average of the relative weights for each Medicare admission during a year. Hospitals whose Medicare patients are sicker or have more complex care needs will have a higher CMI. This graph compares Phoebe Putney's case mix index to those of the Georgia and Southeast peer groups.

Exhibit 18 - Relative Patient Acuity



Source: Solucient Provider View

Exhibit 19 - Medicaid Admission/Total Facility



Source: Solucient Provider View

Appendix B

Data Sources

The gathering of operating and financial data for hospitals is a difficult proposition. Because of the multiple sources of data and the infinite number of methodologies employed by each hospital to arrive at the numbers presented, data is inconsistent. This makes any comparison of hospital data challenging. Data errors can lead to incomplete or misleading analysis results. Data standardization is of utmost importance when doing an analytical comparison.

Hospitals are generally not subject to uniform financial reporting to the public, except in filing Medicare Cost Reports. All hospitals who receive federal funds via Medicare must submit a cost report each year, and the cost reports contain standard data elements. Variation in the actual data reported by the individual hospitals in their filings raises some issues regarding data quality. Even taking that into account, cost reports serve as an optimal platform for standardized data collection and analysis.

Exhibits

1. Operating Margin Trend Comparison
   - Source: Standard & Poor's US Not-for-Profit Median Health Care Ratios Reports
     Phoebe Putney Health System Audited Financial Statements
   - Calculation: Operating Income / Operating Revenue

2. Net Patient Revenue per Admission
   - Source: Solucient Inc. - Active Content™ (Medicare Cost Report Data)
   - Calculation: Net Patient Revenue per Adjusted Admission / Case Mix Index

3. Operating Cost per Admission
   - Source: Solucient Inc. - Active Content™ (Medicare Cost Report Data)
   - Calculation: (Operating Expense – Depreciation – Amortization – Interest– Bad Debt) / Adjusted Admissions

4. Days Cash on Hand Trend Comparison
   - Source: Standard & Poor's US Not-for-Profit Median Health Care Ratios Reports
     Phoebe Putney Health System Audited Financial Statements
   - Calculation: Cash / ((Operating Expense – Depreciation)/365)

5. Long Term Debt to Capitalization Trend Comparison
   - Source: Standard & Poor's US Not-for-Profit Median Health Care Ratios Reports
   - Calculation: Long Term Debt / (Fund Balance + Long Term Debt)

6. Average Age of Plant Trend Comparison
   - Source: Standard & Poor's US Not-for-Profit Median Health Care Ratios Reports
     Phoebe Putney Health System Audited Financial Statements
   - Calculation: Accumulated Depreciation / (Depreciation Expenses + Amortization Expense)

7. Charges per Admission
   - Source: Solucient Inc. - Active Content™ (Medicare Cost Report Data)
   - Calculation: Total Patient Revenue / Adjusted Admissions

8. Drivers of Cost to the Community Comparison
   - Source: HealthShare One™ MedPAR Southeast Region 2003 data
   - Calculation: Charges per admission and Length of stay by service line are severity adjusted to the average of the Georgia and Southeast comparison group. Phoebe Putney is ranked according to the percentile of the comparison group they are above or below.

9. Indigent/Charity Care Deductions as % of Charges since Lease Inception
   - Source: Annual Hospital Financial Survey, Georgia Department of Community Health
   - Calculation: Indigent & Charity Care Expense / (Total Patient Revenue – Medicare

Contractuals – Medicaid Contractuals – Bad Debt Expense)
Note: Phoebe Putney submitted revised financial surveys in 2002 and 2003

10. Indigent/Charity Care Deductions as % of Charges Comparison
Source: Annual Hospital Financial Survey, Georgia Department of Community Health
Calculation: Indigent & Charity Care Expense / (Total Patient Revenue – Medicare Contractuals – Medicaid Contractuals – Bad Debt Expense)
Note: Phoebe Putney submitted revised financial surveys in 2002 and 2003

11. Indigent/Charity Care Patient Origin by County
Source: Annual Hospital Financial Survey, Georgia Department of Community Health
Calculation: Indigent and Charity Care Hospital Admissions and Visits by County

12. Federal 990 Community Benefit Reporting Comparison
Source: Federal Form 990 part III (2002)

13. Total Contributions to Community
Source: Phoebe Putney Memorial Hospital Financial Statement Audits
Calculation: Total contributions to community as reported in notes to the audited financial statements

14. Phoebe Putney Access to Care Map – At Lease inception
Source: Phoebe Putney Health System

15. Phoebe Putney Access to Care Map – Today
Source: Phoebe Putney Health System

16. Hospital Admissions
Source: Solucient Inc. - Active Content™ (Medicare Cost Report Data)
Calculation: Total admissions for facility
Note: Utilized State reported data for Northside Hospital's 2000 Admissions due to data inconsistency in Solucient.

17. Net Patient Service Revenue
Source: Solucient Inc. - Active Content™ (Medicare Cost Report Data)
Calculation: Gross Patient Revenue – Contractual allowances – Discounts – Charity Care – Other uncollectibles

18. Relative Patient Acuity
Source: Solucient Inc. - Active Content™ (Medicare Provider Analysis and Review Data)
Calculation: Medicare Case Mix Index

19. Medicaid Admission/Total Facility
Source: Solucient Inc. - Active Content™ (Medicare Cost Report Data)
Calculation: Medicaid Admissions / Total Hospital Admissions

Healthcare Glossary

Term	What is it? Why is it important?
Average Age of Plant	A measure of the average age in years of the hospital's fixed assets. Lower values indicate a newer fixed base and, thus, less need for near-term replacement. Often is a proxy for future capital spending- higher ages indicate the need for more capital spending.
Bad debts	The amount not recoverable from a patient following exhaustion of all collection efforts.
Capital Cost	The cost of investing in the development of new facilities, services, or equipment, excluding operational costs
Capital Expenditure	An outlay for capital assets such as facilities and equipment, excluding outlay for operation or maintenance. Used to determine other ratios that demonstrate a hospital's financial strength and level of investment.
Cash	Used to determine liquidity ratios.
Charges	Prices assigned to traits of medical services, such as a visit to a physician or an inpatient day at a healthcare facility.
Charity Care	Care rendered to patients without the expectation of compensation for such services.
Contractual Adjustment	Accounting adjustment required to reflect uncollectible differences between established charges for services rendered to insured persons and rates payable for those services under contracts with third-party payers.
Days Cash on Hand	Measures the number of days of average cash expenses that the hospital maintains in cash or marketable securities. It is a measure of total liquidity, both short-term and long-term. An increasing trend is positive.
Investment Grade Bond Rating	BBB- and above. Below that is generally considered below investment grade. Below investment grade is frequently refereed to as speculative grade or even "junk".
Liquidity Ratios	Ratios measuring the cash position of a company; usually an indication of a company's ability to pay short-term debt obligations on a timely basis.
Long-term Debt to Capitalization	Higher values for this ratio imply a greater reliance on debt financing and may imply a reduced ability to carry additional debt. A declining trend is positive.
Operating Cost	Costs directly attributable to operations of business activities.
Operating Margin	Defined in the healthcare industry as total operating revenues minus total operating expenses, divided by total operating revenues.
Relative Patient Acuity	A measure of the relative costliness/acuity of patients treated in each hospital or group of hospitals.