

HOSPITAL AUTHORITY OF
ALBANY-DOUGHERTY COUNTY, GEORGIA

FINANCIAL STATEMENTS

for the years ended July 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hospital Authority of Albany-Dougherty
County, Georgia
Albany, Georgia

We have audited the accompanying balance sheets of Hospital Authority of Albany-Dougherty County, Georgia (Authority) as of July 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Authority of Albany-Dougherty County, Georgia as of July 31, 2012 and 2011, and the results of its operations and changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Continued

Accounting principles generally accepted in the United States of America require that Management's Discussions and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Draffin & Tucker, LLP

Albany, Georgia

November 8, 2012

Management's Discussion and Analysis For the Year Ending July 31, 2012

Our discussion and analysis of the Hospital Authority of Albany-Dougherty County, Georgia's (Authority) financial performance provides an overview of the Authority's financial activities during the fiscal years ended July 31, 2012, 2011 and 2010. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Using the Annual Report

The Authority's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Authority.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash balance during the reporting period?"



**Management's Discussion and Analysis
For the Year Ending July 31, 2012**

The Authority's Net Assets

The Authority's net assets are the difference between its assets and liabilities reported on the balance sheet. The following table summarizes the balance sheets as of July 31, 2012, 2011 and 2010:

Balance Sheet Data

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 29,919,557	\$ 206,309	\$ 37,749
Capital assets, net	35,583,970	-	-
Other noncurrent assets	<u>157,345,334</u>	<u>-</u>	<u>-</u>
Total assets	\$ <u>222,848,861</u>	\$ <u>206,309</u>	\$ <u>37,749</u>
Current liabilities	\$ 225,354,339	\$ 3,612,415	\$ 4,477
Net assets:			
Invested in capital assets, net of related debt	35,583,970	-	-
Unrestricted	(<u>38,089,448</u>)	(<u>3,406,106</u>)	<u>33,272</u>
Total liabilities and net assets	\$ <u>222,848,861</u>	\$ <u>206,309</u>	\$ <u>37,749</u>

**Management's Discussion and Analysis
For the Year Ending July 31, 2012**

The following table summarizes the revenues and expenses for the periods ended July 31, 2012, 2011 and 2010:

Statement of Revenue and Expense Data

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 35,898,719	\$ -	\$ -
Operating expenses	<u>39,604,242</u>	<u>4,380,735</u>	<u>86,404</u>
Operating loss	(3,705,523)	(4,380,735)	(86,404)
Nonoperating income (expenses)	<u>4,606,151</u>	<u>941,357</u>	<u>98,938</u>
Increase (decrease) in net assets	900,628	(3,439,378)	12,534
Net assets at beginning of year	(<u>3,406,106</u>)	<u>33,272</u>	<u>20,738</u>
Net assets at end of year	\$(<u>2,505,478</u>)	\$(<u>3,406,106</u>)	\$ <u>33,272</u>

The Authority purchased Palmyra Park Hospital, LLC on December 16, 2011 from HCA Healthcare, Inc. The facility is a fully-operational acute care hospital licensed for 248 beds. The facility has continued to offer services to the community during the transition period to new ownership. Long range plans are currently in process for the facility to provide a dedicated Women and Children's Center for the community and surrounding areas.

Capital Assets

As of July 31, 2012, the Authority had approximately \$35,584,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2012, the Authority purchased new capital assets costing approximately \$35,584,000.

Short-Term Obligations

At year-end, the Authority had approximately \$217,893,000 in short-term obligations outstanding as detailed in Note 7 to the financial statements. In 2012, the Authority entered into short-term obligations of approximately \$217,893,000.

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

BALANCE SHEETS, July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash	\$ 17,648,418	\$ 206,309
Patient accounts receivable, net of estimated uncollectibles of \$21,395,538 in 2012	9,092,766	-
Supplies, at lower of cost (first-in, first-out) or market	2,912,781	-
Other current assets	<u>265,592</u>	<u>-</u>
Total current assets	<u>29,919,557</u>	<u>206,309</u>
Capital assets:		
Non-depreciable	6,514,274	-
Depreciable, net of accumulated depreciation	<u>29,069,696</u>	<u>-</u>
Total capital assets, net of accumulated depreciation	<u>35,583,970</u>	<u>-</u>
Other assets:		
Goodwill	<u>157,345,334</u>	<u>-</u>
Total assets	\$ <u>222,848,861</u>	\$ <u>206,309</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 3,737,256	\$ 3,612,415
Accrued expenses	2,732,950	-
Estimated third-party payor settlements	891,070	-
Deferred revenue	100,000	-
Short-term obligations	<u>217,893,063</u>	<u>-</u>
Total current liabilities	225,354,339	3,612,415
Net assets:		
Unrestricted	(<u>2,505,478</u>)	(<u>3,406,106</u>)
Total liabilities and net assets	\$ <u>222,848,861</u>	\$ <u>206,309</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

for the years ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$9,088,000 in 2012)	\$ 35,292,985	\$ -
Other revenue	<u>605,734</u>	<u>-</u>
Total operating revenues	<u>35,898,719</u>	<u>-</u>
Operating expenses:		
Salaries and wages	11,975,422	-
Employee health and welfare	4,146,124	-
Medical supplies and other	12,584,774	4,380,735
Professional services	2,781,463	-
Purchased services	5,489,805	-
Depreciation and amortization	<u>2,626,654</u>	<u>-</u>
Total operating expenses	<u>39,604,242</u>	<u>4,380,735</u>
Operating loss	<u>(3,705,523)</u>	<u>(4,380,735)</u>
Nonoperating income (expenses):		
Contributions from Phoebe Putney Memorial Hospital, Inc.	4,956,151	941,357
Interest expense	<u>(350,000)</u>	<u>-</u>
Total nonoperating income	<u>4,606,151</u>	<u>941,357</u>
Increase (decrease) in net assets	900,628	(3,439,378)
Net assets, beginning of year	<u>(3,406,106)</u>	<u>33,272</u>
Net assets, end of year	<u>\$ (2,505,478)</u>	<u>\$(3,406,106)</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

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

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Funds paid to Georgia Department of Community Health:		
Indigent Care Trust Fund	\$(2,802,812)	\$(3,834,070)
Upper payment limit	(744,169)	(1,373,263)
Funds received from Georgia Department of Community Health:		
Indigent Care Trust Fund	8,282,542	11,058,756
Upper payment limit	2,199,081	4,672,475
Lease revenue	1	1
Transfer of funds received from Georgia Department of Community Health to Phoebe Putney Memorial Hospital, Inc.	(6,934,642)	(10,523,898)
Cash received from patients and payors	27,697,023	-
Cash payments to employees	(14,529,101)	-
Payments to vendors and other suppliers	(19,767,311)	(772,797)
Net cash used by operating activities	(6,599,388)	(772,796)
Cash flows from capital and related financing activities:		
Proceeds from short-term obligations	217,993,063	-
Interest paid on short-term obligations	(350,000)	-
Purchase of capital assets	(241,874)	-
Net cash provided by capital and related financing activities	<u>217,401,189</u>	<u>-</u>
Cash flows from investing activities:		
Acquisition of Palmyra Park Hospital, LLC	(198,315,843)	-

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

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

	<u>2012</u>	<u>2011</u>
Cash flows from noncapital financing activities:		
Transfer from Phoebe Putney Memorial Hospital, Inc.	\$ 3,546,981	\$ 5,207,333
Transfer to Phoebe Putney Memorial Hospital, Inc.	(3,546,981)	(5,207,333)
Noncapital contributions	<u>4,956,151</u>	<u>941,356</u>
Net cash provided by noncapital financing activities	<u>4,956,151</u>	<u>941,356</u>
Net increase in cash	17,442,109	168,560
Cash, beginning of year	<u>206,309</u>	<u>37,749</u>
Cash, end of year	\$ <u>17,648,418</u>	\$ <u>206,309</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash in current assets	\$ <u>17,648,418</u>	\$ <u>206,309</u>
Reconciliation of operating loss to net cash flows used by operating activities:		
Operating loss	\$(3,705,523)	\$(4,380,735)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	2,626,654	-
Changes in:		
Patient accounts receivable	(9,092,766)	-
Supplies	303,253	-
Other assets	378,850	-
Accounts payable	124,841	3,607,939
Amounts due to third-party payors	891,070	-
Accrued expenses	<u>1,874,233</u>	<u>-</u>
Net cash used by operating activities	\$ <u>(6,599,388)</u>	\$ <u>(772,796)</u>

Supplemental disclosures of cash flow information:

- See Note 9 for additional information related to the purchase of Palmyra.

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

The Hospital Authority of Albany-Dougherty County, Georgia (Authority) is a public corporation organized to operate, control, and manage matters concerning the County's health care functions.

On September 1, 1991, the Hospital Authority implemented a reorganization plan whereby all of the assets and day-to-day management of Phoebe Putney Memorial Hospital were transferred to Phoebe Putney Memorial Hospital, Inc., a not-for-profit corporation (Corporation), qualified as an organization described in Section 501(c)(3) of the Internal Revenue Code. The transfer was made pursuant to a Lease and Transfer Agreement dated as of December 11, 1990 between the Hospital Authority and the Corporation. A nominal annual lease payment is paid to the Hospital Authority. During 2009, the lease term was renewed to the original term of forty years.

Under the terms of the Agreement, any debt issued by the Hospital Authority will be the responsibility of the Corporation. As of July 31, 2012, approximately \$213,830,000 of Revenue Anticipation Certificates are outstanding in the Authority's name. These certificates are recorded and disclosed in the financial statements of the Corporation for the year ended July 31, 2012.

On December 15, 2011, the Authority purchased substantially all assets of Palmyra Park Hospital, LLC (Palmyra), a general acute care hospital located in Albany, Georgia. The Authority is operating Palmyra under the name Phoebe North. See Note 9 for a summary of the purchase transaction. See Note 16 for information related to the lease of Palmyra to the Corporation subsequent to year end.

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.

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HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on GASB Statement No. 20, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the FASB, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncement.

Allowance for Doubtful Accounts

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

Supplies

Supplies are valued at the lower-of-cost or market value.

Capital Assets

Capital asset acquisitions are recorded at cost. 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. Depreciation is provided over the estimated useful life of each depreciable asset (per the American Hospital Association (AHA) Guidelines for Depreciable Assets) and is computed using the straight-line method. The AHA Guidelines generally provide the following range in asset life by category:

Land improvements	10 to 20 years
Buildings and improvements	10 to 40 years
Equipment	3 to 15 years

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Goodwill

Goodwill and intangible assets with indefinite lives are not amortized, but are tested for impairment annually and more frequently in the event of an impairment indicator. Intangible assets with definite lives are amortized over their respective estimated useful lives, and reviewed whenever events or circumstances indicate impairment may exist. Intangible assets are categorized as capital assets in the balance sheet.

As of July 31, 2012, the Authority had goodwill of approximately \$157,345,000, which is subject to the impairment tests prescribed under the authoritative guidance. See Note 8 for additional information related to goodwill. See Note 9 for additional information related to the purchase of Palmyra.

Net Assets

Net assets of the Authority are classified into two components – *invested in capital assets, net of related debt* and *unrestricted*. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of *invested in capital assets, net of related debt*.

Net Patient Service Revenue

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.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Charity Care

The Authority 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 Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Authority's principal activity. Nonexchange revenues, including interest expense, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating income. Amounts restricted to capital acquisitions are reported after nonoperating income.

Income Taxes

The Authority is a governmental entity and is exempt from income taxes. Therefore, no provision for income taxes is made in the financial statements.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, Continued

Risk Management

The Authority is exposed to various risks of loss from torts. The Authority purchases commercial insurance with a self-retention amount to protect itself against such risks. The provision for estimated professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. See Note 12 for a summary of the professional and general liability program. The Authority is self-insured for employee health and accident benefits, and purchases stop-loss coverage for large claims. The expenses for employee health claims include the costs of actual claims incurred and an estimate of the claims incurred but not reported. See Note 11 for a summary of the employee health plan. The Authority has purchased commercial insurance for claims arising from theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters.

Compensated Absences

The Authority has implemented a paid hours off (PHO) policy in an effort to preserve the PHO accrued by Palmyra Park Hospital, LLC's employees prior to acquisition. The accrued PHO earned by the new employees will be carried forward to future years until exhausted. The new employees will also be able to earn PHO from the Authority and will be able to use the PHO earned from the Authority once their PHO from their prior employer is exhausted.

Authority employees will earn PHO at varying rates depending on employee level and length of employment. PHO may be used for personal, vacation, holiday and sick time away from work. Generally, employees may carry forward PHO time. In the event of termination, the employee will be compensated for unused PHO. The Authority also provides to its employees an extended illness bank and a short-term disability bank of which both accrue at varying rates based on employee level and length of employment.

Restricted Resources

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

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HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

2. Charity Care

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended July 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Charges foregone, based on established rates	\$ <u>4,485,995</u>	\$ <u>-</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>1,102,086</u>	\$ <u>-</u>
Equivalent percentage of charity care patients to all patients served	<u>2.8%</u>	<u>-</u> %

3. Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. The Authority 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 36% and 8%, respectively, of the Authority's net patient revenue for the year ended July 31, 2012. 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 Authority believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

3. Net Patient Service Revenue, Continued

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

- Medicare

Inpatient acute care, outpatient and rehabilitation 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 Authority is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority'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 Authority. As of year end, the Authority's only open Medicare cost report is for the reporting period ending July 31, 2012.

- 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 Authority is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. As of year end, the Authority's only open Medicaid cost report is for the reporting period ending July 31, 2012.

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

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

3. Net Patient Service Revenue, Continued

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

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (the Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment resulted in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately \$732,000 and \$-0- relating to the Act is included in medical supplies and other in the accompanying statements of revenues, expenses and changes in net assets for the years ended July 31, 2012 and 2011, respectively.

Gross patient charges, contractual adjustments, provision for bad debts, and related allowances included in net patient service revenue are as follows:

	<u>2012</u>	<u>2011</u>
Gross patient charges	\$ <u>161,207,370</u>	\$ <u>-</u>
Medicare	43,868,960	-
Medicaid	10,440,670	-
Indigent and charity care	4,485,995	-
Other third-party payors	58,030,499	-
Provision for bad debts	<u>9,088,261</u>	<u>-</u>
Total uncompensated care	<u>125,914,385</u>	<u>-</u>
Net patient service revenue	\$ <u><u>35,292,985</u></u>	\$ <u><u>-</u></u>

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

4. Deposits

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Authority's bylaws require that all bank balances be insured or collateralized by U.S. government securities held by the pledging financial institution's trust department in the name of the Authority. The Authority had no uncollateralized cash balances at July 31, 2012 and 2011.

The carrying amount of deposits included in the Authority's balance sheets is as follows:

	<u>2012</u>	<u>2011</u>
Cash	\$ <u>17,648,418</u>	\$ <u>206,309</u>

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at July 31, 2012 and 2011 consisted of these amounts:

	<u>2012</u>	<u>2011</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 21,767,882	\$ -
Receivable from Medicare	6,668,325	-
Receivable from Medicaid	<u>2,052,097</u>	<u>-</u>
Total patient accounts receivable, net	30,488,304	-
Less allowance for uncollectible amounts and contractual adjustments	<u>21,395,538</u>	<u>-</u>
Patient accounts receivable, net	\$ <u>9,092,766</u>	\$ <u>-</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 2,237,636	\$ -
Payable to suppliers	3,554,609	3,612,415
Other	<u>677,961</u>	<u>-</u>
Total accounts payable and accrued expenses	\$ <u>6,470,206</u>	\$ <u>3,612,415</u>

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HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

6. Capital Assets

Capital asset changes for the year ended July 31, 2012 was as follows:

	July 31, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	July 31, <u>2012</u>
Land	\$ -	\$ 5,664,620	\$ -	\$ 5,664,620
Construction-in-progress	<u>-</u>	<u>849,654</u>	<u>-</u>	<u>849,654</u>
Total capital assets not being depreciated	<u>-</u>	<u>6,514,274</u>	<u>-</u>	<u>6,514,274</u>
Land improvements	-	104,465	-	104,465
Buildings and improvements	-	25,058,287	-	25,058,287
Equipment	<u>-</u>	<u>6,533,599</u>	<u>-</u>	<u>6,533,599</u>
Total capital assets being depreciated	<u>-</u>	<u>31,696,351</u>	<u>-</u>	<u>31,696,351</u>
Less accumulated depreciation and amortization for:				
Land improvements	-	8,558	-	8,558
Buildings and improvements	-	1,189,039	-	1,189,039
Equipment	<u>-</u>	<u>1,429,058</u>	<u>-</u>	<u>1,429,058</u>
Total accumulated depreciation	<u>-</u>	<u>2,626,655</u>	<u>-</u>	<u>2,626,655</u>
Capital assets being depreciated, net	<u>-</u>	<u>29,069,696</u>	<u>-</u>	<u>29,069,696</u>
Total capital assets, net	\$ <u>-</u>	\$ <u>35,583,970</u>	\$ <u>-</u>	\$ <u>35,583,970</u>

Depreciation expense for the year ended July 31, 2012 amounted to approximately \$2,626,654.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

7. Short-Term Obligations

A schedule of changes in the Authority's short-term obligations follows:

	<u>2011 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2012 Balance</u>
Due to Phoebe Putney Memorial Hospital	\$ -	\$ 3,006,703	\$ -	\$ 3,006,703
Due to Phoebe Putney Health System	<u>-</u>	<u>214,886,360</u>	<u>-</u>	<u>214,886,360</u>
Total short-term obligations	\$ <u>-</u>	\$ <u>217,893,063</u>	\$ <u>-</u>	\$ <u>217,893,063</u>

The short-term obligations are made up of funds provided to the Authority by the Corporation and Phoebe Putney Health System to finance the purchase of Palmyra and to fund the day-to-day operations of the Authority. These obligations were satisfied through the lease and transfer of assets between the Authority and the Corporation on August 1, 2012.

8. Goodwill

On December 15, 2011, the Authority purchased the assets of Palmyra Park Hospital, LLC, an acute care hospital located in Dougherty County, Georgia. This transaction resulted in approximately \$157,345,000 of goodwill. The goodwill recognized is the result of a long history of successful operations resulting in strong earnings and consistent growth in revenues. The goodwill will be evaluated for impairment each year. At July 31, 2012, the balance sheet reported goodwill of approximately \$157,345,000 related to the acquisition of Palmyra Park Hospital, LLC.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

8. Goodwill, Continued

The changes in the carrying amount of goodwill for the years ended July 31, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year:		
Goodwill	\$ -	\$ -
Accumulated impairment losses	<u>-</u>	<u>-</u>
	-	-
Goodwill acquired during the year	157,345,334	-
Impairment losses	<u>-</u>	<u>-</u>
Balance at end of year:		
Goodwill	157,345,334	-
Accumulated impairment losses	<u>-</u>	<u>-</u>
Total	\$ <u>157,345,334</u>	\$ <u>-</u>

9. Acquisition of Palmyra Park Hospital, LLC

On December 15, 2011, the Authority purchased Palmyra Park Hospital, LLC. Accordingly, the results of operations for Palmyra Park Hospital, LLC have been included in the accompanying financial statements from that date forward. The acquisition was made for the purpose of strengthening the Authority's competitive position in the service area.

Consideration for the acquisition comprised
the following (at fair value):

Cash	\$ <u>198,315,843</u>
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Goodwill in the amount of \$157,345,334 was recognized in the acquisition of Palmyra Park Hospital, LLC and is attributable to a long history of successful operations resulting in strong earnings and consistent growth in revenues.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

9. Acquisition of Palmyra Park Hospital, LLC, Continued

The following assets and liabilities were recognized in the acquisition (at fair value):

Prepaid expenses, supplies, and other assets	\$ 3,888,017
Capital assets	37,968,750
Current liabilities	(886,258)
Total identifiable assets	40,970,509
Goodwill	<u>157,345,334</u>
Total	\$ <u>198,315,843</u>

The above estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired. The Authority believes that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Authority is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. Such changes could be significant. The Authority expects to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the acquisition date.

The amounts of Palmyra Park Hospital, LLC's revenue and decrease in net assets included in the statements of revenues, expenses and changes in net assets (from the date of acquisition) for 2012 are approximately \$35,899,000 and \$2,910,000, respectively. The following pro forma information is based on the assumption that the acquisition occurred on August 1, 2010.

	<u>2012</u>	<u>2011</u>
Operating revenue	\$ <u>60,383,000</u>	\$ <u>69,778,000</u>
Increase (decrease) in net assets	\$ (<u>2,143,000</u>)	\$ (<u>7,702,000</u>)

Costs related to the acquisition, which include legal, consulting, valuation, and other fees, in the amount of approximately \$5,677,000 have been charged directly to operations and are included in the medical supplies and other, and purchased services lines in the 2012 statements of revenues, expenses, and changes in net assets.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

10. Defined Contribution Plan

Authority employees may participate in the Phoebe Putney Health System 403(b) Deferred Savings Plan (Plan). All employees are eligible to participate in the Plan. Each employee may contribute up to 100% of their adjusted salary, up to the federal limit. The System matches 50% of each participant's contributions up to a maximum of 4%. Employees are fully vested in the System's matching contributions after three years of service. At its discretion, the Authority may make additional contributions to the Plan. Plan expense was approximately \$685,000 and \$-0- for the years ended July 31, 2012 and 2011, respectively.

11. Employee Health Insurance

The Authority has a self-insurance program under which a third-party administrator processes and pays claims. The Authority 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 \$802,000 and \$-0- for the years ended July 31, 2012 and 2011, respectively.

12. Malpractice Insurance

The Hospital is covered by a claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis through Phoebe Putney Health System's wholly-owned subsidiary, Phoebe Putney Indemnity, LLC (PPI), located in South Carolina. Effective December 16, 2011, PPI added the Hospital as an additional insured under the policy. Under the policy endorsement, the limit of liability is \$5,000,000 for claims occurring on or after December 16, 2011. Claims occurring prior to December 16, 2011, are under the previous owner's insurance policy.

PPHS purchases excess insurance of \$25,000,000 above PPI. PPHS purchases an additional \$25,000,000 high limit excess above the first captive layer giving a total of \$50,000,000 annual aggregate limit of excess coverage. Phoebe North is covered under this policy as a named insured.

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

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

13. Fair Values of Financial Instruments

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

- Cash: The carrying amount reported in the balance sheet for cash approximates its fair value.
- 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.
- Short-term obligations: The carrying amount reported in the balance sheet for short-term obligations approximates its fair value.

The carrying amounts and fair values of the Authority's financial instruments at July 31, 2012 and 2011 are as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash	\$ 17,648,418	\$ 17,648,418	\$ 206,309	\$ 206,309
Accounts payable and accrued expenses	\$ 6,470,206	\$ 6,470,206	\$ 3,612,415	\$ 3,612,415
Estimated third-party payor settlements	\$ 891,070	\$ 891,070	\$ -	\$ -
Short-term obligations	\$ 217,893,063	\$ 217,893,063	\$ -	\$ -

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

14. Concentrations of Credit Risk

The Authority grants credit without collateral to patients substantially all of whom are local residents of Dougherty County or the immediate surrounding counties of Georgia and are insured under third-party payor agreements. A significant portion of the net receivables are from patients covered by various government programs such as Medicare or Medicaid. The mix of net receivables from patients and third-party payors at July 31, 2012 and 2011 was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	31 %	- %
Medicaid	5 %	- %
Commercial	61 %	- %
Patients	<u>3 %</u>	<u>- %</u>
Total	<u>100 %</u>	<u>- %</u>

15. 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 and state levels. 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 Authority.

16. Subsequent Event

Effective August 1, 2012, the lease between the Authority and the Corporation was amended and restated. The amendment was made for the transfer and inclusion of Palmyra. The amendment included the extension of the lease for a term of forty years from the date of the current amendment.

The Authority is in the process of issuing Series 2012 Revenue Anticipation Certificates (Series 2012) in an aggregate principal amount not to exceed \$125,000,000. Pursuant to the Master Indenture, the Corporation will issue a promissory note in a principal amount equal to the principal amount of the Series 2012 to the Authority. The proceeds will be used to fund certain capital expenditures associated with properties owned by the Authority and leased to the Corporation.