

HOSPITAL AUTHORITY OF
ALBANY-DOUGHERTY COUNTY, GEORGIA

FINANCIAL STATEMENTS

for the years ended July 31, 2014 and 2013

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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 financial statements of Hospital Authority of Albany-Dougherty County, Georgia (Authority), which comprise the balance sheets as of July 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Authority of Albany-Dougherty County, Georgia as of July 31, 2014 and 2013, and the results of its operations and changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Driffin + Tucker, LLP
Albany, Georgia
November 13, 2014

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

BALANCE SHEETS, July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Assets:		
Cash	\$ 193,001	\$ 213,343
Contributions receivable from Phoebe Putney Memorial Hospital, Inc.	<u>150,000</u>	<u>500,000</u>
Total assets	\$ <u>343,001</u>	\$ <u>713,343</u>
LIABILITIES AND NET POSITION		
Liabilities:		
Accounts payable	\$ 264,047	\$ 754,620
Net position:		
Unrestricted	<u>78,954</u>	(<u>41,277</u>)
Total liabilities and net position	\$ <u>343,001</u>	\$ <u>713,343</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
for the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Lease revenue	\$ 100,000	\$ 100,000
Operating expenses:		
Purchased services and other	<u>329,859</u>	<u>2,239,744</u>
Operating loss	<u>(229,859)</u>	<u>(2,139,744)</u>
Nonoperating revenues:		
Contributions from Phoebe Putney Memorial Hospital, Inc.	350,090	1,693,400
Gain on long-term lease	<u>-</u>	<u>2,910,545</u>
Total nonoperating revenues	<u>350,090</u>	<u>4,603,945</u>
Excess revenues	120,231	2,464,201
Net position, beginning of year	(<u>41,277</u>)	(<u>2,505,478</u>)
Net position, end of year	\$ <u>78,954</u>	\$(<u>41,277</u>)

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

STATEMENTS OF CASH FLOWS
for the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Funds paid to Georgia Department of Community Health:		
Indigent Care Trust Fund	\$(3,567,004)	\$(3,676,472)
Upper payment limit	(778,802)	(1,502,937)
Funds received from Georgia Department of Community Health:		
Indigent Care Trust Fund	10,469,631	10,152,546
Upper payment limit	2,278,942	4,390,135
Lease revenue	100,000	-
Transfer of funds received from Georgia Department of Community Health to Phoebe Putney Memorial Hospital, Inc.	(8,402,767)	(9,363,272)
Payments to suppliers	(820,432)	(1,293,230)
Net cash used by operating activities	(720,432)	(1,293,230)
Cash flows from capital and related financing activities:		
Payments on short-term obligations	-	(17,316,845)
Cash flows from noncapital financing activities:		
Transfer from Phoebe Putney Memorial Hospital, Inc.	4,345,806	5,179,409
Transfer to Phoebe Putney Memorial Hospital, Inc.	(4,345,806)	(5,179,409)
Noncapital contributions	700,090	1,175,000
Net cash provided by noncapital financing activities	700,090	1,175,000
Net decrease in cash	(20,342)	(17,435,075)
Cash, beginning of year	213,343	17,648,418
Cash, end of year	\$ 193,001	\$ 213,343

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

STATEMENTS OF CASH FLOWS, Continued
for the years ended July 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash in current assets	\$ <u>193,001</u>	\$ <u>213,343</u>
Reconciliation of operating loss to net cash flows used by operating activities:		
Operating loss	\$(229,859)	\$(2,139,744)
Changes in:		
Accounts payable	(490,573)	946,514
Unearned revenue	<u>-</u>	<u>(100,000)</u>
Net cash used by operating activities	\$(<u>720,432</u>)	\$(<u>1,293,230</u>)

Supplemental disclosures of cash flow information:

- See Note 7 for additional information related to the lease of Palmyra to Phoebe Putney Memorial Hospital, Inc.

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS

July 31, 2014 and 2013

1. Summary of Significant Accounting Policies

Reporting Entity

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. (Corporation), a not-for-profit 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. 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, 2014, approximately \$297,525,000 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, 2014.

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 operated Palmyra under the name Phoebe North.

Effective August 1, 2012, the lease and transfer agreement between the Corporation and the Authority was amended and restated. The amendment was made for the transfer and inclusion of the hospital formerly known as Palmyra. The amendment included the extension of the lease for a term of forty years from the date of the current amendment. An annual lease payment is paid to the Authority. See Note 7 for additional information related to the lease of Palmyra to the Corporation.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

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.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

Net Position

Net position of the Authority is classified as *unrestricted net position*. *Unrestricted net position* is the remaining net amount of assets and liabilities that are not invested in capital assets and do not contain restrictions on their use.

Operating Revenues and Nonoperating Revenues

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues. Operating revenues result from the lease agreement with the Corporation. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition are reported as nonoperating revenues.

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 revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2013 financial statements to conform to the fiscal year 2014 presentation. These reclassifications had no impact on the change in net position in the accompanying financial statements.

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.

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HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2014 and 2013

1. Summary of Significant Accounting Policies, Continued

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.

2. 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, 2014 and 2013.

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

	<u>2014</u>	<u>2013</u>
Cash	\$ <u>193,001</u>	\$ <u>213,343</u>

3. Accounts Payable

Accounts payable reported as current liabilities by the Authority at July 31, 2014 and 2013 consisted of these amounts:

	<u>2014</u>	<u>2013</u>
Accounts payable:		
Payable to suppliers	\$ <u>264,047</u>	\$ <u>754,620</u>

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

July 31, 2014 and 2013

4. Capital Assets

Capital asset changes for the year ended July 31, 2013 were as follows:

	July 31, <u>2012</u>	<u>Increases</u>	<u>Decreases</u>	July 31, <u>2013</u>
Land	\$ 5,664,620	\$ -	\$ 5,664,620	\$ -
Construction-in-progress	<u>849,654</u>	<u>-</u>	<u>849,654</u>	<u>-</u>
Total capital assets not being depreciated	<u>6,514,274</u>	<u>-</u>	<u>6,514,274</u>	<u>-</u>
Land improvements	104,465	-	104,465	-
Buildings and improvements	25,058,287	-	25,058,287	-
Equipment	<u>6,533,599</u>	<u>-</u>	<u>6,533,599</u>	<u>-</u>
Total capital assets being depreciated	<u>31,696,351</u>	<u>-</u>	<u>31,696,351</u>	<u>-</u>
Less accumulated depreciation and amortization for:				
Land improvements	8,558	-	8,558	-
Buildings and improvements	1,189,039	-	1,189,039	-
Equipment	<u>1,429,058</u>	<u>-</u>	<u>1,429,058</u>	<u>-</u>
Total accumulated depreciation	<u>2,626,655</u>	<u>-</u>	<u>2,626,655</u>	<u>-</u>
Capital assets being depreciated, net	<u>29,069,696</u>	<u>-</u>	<u>29,069,696</u>	<u>-</u>
Total capital assets, net	\$ <u>35,583,970</u>	\$ <u>-</u>	\$ <u>35,583,970</u>	\$ <u>-</u>

No depreciation expense was recorded for the years ended July 31, 2014 and 2013.

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HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2014 and 2013

5. Short-Term Obligations

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

	<u>2012</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2013</u> <u>Balance</u>
Due to Phoebe Putney Memorial Hospital	\$ 3,006,703	\$ -	\$ 3,006,703	\$ -
Due to Phoebe Putney Health System	<u>214,886,360</u>	<u>-</u>	<u>214,886,360</u>	<u>-</u>
Total short-term obligations	<u>\$ 217,893,063</u>	<u>\$ -</u>	<u>\$ 217,893,063</u>	<u>\$ -</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.

6. 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 recognized was transferred to the Corporation through the lease and transfer of assets between the Authority and Corporation on August 1, 2012. No goodwill was reported on the balance sheet for the years ended July 31, 2014 and 2013.

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

July 31, 2014 and 2013

6. Goodwill, Continued

The changes in the carrying amount of goodwill for the year ended July 31, 2013 are as follows:

	<u>2013</u>
Balance at beginning of year:	
Goodwill	\$ 157,345,334
Accumulated impairment losses	-
	<u>157,345,334</u>
Goodwill acquired during the year	-
Impairment losses	-
Lease transfer to the Corporation	<u>(157,345,334)</u>
Balance at end of year:	
Goodwill	-
Accumulated impairment losses	<u>-</u>
Total	<u>\$ -</u>

7. Lease Amendment – Phoebe Putney Memorial Hospital, Inc.

On August 1, 2012, the Corporation leased Palmyra from the Authority. The following assets and liabilities were transferred to the Corporation pursuant to the lease:

Cash	\$ 17,316,845
Patient accounts receivable	9,092,766
Prepaid expenses, supplies, and other assets	3,178,373
Capital assets	35,583,970
Current liabilities	<u>(7,534,770)</u>
Net position transferred to the Corporation	57,637,184
Removal of associated goodwill	157,345,334
Gain on long-term lease	<u>2,910,545</u>
Satisfaction of the payable to the Corporation	<u>\$ 217,893,063</u>

Continued

HOSPITAL AUTHORITY OF ALBANY-DOUGHERTY COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

July 31, 2014 and 2013

8. 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.

9. Litigation

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