

HOSPITAL AUTHORITY OF WASHINGTON COUNTY



FINANCIAL STATEMENTS

for the years ended August 31, 2012 and 2011

## C O N T E N T S

---

	<u>Pages</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Financial Statements:	
Balance Sheets	9-10
Statements of Revenues, Expenses, and Changes in Net Assets	11-12
Statements of Cash Flows	13-14
Notes to Financial Statements	15-33
Required Supplementary Information	34

## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Hospital Authority of Washington County  
Sandersville, Georgia

We have audited the accompanying balance sheets of Hospital Authority of Washington County (Authority) as of August 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America. These 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 Washington County as of August 31, 2012 and 2011 and the results of its operations, 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

1

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 8 and the Schedule of Funding Progress for Defined Benefit Pension Plan on page 34 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*

Atlanta, Georgia  
February 24, 2014

# Washington County Regional Medical Center

P.O. Box 636 • 610 Sparta Road • Sandersville, GA 31082

478-240-2000 • [www.wcrmc.com](http://www.wcrmc.com)

## HOSPITAL AUTHORITY OF WASHINGTON COUNTY

### Management's Discussion and Analysis

August 31, 2012

---

Our discussion and analysis of Hospital Authority of Washington County's (Authority's) financial performance provides an overview of the Authority's financial activities for the fiscal years ended August 31, 2012 and 2011. Please read it in conjunction with the Authority's financial statements, which begin on page 9.

#### **Financial Highlights**

- The Authority's net assets decreased \$1,787,000 (40%) in 2012.
- The Authority reported operating losses of \$3,393,000 in 2012 and \$1,819,000 in 2011.
- The Authority received grants from Washington County totaling \$1,396,000 in 2012.

#### **Using This 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***

Our analysis of the Authority's finances is presented on the following pages. The balance sheet and statement of revenues, expenses, and changes in net assets report information about the Authority's resources and its activities. These statements include all assets and 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 patient base and measures of the quality of service provided to the community, as well as local economic factors to assess the overall health of the Authority.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Management's Discussion and Analysis, Continued  
August 31, 2012

*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 operating, 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?"

**The Authority's Net Assets**

The Authority's net assets are the difference between its assets and liabilities reported in the balance sheet. The Authority's net assets decreased in both 2012 and 2011 as you can see from Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Assets:</b>			
Current assets	\$ 4,663,000	\$ 6,831,000	\$ 7,216,000
Noncurrent cash and investments	511,000	1,018,000	1,367,000
Capital assets, net	5,285,000	5,423,000	4,738,000
Other noncurrent assets	<u>48,000</u>	<u>173,000</u>	<u>331,000</u>
<b>Total assets</b>	<b>\$ <u>10,507,000</u></b>	<b>\$ <u>13,445,000</u></b>	<b>\$ <u>13,652,000</u></b>
<b>Liabilities:</b>			
Current liabilities	\$ 4,625,000	\$ 4,973,000	\$ 4,400,000
Long-term liabilities	<u>3,173,000</u>	<u>3,976,000</u>	<u>4,248,000</u>
<b>Total liabilities</b>	<b>\$ <u>7,798,000</u></b>	<b>\$ <u>8,949,000</u></b>	<b>\$ <u>8,648,000</u></b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	\$ 3,520,000	\$ 3,041,000	\$ 2,207,000
Restricted for scholarships and education	14,000	14,000	14,000
Unrestricted	<u>( 825,000)</u>	<u>1,441,000</u>	<u>2,783,000</u>
<b>Total net assets</b>	<b>\$ <u>2,709,000</u></b>	<b>\$ <u>4,496,000</u></b>	<b>\$ <u>5,004,000</u></b>

A significant component of the change in the Authority's assets is the decrease in cash, both current and internally designated. Cash decreased due to using \$1,775,000 in operating activities and \$320,000 in capital and related financing activities.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Management's Discussion and Analysis, Continued  
August 31, 2012

**Operating Results and Changes in the Authority's Net Assets**

In 2012, the Authority's net assets decreased \$1,787,000 (40%). This decrease is made up of very different components as you can see from Table 2.

**Table 2: Operating Results and Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Operating revenues:</b>			
Net patient service revenue	\$ 24,521,000	\$ 26,971,000	\$ 27,423,000
EHR meaningful use incentive revenue	1,592,000	-	-
Other revenue	<u>468,000</u>	<u>460,000</u>	<u>529,000</u>
<b>Total operating revenues</b>	<b><u>26,581,000</u></b>	<b><u>27,431,000</u></b>	<b><u>27,952,000</u></b>
<b>Operating expenses:</b>			
Salaries and wages	14,518,000	14,272,000	13,620,000
Employee benefits	3,020,000	2,862,000	3,402,000
Purchased services and professional fees	4,574,000	4,291,000	3,966,000
Supplies and drugs	3,594,000	3,583,000	3,351,000
Depreciation and amortization	839,000	731,000	815,000
Other expense	<u>3,429,000</u>	<u>3,511,000</u>	<u>3,302,000</u>
<b>Total operating expenses</b>	<b><u>29,974,000</u></b>	<b><u>29,250,000</u></b>	<b><u>28,456,000</u></b>
<b>Operating income (loss)</b>	<b>( <u>3,393,000</u> )</b>	<b>( <u>1,819,000</u> )</b>	<b>( <u>504,000</u> )</b>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Management's Discussion and Analysis, Continued  
August 31, 2012

**Table 2: Operating Results and Changes in Net Assets, Continued**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>Nonoperating revenues (expenses):</b>			
Investment income	\$ 38,000	\$ 47,000	\$ 62,000
Interest expense	( 127,000)	( 136,000)	( 155,000)
Loss on disposal of capital assets	-	( 33,000)	-
Noncapital grants from Washington County	356,000	384,000	424,000
Other noncapital grants	<u>241,000</u>	<u>19,000</u>	<u>12,000</u>
<b>Total nonoperating revenues</b>	<b><u>508,000</u></b>	<b><u>281,000</u></b>	<b><u>343,000</u></b>
<b>Excess revenues (expenses) before capital grants and contributions</b>	<b>(2,885,000)</b>	<b>(1,538,000)</b>	<b>( 161,000)</b>
Capital grants from Washington County for bond interest payments	162,000	175,000	176,000
Sales tax proceeds from Washington County for capital acquisitions	878,000	840,000	750,000
Capital grants from federal government	-	-	150,000
Other capital contributions	<u>58,000</u>	<u>15,000</u>	<u>13,000</u>
<b>Change in net assets</b>	<b>(1,787,000)</b>	<b>( 508,000)</b>	<b>928,000</b>
<b>Net assets, beginning of year</b>	<b><u>4,496,000</u></b>	<b><u>5,004,000</u></b>	<b><u>4,076,000</u></b>
<b>Net assets, end of year</b>	<b>\$ <u>2,709,000</u></b>	<b>\$ <u>4,496,000</u></b>	<b>\$ <u>5,004,000</u></b>

Continued

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Management's Discussion and Analysis, Continued August 31, 2012

---

### ***Operating Income (Loss)***

The first component of the overall change in the Authority's net assets is its operating income (loss) – generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Authority incurred operating losses of \$3,393,000 in 2012 and \$1,819,000 in 2011. Operating revenues decreased 3% while operating expenses increased 2% in 2012.

Net patient service revenue decreased \$2,450,000 (9%) in 2012. The decrease in revenue is due to a \$1,351,000 (26%) increase in provision for bad debts. The increase in bad debts is attributable to the United States economy continuing to be in a recession and the Georgia unemployment rate exceeding 9% for all of fiscal year 2012. Also, the Authority received less ICTF in 2012 as discussed in Note 2 to the financial statements. The Authority received its first EHR meaningful use incentive revenues from Medicare and Medicaid in 2012 as discussed in Note 15.

Operating expenses increased \$724,000 (2%) in 2012. Salaries and wages increased \$246,000 (2%), and purchased services and professional fees increased \$283,000 (7%).

### ***Nonoperating Revenues and Expenses***

Investment income consists primarily of earnings on cash accounts. There was a \$9,000 (19%) decrease in investment income in 2012.

Interest expense decreased \$9,000 (7%) due to the decrease in long-term debt as reflected in Note 9 to the financial statements.

### ***Grants and Contributions***

The Authority receives both capital and operating grants from Washington County and others. The Authority received a total of \$1,396,000 and \$1,399,000 in grants from Washington County in 2012 and 2011, respectively.

### ***The Authority's Cash Flow***

The Authority used \$1,775,000 in operating activities during 2012. Also in 2012, the Authority had cash flows from noncapital financing activities, mainly noncapital grants, of \$293,000 and cash flows from investing activities of \$32,000. The Authority used \$320,000 in capital and related financing activities, primarily for payments on long-term debt, during 2012.

Continued

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Management's Discussion and Analysis, Continued August 31, 2012

---

### **Capital Asset and Debt Administration**

#### *Capital Assets*

At August 31, 2012, the Authority had \$5,285,000 invested in capital assets, net of accumulated depreciation as detailed in Note 7 to the financial statements. In 2012, the Authority acquired new capital assets costing \$702,000. Significant acquisitions in 2012 included electronic health records software.

#### *Debt*

At August 31, 2012, the Authority had \$2,319,000 in revenue bonds, bank loans and capital lease obligations outstanding as detailed in Note 8 and Note 9 to the financial statements. The Authority obtained new capital leases in 2012 for \$140,000 to finance the purchase of UPS and ECG equipment, as well as other projects.

### **Contacting the Authority's Management**

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Authority at Washington County Regional Medical Center, P.O. Box 636, Sandersville, GA 31082.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Balance Sheets  
August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 1,063,000	\$ 2,320,000
Patient accounts receivable, net of estimated uncollectibles of \$7,440,000 in 2012 and \$4,999,000 in 2011	2,862,000	3,672,000
Supplies, at lower of cost (first-in, first-out) or market	476,000	453,000
Other current assets	<u>262,000</u>	<u>386,000</u>
Total current assets	<u>4,663,000</u>	<u>6,831,000</u>
<i>Noncurrent cash and investments:</i>		
Restricted for scholarships and education	14,000	14,000
Internally designated	435,000	948,000
Other long-term investments	<u>62,000</u>	<u>56,000</u>
Total noncurrent cash and investments	<u>511,000</u>	<u>1,018,000</u>
<i>Capital assets:</i>		
Land	117,000	117,000
Construction-in-progress	56,000	53,000
Depreciable capital assets, net of accumulated depreciation	<u>5,112,000</u>	<u>5,253,000</u>
Total capital assets, net of accumulated depreciation	<u>5,285,000</u>	<u>5,423,000</u>
<i>Other assets:</i>		
Deferred financing costs	2,000	6,000
Physician and student loan receivable, net	<u>46,000</u>	<u>167,000</u>
Total other assets	<u>48,000</u>	<u>173,000</u>
Total assets	<u>\$ 10,507,000</u>	<u>\$ 13,445,000</u>

	<u>2012</u>	<u>2011</u>
<b>Liabilities and Net Assets</b>		
<i>Current liabilities:</i>		
Short-term obligations	\$ 552,000	\$ 599,000
Current maturities of long-term debt	744,000	724,000
Accounts payable	2,002,000	1,856,000
Accrued expenses	913,000	1,175,000
Estimated third-party payor settlements	<u>414,000</u>	<u>619,000</u>
Total current liabilities	4,625,000	4,973,000
Long-term debt, net of current maturities	1,023,000	1,664,000
Accrued pension cost	<u>2,150,000</u>	<u>2,312,000</u>
Total liabilities	<u>7,798,000</u>	<u>8,949,000</u>
<i>Net assets (deficit):</i>		
Invested in capital assets, net of related debt	3,520,000	3,041,000
Restricted for scholarships and education	14,000	14,000
Unrestricted	<u>( 825,000)</u>	<u>1,441,000</u>
Total net assets	<u>2,709,000</u>	<u>4,496,000</u>
Total liabilities and net assets	<u>\$ 10,507,000</u>	<u>\$ 13,445,000</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Revenues, Expenses, and Changes in Net Assets  
Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$6,588,000 in 2012 and \$5,237,000 in 2011)	\$ 24,521,000	\$ 26,971,000
EHR meaningful use incentive revenue	1,592,000	-
Other revenue	<u>468,000</u>	<u>460,000</u>
Total operating revenues	<u>26,581,000</u>	<u>27,431,000</u>
Operating expenses:		
Salaries and wages	14,518,000	14,272,000
Employee benefits	3,020,000	2,862,000
Purchased services and professional fees	4,574,000	4,291,000
Supplies and drugs	3,594,000	3,583,000
Depreciation and amortization	839,000	731,000
Other expense	<u>3,429,000</u>	<u>3,511,000</u>
Total operating expenses	<u>29,974,000</u>	<u>29,250,000</u>
Operating loss	( <u>3,393,000</u> )	( <u>1,819,000</u> )
Nonoperating revenues (expenses):		
Investment income	38,000	47,000
Interest expense	( 127,000 )	( 136,000 )
Loss on disposal of capital assets	-	( 33,000 )
Noncapital grants from Washington County	356,000	384,000
Other noncapital grants	<u>241,000</u>	<u>19,000</u>
Total nonoperating revenues	<u>508,000</u>	<u>281,000</u>
Excess revenues (expenses) before capital grants and contributions	( 2,885,000 )	( 1,538,000 )

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Revenues, Expenses, and Changes in Net Assets, Continued  
Years Ended August 31, 2012 and 2011

---

	<u>2012</u>	<u>2011</u>
Capital grants from Washington County for bond interest payments	\$ 162,000	\$ 175,000
Sales tax proceeds from Washington County for capital acquisitions	878,000	840,000
Other capital contributions	<u>58,000</u>	<u>15,000</u>
Change in net assets	(1,787,000)	( 508,000)
Net assets, beginning of year	<u>4,496,000</u>	<u>5,004,000</u>
Net assets, end of year	\$ <u>2,709,000</u>	\$ <u>4,496,000</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Cash Flows  
Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 25,126,000	\$ 27,790,000
Payments to suppliers and contractors	(11,241,000)	(11,161,000)
Payments to employees	(17,720,000)	(17,718,000)
EHR meaningful use incentive receipts	1,592,000	-
Other receipts	<u>468,000</u>	<u>460,000</u>
Net cash used by operating activities	<u>( 1,775,000)</u>	<u>( 629,000)</u>
Cash flows from noncapital financing activities:		
Proceeds from issuance of short-term obligation	158,000	154,000
Principal paid on short-term obligations	( 205,000)	( 55,000)
Interest paid on short-term obligations	( 27,000)	( 23,000)
Noncapital grants from Washington County	356,000	384,000
Other noncapital grants	<u>11,000</u>	<u>19,000</u>
Net cash provided by noncapital financing activities	<u>293,000</u>	<u>479,000</u>
Cash flows from capital and related financing activities:		
Capital grants from Washington County for bond interest payments	162,000	175,000
Sales tax proceeds from Washington County for capital acquisitions	878,000	840,000
Other capital contributions	58,000	15,000
Proceeds from issuance of long-term debt	-	300,000
Principal paid on long-term debt	( 761,000)	( 710,000)
Interest paid on long-term debt	( 96,000)	( 108,000)
Purchase of capital assets	( 561,000)	( 1,197,000)
Proceeds from sale of capital assets	<u>-</u>	<u>4,000</u>
Net cash used by capital and related financing activities	<u>( 320,000)</u>	<u>( 681,000)</u>
Cash flows from investing activities:		
Investment income	<u>32,000</u>	<u>41,000</u>
Net change in cash and cash equivalents	<u>( 1,770,000)</u>	<u>( 790,000)</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Cash Flows, Continued  
Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents, beginning of year	\$ <u>3,268,000</u>	\$ <u>4,058,000</u>
Cash and cash equivalents, end of year	\$ <u>1,498,000</u>	\$ <u>3,268,000</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 1,063,000	\$ 2,320,000
Cash and cash equivalents in noncurrent cash and investments:		
Internally designated	<u>435,000</u>	<u>948,000</u>
Total cash and cash equivalents	\$ <u>1,498,000</u>	\$ <u>3,268,000</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$(3,393,000)	\$(1,819,000)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	839,000	731,000
Provision for bad debts	6,588,000	5,237,000
Changes in:		
Patient accounts receivable	(5,778,000)	(5,232,000)
Estimated third-party payor settlements	( 205,000)	814,000
Supplies	( 23,000)	( 16,000)
Other current assets	124,000	( 234,000)
Physician and student loan receivable	121,000	153,000
Accounts payable	146,000	59,000
Accrued expenses	( 32,000)	( 230,000)
Accrued pension cost	<u>( 162,000)</u>	<u>( 92,000)</u>
Net cash used by operating activities	\$ <u>(1,775,000)</u>	\$ <u>( 629,000)</u>

Noncash capital and financing activities:

- The Authority entered into capital lease obligations of \$140,000 and \$256,000 for new equipment in 2012 and 2011, respectively.

See accompanying notes to financial statements.

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Notes to Financial Statements August 31, 2012 and 2011

---

### **1. Description of Reporting Entity and Summary of Significant Accounting Policies**

*Reporting entity.* The Hospital Authority of Washington County (Authority), is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. It was created on March 4, 1957 by the Commissioners of Washington County, Georgia to operate, control, and manage all matters concerning the county's health care functions. The Authority owns and operates Washington County Regional Medical Center, a fifty-six (56) bed acute care hospital, and Washington County Extended Care Facility, a sixty (60) bed long-term care facility.

*Use of estimates.* The preparation of financial statements in conformity with generally accepted accounting principles 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.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, estimated third-party payor settlements, and actuarially determined benefit liabilities. In particular, 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 associated with these programs will change by a material amount in the near term.

*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 Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

*Risk management.* The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

*Cash and cash equivalents.* Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

---

**1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued**

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

*Noncurrent cash and investments.* Noncurrent cash and investments include restricted contributions that are to be used for providing educational scholarships, assets internally designated for capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and other stock received as payment on a receivable.

*Investments in debt and equity securities.* Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

*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.

*Capital assets.* The Authority's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 To 20 Years
Buildings and building improvements	20 To 40 Years
Equipment, computers and furniture	3 To 10 Years

The Authority evaluates capital assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying value. The Authority has not recorded any impairment charges during 2012 or 2011.

Continued

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Notes to Financial Statements August 31, 2012 and 2011

---

### 1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

*Costs of borrowing.* Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Authority's interest cost was capitalized in either 2012 or 2011.

Costs incurred in connection with the issuance of bonds and notes are deferred and amortized over the term of the related debt using the straight-line method, which approximates the effective interest method.

*Compensated absences.* The Authority's employees earn paid days off (PDO) at varying rates depending on years of service. Employees who retire or resign in good standing receive payment for accumulated PDO. Employees do not receive payment for extended illness bank hours upon retirement or resignation. The estimated amount of PDO's payable is reported as a current liability in 2012 and 2011.

*Net assets.* Net assets of the Authority are classified into three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

*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 taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

*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. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

---

**1. Description of Reporting Entity and 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 revenue.

*Grants and contributions.* From time to time, the Authority receives grants from Washington County, the State of Georgia and the federal government, as well as contributions from individuals and private organizations. 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 revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

*Income taxes.* The Authority is a governmental entity and is recognized as tax-exempt. Accordingly, no provision for income taxes has been provided.

*Recently issued accounting pronouncements.* The GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in December 2010. GASB Statement No. 62 incorporates FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, issued on or before November 30, 1989, which do not conflict or contradict with GASB pronouncements into the GASB authoritative literature. The Authority expects to adopt this GASB Statement in fiscal year 2013.

The GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in June 2011. GASB Statement No. 63 provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position. The Authority expects to adopt this GASB Statement in fiscal year 2013.

The GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in April 2012. GASB Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current-period outflows and inflows. The Authority expects to adopt this GASB Statement in fiscal year 2014.

Continued

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Notes to Financial Statements August 31, 2012 and 2011

---

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

- *Medicare.* Inpatient services, outpatient services and long-term care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain reimbursable items are reimbursed 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 Medicare cost reports have been settled by the MAC through August 31, 2008. Revenue from the Medicare program accounted for 52% and 53% of the Authority's net patient service revenue for the years ended August 31, 2012 and 2011, respectively.
- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services are generally paid under a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items 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. The Authority's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through August 31, 2009. Long-term care services rendered to Medicaid program beneficiaries are reimbursed based on a prospectively determined per diem rate. The per diem rate is determined by the extended care facility's historical allowable operating costs adjusted for certain incentives, inflation factors, and patient acuity factors. Revenue from the Medicaid program accounted for approximately 33% and 28% of the Authority's net patient service revenue for the years ended August 31, 2012 and 2011, respectively.

The Authority has also entered into contracts with certain care management organizations (CMO's) to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these CMO's consist primarily of prospectively determined rates per discharge and discounts from established charges.

The Authority participates in the Indigent Care Trust Fund (ICTF) Program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Authority's estimated uncompensated cost of services to Medicaid and uninsured patients. The net amount of ICTF payments recognized in net patient service revenues was approximately \$783,000 and \$934,000 for the years ended August 31, 2012 and 2011, respectively.

Continued

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Notes to Financial Statements August 31, 2012 and 2011

---

### **2. Net Patient Service Revenue, Continued**

- *Medicaid, Continued.* The Authority also participates in the Medicaid Upper Payment Limit (UPL) program. The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$496,000 and \$276,000 for the years ended August 31, 2012 and 2011, respectively.

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 provider payments are due on a quarterly basis to the State of Georgia. 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 will result in a corresponding increase in Medicaid payments for hospital services of approximately 11.88%. The Authority made provider payments to the State of Georgia of approximately \$284,000 and \$230,000 in 2012 and 2011, respectively. The payments are included in other expense in the accompanying statements of revenues, expenses and changes in net assets.

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

### **3. Charity Care**

Charges excluded from revenue under the Authority’s charity care policy were approximately \$846,000 and \$899,000 for the years ended August 31, 2012 and 2011, respectively.

### **4. Restricted and Designated Net Assets**

The Authority has received restricted contributions that are to be used for providing educational scholarships.

Of the \$(825,000) and \$1,441,000 of unrestricted net assets (deficit) reported in 2012 and 2011, respectively, \$435,000 in 2012 and \$948,000 in 2011 has been designated by the Authority’s Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees who may at its discretion later use the funds for other purposes.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

**5. Deposits and Investments**

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. At August 31, 2012 and 2011, the Authority's deposits were entirely insured or collateralized.

The carrying amounts of deposits and investments are included in the Authority's balance sheets as follows:

	<u>2012</u>	<u>2011</u>
Deposits	\$ 1,512,000	\$ 3,282,000
Investments	<u>62,000</u>	<u>56,000</u>
Total	<u>\$ 1,574,000</u>	<u>\$ 3,338,000</u>

Included in the following balance sheet captions:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,063,000	\$ 2,320,000
Restricted for scholarships and education	14,000	14,000
Internally designated	435,000	948,000
Other long-term investments	<u>29,000</u>	<u>56,000</u>
Total	<u>\$ 2,915,000</u>	<u>\$ 3,338,000</u>

The Authority's investments are reported at fair value. At August 31, 2012 and 2011, the Authority's investments consisted of the following:

	<u>2012</u>	<u>2011</u>
The Southern Company common stock	\$ <u>62,000</u>	\$ <u>56,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

**6. Accounts Receivable and Payable**

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

	<u>2012</u>	<u>2011</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 8,027,000	\$ 6,389,000
Receivable from Medicare	1,406,000	1,424,000
Receivable from Medicaid	<u>869,000</u>	<u>858,000</u>
Total patient accounts receivable	10,302,000	8,671,000
Less allowance for uncollectible amounts	<u>7,440,000</u>	<u>4,999,000</u>
Patient accounts receivable, net	\$ <u>2,862,000</u>	\$ <u>3,672,000</u>

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor settlements.

	<u>2012</u>	<u>2011</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 884,000	\$ 888,000
Payable to suppliers	2,002,000	1,856,000
Other	<u>29,000</u>	<u>287,000</u>
Total accounts payable and accrued expenses	\$ <u>2,915,000</u>	\$ <u>3,031,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

7. **Capital Assets**

Capital asset additions, retirements, and balances for the years ended August 31, 2012 and 2011 are as follows:

	<u>Balance</u> <u>August 31, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2012</u>
Land	\$ 117,000	\$ -	\$ -	\$ 117,000
Construction-in-progress	<u>53,000</u>	<u>3,000</u>	<u>-</u>	<u>56,000</u>
Total nondepreciable capital assets	<u>170,000</u>	<u>3,000</u>	<u>-</u>	<u>173,000</u>
Land improvements	381,000	-	-	381,000
Buildings and improvements	12,329,000	81,000	-	12,410,000
Equipment	<u>13,976,000</u>	<u>618,000</u>	<u>( 1,000)</u>	<u>14,593,000</u>
Total depreciable capital assets at historical cost	<u>26,686,000</u>	<u>699,000</u>	<u>( 1,000)</u>	<u>27,384,000</u>
Less accumulated depreciation for:				
Land improvements	( 360,000)	( 5,000)	-	( 365,000)
Buildings and improvements	( 9,052,000)	(252,000)	-	( 9,304,000)
Equipment	<u>(12,021,000)</u>	<u>(582,000)</u>	<u>-</u>	<u>(12,603,000)</u>
Total accumulated depreciation	<u>(21,433,000)</u>	<u>(839,000)</u>	<u>-</u>	<u>(22,272,000)</u>
Net depreciable capital assets	<u>5,253,000</u>	<u>(140,000)</u>	<u>( 1,000)</u>	<u>5,112,000</u>
Total capital assets, net	\$ <u>5,423,000</u>	\$ <u>(137,000)</u>	\$ <u>( 1,000)</u>	\$ <u>5,285,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

7. Capital Assets, Continued

	<u>Balance</u> <u>August 31, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2011</u>
Land	\$ 117,000	\$ -	\$ -	\$ 117,000
Construction-in-progress	<u>-</u>	<u>53,000</u>	<u>-</u>	<u>53,000</u>
Total nondepreciable capital assets	<u>117,000</u>	<u>53,000</u>	<u>-</u>	<u>170,000</u>
Land improvements	378,000	3,000	-	381,000
Buildings and improvements	12,090,000	278,000	( 39,000)	12,329,000
Equipment	<u>12,963,000</u>	<u>1,119,000</u>	<u>(106,000)</u>	<u>13,976,000</u>
Total depreciable capital assets at historical cost	<u>25,431,000</u>	<u>1,400,000</u>	<u>(145,000)</u>	<u>26,686,000</u>
Less accumulated depreciation for:				
Land improvements	( 355,000)	( 5,000)	-	( 360,000)
Buildings and improvements	( 8,777,000)	( 277,000)	2,000	( 9,052,000)
Equipment	<u>(11,678,000)</u>	<u>( 449,000)</u>	<u>106,000</u>	<u>(12,021,000)</u>
Total accumulated depreciation	<u>(20,810,000)</u>	<u>( 731,000)</u>	<u>108,000</u>	<u>(21,433,000)</u>
Net depreciable capital assets	<u>4,621,000</u>	<u>669,000</u>	<u>( 37,000)</u>	<u>5,253,000</u>
Total capital assets, net	\$ <u>4,738,000</u>	\$ <u>722,000</u>	\$ <u>( 37,000)</u>	\$ <u>5,423,000</u>

Construction-in-progress consists of building renovation costs.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

**8. Short-Term Obligations**

A schedule of changes in the Authority's short-term obligations for 2012 and 2011 follows:

	<u>Balance</u> <u>August 31, 2011</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>August 31, 2012</u>
Citizens	\$ 500,000	\$ -	\$( 50,000)	\$ 450,000
First Insurance	<u>99,000</u>	<u>158,000</u>	<u>(155,000)</u>	<u>102,000</u>
Total	<u>\$ 599,000</u>	<u>\$ 158,000</u>	<u>\$(205,000)</u>	<u>\$ 552,000</u>
	<u>Balance</u> <u>August 31, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>August 31, 2011</u>
Citizens	\$ 500,000	\$ -	\$ -	\$ 500,000
First Insurance	<u>-</u>	<u>154,000</u>	<u>( 55,000)</u>	<u>99,000</u>
Total	<u>\$ 500,000</u>	<u>\$ 154,000</u>	<u>\$( 55,000)</u>	<u>\$ 599,000</u>

The terms and purposes of the Authority's short-term obligations follow:

- Citizens Bank of Washington County – Note payable used to fund intergovernmental transfer related to ICTF funding. The original note was issued December 12, 2008 with annual renewals. The note was renewed again on January 6, 2011, with a maturity date of January 5, 2012, and an interest rate of 4.65%. On February 8, 2012, the note was renewed with a maturity date of February 9, 2013, and an interest rate of 4.65%. The note is secured by deposit accounts. Interest on the note is paid monthly while the principal is due at maturity.
- First Insurance Funding Corp. – Notes payable used to finance insurance premiums. The note entered into during 2011 bears interest at 5.60%, is payable in eleven monthly payments of approximately \$14,000, and is secured by the premiums financed. The note entered into during 2012 bears interest at 5.85%, is payable in eleven monthly payments of approximately \$15,000, and is secured by the premiums financed.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

**9. Long-Term Debt**

A schedule of changes in the Authority's long-term debt for 2012 and 2011 follows:

	Balance <u>August 31, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>August 31, 2012</u>	Amounts Due Within <u>One Year</u>
Bonds:					
1998	\$ 1,630,000	\$ -	\$(515,000)	\$ 1,115,000	\$ 545,000
Notes payable:					
Citizens (a)	24,000	-	( 24,000)	-	-
Citizens (b)	288,000	-	( 25,000)	263,000	27,000
Citizens (c)	39,000	-	( 18,000)	21,000	18,000
Queensborough	35,000	-	( 22,000)	13,000	13,000
Capital lease obligations	<u>372,000</u>	<u>140,000</u>	<u>(157,000)</u>	<u>355,000</u>	<u>141,000</u>
Total long-term debt	\$ <u>2,388,000</u>	\$ <u>140,000</u>	\$ <u>(761,000)</u>	\$ <u>1,767,000</u>	\$ <u>744,000</u>

	Balance <u>August 31, 2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>August 31, 2011</u>	Amounts Due Within <u>One Year</u>
Bonds:					
1998	\$ 2,125,000	\$ -	\$(495,000)	\$ 1,630,000	\$ 515,000
Notes payable:					
Citizens (a)	51,000	-	( 27,000)	24,000	24,000
Citizens (b)	-	300,000	( 12,000)	288,000	25,000
Citizens (c)	56,000	-	( 17,000)	39,000	18,000
Queensborough	56,000	-	( 21,000)	35,000	22,000
Capital lease obligations	<u>254,000</u>	<u>256,000</u>	<u>(138,000)</u>	<u>372,000</u>	<u>120,000</u>
Total long-term debt	\$ <u>2,542,000</u>	\$ <u>556,000</u>	\$ <u>(710,000)</u>	\$ <u>2,388,000</u>	\$ <u>724,000</u>

The terms and due dates of the Authority's long-term debt at August 31, 2012 and 2011, follows:

- 1998 Bonds - 3.50% to 4.85% 1998 Revenue Anticipation Improvement Certificates, principal maturing in varying annual amounts, due September 1, 2013, collateralized by a pledge of the Authority's gross revenues.
- Citizens Bank of Washington County (a) – 5.25% note payable, payable in monthly installments of \$2,000, due June 20, 2012, collateralized by equipment.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

**9. Long-Term Debt, Continued**

- Citizens Bank of Washington County (b) – 4.00% note payable, payable in monthly installments of \$3,000 and balance due at maturity, due February 20, 2016, collateralized by equipment.
- Citizens Bank of Washington County (c) – 3.57% note payable, payable in monthly installments of \$2,000, due October 15, 2013, collateralized by equipment.
- Queensborough National Bank and Trust Company – 4.00% note payable, payable in monthly installments of \$2,000, due March 23, 2013, collateralized by equipment.
- Capital lease obligations, at varying rates of imputed interest from 2.93% to 5.39%, collateralized by leased equipment with a cost of \$718,000 and accumulated amortization of \$372,000 at August 31, 2012.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

<u>Year Ending August 31:</u>	<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 603,000	\$ 51,000	\$ 141,000	\$ 12,000
2014	601,000	23,000	105,000	7,000
2015	28,000	8,000	74,000	3,000
2016	<u>180,000</u>	<u>4,000</u>	<u>35,000</u>	<u>1,000</u>
Total	\$ <u>1,412,000</u>	\$ <u>86,000</u>	\$ <u>355,000</u>	\$ <u>23,000</u>

The Series 1998 Certificates maturing on or after September 1, 2008 are subject to optional redemption in inverse order of maturity at the redemption prices set forth below, plus accrued interest:

<u>Redemption Period</u>	<u>Redemption Price</u>
September 1, 2009 and Thereafter	100%

The 1998 Bonds require monies be deposited into a Sinking Fund and a Debt Service Reserve Fund. The Sinking Fund and Debt Service Reserve Fund must maintain required balances. At August 31, 2012, the required balances of the Sinking Fund and Debt Service Reserve Fund were \$572,000 and \$300,000, respectively. As of August 31, 2012, the Authority had not deposited monies into these separate Funds and the Funds did not have the required balances.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

**10. Defined Benefit Pension Plan**

*Plan description.* The Authority has a defined benefit pension plan covering substantially all of its employees. The plan provides retirement, disability and death benefits to plan members and beneficiaries. The plan is a single employer pension plan and the Authority is providing for the cost of this plan as benefits are accrued based upon actuarial determinations employing the aggregate cost method. Effective March 10, 2004, the Authority elected to freeze the plan. Benefits will not accrue for wages and services subsequent to that date. For more information on the defined benefit pension plan, please contact the Authority at Washington County Regional Medical Center, P. O. Box 636, Sandersville, Georgia 31082.

*Funding policy.* Plan members are not required to make contributions to the plan. The Authority's contribution requirements are determined based on actuarial determinations and are funded by the Authority at its discretion.

*Annual pension cost and net pension obligation.* The Authority's annual pension cost and net pension obligation at August 31, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 279,000	\$ 269,000
Interest on net pension obligation	116,000	122,000
Adjustment to annual required contribution	( 177,000)	( 183,000)
Annual pension cost	218,000	208,000
Contributions made	( 380,000)	( 300,000)
Decrease in net pension obligation	( 162,000)	( 92,000)
Net pension obligation, beginning of year	<u>2,312,000</u>	<u>2,404,000</u>
Net pension obligation, end of year	<u>\$ 2,150,000</u>	<u>\$ 2,312,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

**10. Defined Benefit Pension Plan, Continued**

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the aggregate cost method. The actuarial assumptions included (a) 6.75% pre-retirement investment rate of return (net of administrative expenses) and (b) 6.75% post-retirement return. There were no projected salary increases due to the plan being frozen effective March 10, 2004. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a four-year period.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
August 31, 2010	\$ 231,000	100%	\$ 2,404,000
August 31, 2011	\$ 208,000	100%	\$ 2,312,000
August 31, 2012	\$ 218,000	100%	\$ 2,150,000

*Funded status and funding progress.* The funded status of the plan as of January 1, 2012, the most recent actuarial valuation date is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
January 1, 2012	\$ <u>1,355,000</u>	\$ <u>2,594,000</u>	\$ <u>1,239,000</u>	<u>52%</u>	N/A	N/A

Because the aggregate cost method does not identify or separately amortize the unfunded actuarial accrued liabilities, information about the plan's funded status and funding progress is prepared using the entry age actuarial cost method. The information is intended to serve as a surrogate for the funded status and funding progress of the plan.

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Continued

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Notes to Financial Statements August 31, 2012 and 2011

---

### **11. Defined Contribution Plan**

Effective March 1, 2004, the Authority adopted the Hospital Authority of Washington County 403(b) Plan (Plan), a defined contribution plan. Employees must work 20 or more hours per week to be eligible to participate in the Plan. Employees must complete 1 hour of service to make elective deferrals to the Plan and must complete 3 months of service and attain the age of 18 to receive matching and non-elective contributions to the Plan. Employees are 100% vested in elective deferrals made to the Plan. For matching and non-elective contributions to the Plan, employees are 50% vested after one year of service and 100% vested after two years of service.

Employees may make elective deferrals to the Plan up to 100% of their compensation, except that elective deferrals for any calendar year cannot exceed the annual dollar limit permitted by the Internal Revenue Code. Employee elective deferrals to the Plan during 2012 and 2011 were approximately \$176,000 and \$188,000, respectively.

The Authority makes matching contributions to the Plan in an amount equal to \$.50 for each \$1.00 the employee elects to defer up to a maximum matching contribution of \$500. The Authority may also make additional non-elective contributions at its discretion. During 2012 and 2011, the Authority made matching contributions to the Plan of \$38,000 and \$42,000, respectively. The Authority did not make any non-elective contributions to the Plan in 2012 or 2011.

### **12. Physician and Student Loan Receivables**

Physician receivables consist primarily of advances to physicians under recruiting arrangements. In general, the advances are forgiven over a period of time during which the physicians practice medicine in the Authority's service area. If the physician ceases to practice medicine in the Authority's service area, the outstanding balance becomes due immediately. The amount of physician receivables forgiven and charged to expense during the years ended August 31, 2012 and 2011 was \$37,000 and \$213,000, respectively.

Student loans consist primarily of loans to students entering the medical field who agree to become employees of the Authority. Generally, the loans are forgiven during the term of employment with the Authority. If the student ceases employment with the Authority, the outstanding balance becomes due immediately. The amount of student loan receivables forgiven and charged to expense was \$7,000 during the years ended August 31, 2012 and 2011, respectively.

Continued

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Notes to Financial Statements August 31, 2012 and 2011

---

### 13. Contingencies

*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.

*Insurance arrangements.* The Authority has claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. The insurance policies have limits of \$1,000,000 per claim/occurrence and \$3,000,000 annual aggregate. The Authority's deductible for the professional liability policy is \$50,000 for individual claims. The Authority has also purchased excess liability insurance coverage with a policy limit of \$1,000,000 per claim and \$1,000,000 annual aggregate. Estimated accruals for claims incurred but not reported have been recorded.

*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 at the national and the 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.

### 14. Fair Value of Financial Instruments

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

- *Cash and cash equivalents:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates their fair value.
- *Noncurrent cash and investments:* Fair value of common stock, which is the amount reported in the balance sheet, is based on quoted market prices.
- *Accounts payable and accrued expenses:* The carrying amounts reported in the balance sheet for accounts payable and accrued expenses approximates their 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.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements  
August 31, 2012 and 2011

**14. Fair Value of Financial Instruments, Continued**

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

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

	2012		2011	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 1,063,000	\$ 1,063,000	\$ 2,320,000	\$ 2,320,000
Noncurrent cash and investments	\$ 511,000	\$ 511,000	\$ 1,018,000	\$ 1,018,000
Accounts payable and accrued expenses	\$ 2,915,000	\$ 2,915,000	\$ 3,031,000	\$ 3,031,000
Estimated third-party payor settlements	\$ 414,000	\$ 414,000	\$ 619,000	\$ 619,000
Short-term obligations	\$ 552,000	\$ 552,000	\$ 599,000	\$ 599,000
Long-term debt	\$ 1,412,000	\$ 1,413,000	\$ 2,016,000	\$ 2,016,000

Continued

# HOSPITAL AUTHORITY OF WASHINGTON COUNTY

## Notes to Financial Statements August 31, 2012 and 2011

---

### **15. Electronic Health Record Incentive Payments**

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. Beginning with federal fiscal year (FFY) 2011 and extending through FFY 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in Medicare reimbursements beginning in FFY 2015. On July 13, 2010, the Department of Health and Human Services (DHHS) released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages: I, II and III. The final rules specify the initial criteria for physicians and eligible hospitals necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

The final rule set the earliest interim payment date for the incentive payment at May 2011. The first year of the Medicare portion of the program is defined as the federal government fiscal year October 1, 2010 to September 30, 2011.

The Authority recognizes income related to Medicare and Medicaid incentive payments using a contingency model. Under this model, the income from the incentive payments would be recorded entirely in the period in which the last remaining contingency is resolved.

During 2012, the Authority attested that it met all requirements to receive Medicare and Medicaid incentive payments. The Authority's attestations were approved by Medicare and Medicaid, and the accompanying financial statements reflect Medicare incentive payments received for 2012 totaling \$1,153,000, and Medicaid incentive payments received for 2012 totaling \$439,000. This amount is included with total operating revenues on the statement of revenues, expenses, and changes in net assets. Also, if the Authority satisfies specified meaningful use criteria in future periods, they may become entitled to additional Medicare incentive payments, as well as Medicaid incentive payments; however, as they have not met these specific requirements as of August 31, 2012, no such additional amounts are accrued.

REQUIRED SUPPLEMENTARY INFORMATION

---

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Required Supplementary Information  
August 31, 2012 and 2011

Schedule of Funding Progress for Defined Benefit Pension Plan

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
January 1, 2010	\$ 1,494,000	\$ 2,556,000	\$ 1,062,000	58%	N/A	N/A
January 1, 2011	\$ 1,461,000	\$ 2,559,000	\$ 1,098,000	57%	N/A	N/A
January 1, 2012	\$ 1,355,000	\$ 2,594,000	\$ 1,239,000	52%	N/A	N/A

See independent auditor's report.