HOSPITAL AUTHORITY OF WASHINGTON COUNTY

FINANCIAL STATEMENTS

for the years ended August 31, 2013 and 2012

CONTENTS

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Member:
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hospital Authority of Washington County (Authority), which comprise the balance sheets as of August 31, 2013 and 2012, 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

P.O. Box 71309
2617 Gillionville Road
Albany, GA 31708-1309
Tel. (229) 883-7878
Fax (229) 435-3152

Five Concourse Parkway
Suite 1250
Atlanta, GA 30328
Tel. (404) 220-8494
Fax (229) 435-3152

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 Washington County as of August 31, 2013 and 2012, and the results of its operations, the changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13, management has outlined its plan to improve the financial position of the Authority during 2014. Our opinion is not modified with respect to that matter.

Other Matter

Required Supplementary Information

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 36 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

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Management's Discussion and Analysis
August 31, 2013

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, 2013 and 2012. Please read it in conjunction with the Authority's financial statements, which begin on page 9.

Financial Highlights

- The Authority's net position decreased $1,614,000 (60%) in 2013.
- The Authority reported operating losses of $2,641,000 in 2013 and $3,393,000 in 2012.
- The Authority received grants from Washington County totaling $1,075,000 in 2013.

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 position; 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 Position

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 position 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 position and changes in it. You can think of the Authority's net position – 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 position 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

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 Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position decreased in both 2013 and 2012 as you can see from Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets:			
Current assets	$ 4,927,000	$ 4,663,000	$ 6,831,000
Noncurrent cash and investments	126,000	511,000	1,018,000
Capital assets, net	4,982,000	5,285,000	5,423,000
Other noncurrent assets	17,000	48,000	173,000
Total assets	**$ 10,052,000**	**$ 10,507,000**	**$ 13,445,000**
Liabilities:			
Current liabilities	$ 6,411,000	$ 4,625,000	$ 4,973,000
Long-term liabilities	2,546,000	3,173,000	3,976,000
Total liabilities	**$ 8,957,000**	**$ 7,798,000**	**$ 8,949,000**
Net position:			
Net investment in capital assets	$ 3,676,000	$ 3,520,000	$ 3,041,000
Restricted for scholarships and education	14,000	14,000	14,000
Unrestricted	(2,595,000)	(825,000)	1,441,000
Total net position	**$ 1,095,000**	**$ 2,709,000**	**$ 4,496,000**

Significant components of the change in the Authority's assets are the decrease in internally designated cash of $380,000 and the decrease in capital assets of $303,000. Depreciation on capital assets exceeded capital purchases during 2013.

Continued

Operating Results and Changes in the Authority's Net Position

In 2013, the Authority's net position decreased $1,614,000 (60%). This decrease is made up of very different components as you can see from Table 2.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating revenues:			
Net patient service revenue	$ 25,067,000	$ 24,521,000	$ 26,971,000
EHR meaningful use incentive revenue	1,353,000	1,592,000	-
Other revenue	422,000	468,000	460,000
Total operating revenues	**26,842,000**	**26,581,000**	**27,431,000**
Operating expenses:			
Salaries and wages	14,452,000	14,518,000	14,272,000
Employee benefits	2,913,000	3,020,000	2,862,000
Purchased services and professional fees	4,249,000	4,574,000	4,291,000
Supplies and drugs	3,485,000	3,594,000	3,583,000
Depreciation and amortization	916,000	839,000	731,000
Other expense	3,468,000	3,429,000	3,511,000
Total operating expenses	**29,483,000**	**29,974,000**	**29,250,000**
Operating loss	**(2,641,000)**	**(3,393,000)**	**(1,819,000)**

Continued

Management's Discussion and Analysis, Continued
August 31, 2013

Table 2: Operating Results and Changes in Net Position, Continued

	2013	2012	2011
Nonoperating revenues (expenses):			
Investment income	$ 26,000	$ 38,000	$ 47,000
Interest expense	(99,000)	(127,000)	(136,000)
Loss on disposal of capital assets	-	-	(33,000)
Noncapital grants from Washington County	295,000	356,000	384,000
Other noncapital grants	25,000	241,000	19,000
Total nonoperating revenues	**247,000**	**508,000**	**281,000**
Excess revenues (expenses) before capital grants and contributions	**(2,394,000)**	**(2,885,000)**	**(1,538,000)**
Capital grants from Washington County for bond interest payments	134,000	162,000	175,000
Sales tax proceeds from Washington County for capital acquisitions	646,000	878,000	840,000
Other capital contributions	-	58,000	15,000
Change in net position	**(1,614,000)**	**(1,787,000)**	**(508,000)**
Net position, beginning of year	**2,709,000**	**4,496,000**	**5,004,000**
Net position, end of year	**$ 1,095,000**	**$ 2,709,000**	**$ 4,496,000**

Continued

Operating Income (Loss)

The first component of the overall change in the Authority's net position 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 $2,641,000 in 2013 and $3,393,000 in 2012. Operating revenues increased 1% while operating expenses decreased 2% in 2013.

Net patient service revenue increased $546,000 (2%) in 2013. The increase is due to a $2,646,000 increase in gross patient service revenue and a $988,000 decrease in provision for bad debts, while there was a $3,088,000 increase in contractual adjustments.

Operating expenses decreased $491,000 (2%) in 2013. Purchased services and professional fees decreased $325,000 (7%) and employee benefits decreased $107,000 (4%).

Nonoperating Revenues and Expenses

Investment income consists primarily of earnings on cash accounts. There was a $12,000 (32%) decrease in investment income in 2013.

Interest expense decreased $28,000 (22%) 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 $1,075,000 and $1,396,000 in grants from Washington County in 2013 and 2012, respectively.

The Authority's Cash Flow

The Authority used $1,072,000 in operating activities during 2013. Also in 2013, the Authority had cash flows from noncapital financing activities, mainly noncapital grants, of $1,089,000 and cash flows from investing activities of $31,000. The Authority used $336,000 in capital and related financing activities, primarily for payments on long-term debt, during 2013.

Continued

Capital Asset and Debt Administration

Capital Assets

At August 31, 2013, the Authority had $4,982,000 invested in capital assets, net of accumulated depreciation as detailed in Note 7 to the financial statements. In 2013, the Authority acquired new capital assets costing $613,000. Significant acquisitions in 2013 included mammography equipment and ambulances.

Debt

At August 31, 2013, the Authority had $2,646,000 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 2013 for $300,000 to finance the purchase of wireless and mammography equipment.

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.

(Page Intentionally Left Blank.)

Balance Sheets
August 31, 2013 and 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 1,155,000	$ 1,063,000
Patient accounts receivable, net of estimated uncollectibles of $5,406,000 in 2013 and $7,440,000 in 2012	2,918,000	2,862,000
Supplies, at lower of cost (first-in, first-out) or market	561,000	476,000
Other current assets	293,000	262,000
Total current assets	4,927,000	4,663,000
Noncurrent cash and investments:		
Restricted for scholarships and education	14,000	14,000
Internally designated	55,000	435,000
Other long-term investments	57,000	62,000
Total noncurrent cash and investments	126,000	511,000
Capital assets:		
Land	117,000	117,000
Construction-in-progress	-	56,000
Depreciable capital assets, net of accumulated depreciation	4,865,000	5,112,000
Total capital assets, net of accumulated depreciation	4,982,000	5,285,000
Other assets:		
Deferred financing costs	-	2,000
Physician and student loan receivable, net	17,000	46,000
Total other assets	17,000	48,000
Total assets	$ 10,052,000	$ 10,507,000

	2013	2012
Liabilities and Net Position		
Current liabilities:		
Short-term obligations	$ 1,340,000	$ 552,000
Current maturities of long-term debt	770,000	744,000
Accounts payable	2,498,000	2,002,000
Accrued expenses	1,014,000	913,000
Estimated third-party payor settlements	789,000	414,000
Total current liabilities	6,411,000	4,625,000
Long-term debt, net of current maturities	536,000	1,023,000
Accrued pension cost	2,010,000	2,150,000
Total liabilities	8,957,000	7,798,000
Net position:		
Net investment in capital assets	3,676,000	3,520,000
Restricted for scholarships and education	14,000	14,000
Unrestricted	(2,595,000)	(825,000)
Total net position	1,095,000	2,709,000
Total liabilities and net position	$ 10,052,000	$ 10,507,000

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended August 31, 2013 and 2012

	2013	2012
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $5,600,000 in 2013 and $6,588,000 in 2012)	$ 25,067,000	$ 24,521,000
EHR meaningful use incentive revenue	1,353,000	1,592,000
Other revenue	422,000	468,000
Total operating revenues	26,842,000	26,581,000
Operating expenses:		
Salaries and wages	14,452,000	14,518,000
Employee benefits	2,913,000	3,020,000
Purchased services and professional fees	4,249,000	4,574,000
Supplies and drugs	3,485,000	3,594,000
Depreciation and amortization	916,000	839,000
Other expense	3,468,000	3,429,000
Total operating expenses	29,483,000	29,974,000
Operating loss	(2,641,000)	(3,393,000)
Nonoperating revenues (expenses):		
Investment income	26,000	38,000
Interest expense	(99,000)	(127,000)
Noncapital grants from Washington County	295,000	356,000
Other noncapital grants	25,000	241,000
Total nonoperating revenues	247,000	508,000
Excess revenues (expenses) before capital grants and contributions	(2,394,000)	(2,885,000)

Continued

Statements of Revenues, Expenses, and Changes in Net Position, Continued
Years Ended August 31, 2013 and 2012

	2013	2012
Capital grants from Washington County for bond interest payments	$ 134,000	$ 162,000
Sales tax proceeds from Washington County for capital acquisitions	646,000	878,000
Other capital contributions	-	58,000
Change in net position	(1,614,000)	(1,787,000)
Net position, beginning of year	2,709,000	4,496,000
Net position, end of year	$ 1,095,000	$ 2,709,000

See accompanying notes to financial statements.

Statements of Cash Flows
Years Ended August 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 25,496,000	$ 25,126,000
Payments to suppliers and contractors	(10,806,000)	(11,241,000)
Payments to employees	(17,427,000)	(17,720,000)
EHR meaningful use incentive revenue	1,243,000	1,592,000
Other receipts	422,000	468,000
Net cash used by operating activities	(1,072,000)	(1,775,000)
Cash flows from noncapital financing activities:		
Proceeds from issuance of short-term obligation	1,018,000	158,000
Principal paid on short-term obligations	(230,000)	(205,000)
Interest paid on short-term obligations	(44,000)	(27,000)
Noncapital grants from Washington County	320,000	356,000
Other noncapital grants	25,000	11,000
Net cash provided by noncapital financing activities	1,089,000	293,000
Cash flows from capital and related financing activities:		
Capital grants from Washington County for bond interest payments	145,000	162,000
Sales tax proceeds from Washington County for capital acquisitions	646,000	878,000
Other capital contributions	-	58,000
Principal paid on long-term debt	(761,000)	(761,000)
Interest paid on long-term debt	(53,000)	(96,000)
Purchase of capital assets	(313,000)	(561,000)
Net cash used by capital and related financing activities	(336,000)	(320,000)
Cash flows from investing activities:		
Investment income	31,000	32,000
Net change in cash and cash equivalents	(288,000)	(1,770,000)
Cash and cash equivalents, beginning of year	1,498,000	3,268,000
Cash and cash equivalents, end of year	$ 1,210,000	$ 1,498,000

Continued

Statements of Cash Flows, Continued
Years Ended August 31, 2013 and 2012

	2013	2012
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	$ 1,155,000	$ 1,063,000
Cash and cash equivalents in noncurrent cash and investments:		
Internally designated	55,000	435,000
Total cash and cash equivalents	$ 1,210,000	$ 1,498,000
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$(2,641,000)	$(3,393,000)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	916,000	839,000
Provision for bad debts	5,600,000	6,588,000
Changes in:		
Patient accounts receivable	(5,656,000)	(5,778,000)
Estimated third-party payor settlements	375,000	(205,000)
Supplies	(85,000)	(23,000)
Other current assets	(31,000)	124,000
Physician and student loan receivable	29,000	121,000
Accounts payable	496,000	146,000
Accrued expenses	65,000	(32,000)
Accrued pension cost	(140,000)	(162,000)
Net cash used by operating activities	$(1,072,000)	$(1,775,000)

Noncash capital and financing activities:

- The Authority entered into capital lease obligations of $300,000 and $140,000 for new equipment in 2013 and 2012, respectively.

See accompanying notes to financial statements.

(Page Intentionally Left Blank.)

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.

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.

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.

Continued

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

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 2013 or 2012.

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 2013 or 2012.

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.

Continued

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

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 2013 and 2012.

Net position. Net position is classified into components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. The *restricted* component of net position consists of restricted assets reduced by liabilities related to those assets. The *unrestricted* component of net position is the amount of assets and liabilities that is not included in the determination of *net investment in capital assets* or the *restricted* component of net position.

Operating revenues and expenses. The Authority's statement of revenues, expenses and changes in net position 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.

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.

Continued

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

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 adopted accounting pronouncements. In 2013, the Authority adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34,* which provides guidance on information presented about the financial reporting entity and its component units and amends the criteria for blending in certain circumstances. The adoption of this statement had no material impact on the financial statements of the Authority.

In 2013, the Authority adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in FASB and AICPA Pronouncements,* which supersedes GASB Statement No. 20, and 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 adoption of this statement had no material impact on the financial statements of the Authority.

In 2013, the Authority adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a balance sheet. Upon adoption of the new requirements, "net assets" was effectively renamed "net position" in the financial statements of the Authority.

Continued

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

Recently issued accounting pronouncements. In 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* 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 as outflows of resources (expenses) or inflows of resources (revenues). This statement must be adopted no later than the year ending August 31, 2014. The Authority has not yet determined the impact of this statement on the financial statements.

In 2012, the GASB issued GASB Statement No. 66, *Technical Corrections - 2012 - an Amendment of GASB Statement No. 10 and No. 62.* This statement is intended to resolve conflicting accounting and financial reporting guidance that could diminish the consistency in financial reporting. This statement must be adopted no later than the year ending August 31, 2014. The adoption of this statement is not expected to have a material impact on the financial statements.

In 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25,* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27,* which require enhanced note disclosure and required supplementary information for both defined benefit and defined contribution pension plans as well as provide standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pension plans. GASB Statement No. 67 must be adopted for pension plans no later than the year ending August 31, 2014, while GASB Statement No. 68 must be adopted no later than the year ending August 31, 2015. The Authority has not yet determined the impact of this statement on the financial statements.

In 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement must be adopted no later than the year ending August 31, 2015. The adoption of this statement is not expected to have a material effect on the financial statements of the Authority.

In 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* which improves accounting and financial reporting for governments that extend and receive nonexchange financial guarantees. This statement must be adopted no later than the year ending August 31, 2014. The adoption of this statement is not expected to have a material impact on the financial statements of the Authority.

Continued

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, 2009. Revenue from the Medicare program accounted for approximately 47% and 52% of the Authority's net patient service revenue for the years ended August 31, 2013 and 2012, 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, 2010. 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 32% and 33% of the Authority's net patient service revenue for the years ended August 31, 2013 and 2012, 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 $628,000 and $783,000 for the years ended August 31, 2013 and 2012, respectively.

Continued

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 $480,000 and $496,000 for the years ended August 31, 2013 and 2012, 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 $269,000 and $284,000 in 2013 and 2012, respectively. The payments are included in other expense in the accompanying statements of revenues, expenses and changes in net position.

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 $602,000 and $846,000 for the years ended August 31, 2013 and 2012, respectively.

4. Restricted and Designated Net Position

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

Of the $(2,595,000) and $(825,000) of unrestricted net position reported in 2013 and 2012, respectively, $55,000 in 2013 and $435,000 in 2012 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

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, 2013 and 2012, 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:

	2013	2012
Deposits	$ 1,224,000	$ 1,512,000
Investments	57,000	62,000
Total	$ 1,281,000	$ 1,574,000

Included in the following balance sheet captions:

	2013	2012
Cash and cash equivalents	$ 1,155,000	$ 1,063,000
Restricted for scholarships and education	14,000	14,000
Internally designated	55,000	435,000
Other long-term investments	57,000	62,000
Total	$ 1,281,000	$ 1,574,000

The Authority's investments are reported at fair value. At August 31, 2013 and 2012, the Authority's investments consisted of the following:

	2013	2012
The Southern Company common stock	$ 57,000	$ 62,000

Continued

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, 2013 and 2012 consisted of these amounts:

	2013	2012
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 6,561,000	$ 8,027,000
Receivable from Medicare	1,275,000	1,406,000
Receivable from Medicaid	488,000	869,000
Total patient accounts receivable	8,324,000	10,302,000
Less allowance for uncollectible amounts	5,406,000	7,440,000
Patient accounts receivable, net	$ 2,918,000	$ 2,862,000

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

	2013	2012
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 963,000	$ 884,000
Payable to suppliers	2,498,000	2,002,000
Other	51,000	29,000
Total accounts payable and accrued expenses	$ 3,512,000	$ 2,915,000

Continued

7. Capital Assets

Capital asset additions, retirements, transfers and balances for the years ended August 31, 2013 and 2012 are as follows:

	Balance August 31, 2012	Additions	Retirements	Transfers	Balance August 31, 2013
Land	$ 117,000	$ -	$ -	$ -	$ 117,000
Construction-in-progress	56,000	-	-	(56,000)	-
Total nondepreciable capital assets	173,000	-	-	(56,000)	117,000
Land improvements	381,000	-	-	-	381,000
Buildings and improvements	12,410,000	22,000	-	19,000	12,451,000
Equipment	14,593,000	591,000	-	37,000	15,221,000
Total depreciable capital assets at historical cost	27,384,000	613,000	-	56,000	28,053,000
Less accumulated depreciation for:					
Land improvements	(365,000)	(4,000)	-	-	(369,000)
Buildings and improvements	(9,304,000)	(203,000)	-	-	(9,507,000)
Equipment	(12,603,000)	(709,000)	-	-	(13,312,000)
Total accumulated depreciation	(22,272,000)	(916,000)	-	-	(23,188,000)
Net depreciable capital assets	5,112,000	(303,000)	-	56,000	4,865,000
Total capital assets, net	$ 5,285,000	$(303,000)	$ -	$ -	$ 4,982,000

Continued

7. Capital Assets, Continued

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

Construction-in-progress consists of building renovation costs.

Continued

8. Short-Term Obligations

A schedule of changes in the Authority's short-term obligations for 2013 and 2012 follows:

	Balance August 31, 2012	Additions	Payments	Balance August 31, 2013
Citizens	$ 450,000	$ -	$(50,000)	$ 400,000
First Insurance	102,000	218,000	(180,000)	140,000
Warthen	-	800,000	-	800,000
Total	$ 552,000	$ 1,018,000	$(230,000)	$ 1,340,000

	Balance August 31, 2011	Additions	Payments	Balance August 31, 2012
Citizens	$ 500,000	$ -	$(50,000)	$ 450,000
First Insurance	99,000	158,000	(155,000)	102,000
Total	$ 599,000	$ 158,000	$(205,000)	$ 552,000

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. On February 8, 2012, the note was renewed with a maturity date of February 9, 2013, and an interest rate of 4.65%. On March 11, 2013, the note was renewed with a maturity date of March 10, 2014, 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. The note entered into during 2013 bears interest at 4.75%, is payable in eleven monthly payments of approximately $20,000, and is secured by the premiums financed.

Continued

8. Short-Term Obligations, Continued

- Geo. D. Warthen Bank – Line-of-credit used to fund operations, with an original aggregate principal amount of $500,000, and an interest rate of 3.75%. The original line-of-credit was issued October 5, 2012, with a maturity of December 5, 2012. The line-of-credit was renewed on January 2, 2013, with a maturity date of January 2, 2014, and an increase in the credit limit to $2,000,000. On February 7, 2014, the line-of-credit was renewed, with a maturity of August 7, 2014.

9. Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2013 and 2012 follows:

	Balance August 31, 2012	Additions	Reductions	Balance August 31, 2013	Amounts Due Within One Year
Bonds:					
1998	$ 1,115,000	$ -	$(545,000)	$ 570,000	$ 570,000
Notes payable:					
Citizens (b)	263,000	-	(27,000)	236,000	28,000
Citizens (c)	21,000	-	(18,000)	3,000	3,000
Queensborough	13,000	-	(13,000)	-	-
Capital lease obligations	355,000	300,000	(158,000)	497,000	169,000
Total long-term debt	$ 1,767,000	$ 300,000	$(761,000)	$ 1,306,000	$ 770,000

	Balance August 31, 2011	Additions	Reductions	Balance August 31, 2012	Amounts Due Within One Year
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	372,000	140,000	(157,000)	355,000	141,000
Total long-term debt	$ 2,388,000	$ 140,000	$(761,000)	$ 1,767,000	$ 744,000

Continued

9. Long-Term Debt, Continued

The terms and due dates of the Authority's long-term debt at August 31, 2013 and 2012, 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.

- 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 $1,019,000 and accumulated amortization of $524,000 at August 31, 2013.

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

	Long-Term Debt		Capital Lease Obligations	
Year Ending August 31:	Principal	Interest	Principal	Interest
2014	$ 601,000	$ 23,000	$ 169,000	$ 16,000
2015	28,000	8,000	140,000	10,000
2016	180,000	4,000	90,000	4,000
2017	-	-	51,000	3,000
2018	-	-	47,000	2,000
Total	$ 809,000	$ 35,000	$ 497,000	$ 35,000

Continued

9. Long-Term Debt, Continued

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, 2013, the required balances of the Sinking Fund and Debt Service Reserve Fund were $584,000 and $300,000, respectively. As of August 31, 2013, the Authority had not deposited monies into these separate Funds and the Funds did not have the required balances. On September 1, 2013, the Authority paid off the 1998 Bonds.

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, 2013 and 2012 follows:

	2013	2012
Annual required contribution	$ 284,000	$ 279,000
Interest on net pension obligation	113,000	116,000
Adjustment to annual required contribution	(152,000)	(177,000)
Annual pension cost	245,000	218,000
Contributions made	(385,000)	(380,000)
Decrease in net pension obligation	(140,000)	(162,000)
Net pension obligation, beginning of year	2,150,000	2,312,000
Net pension obligation, end of year	$ 2,010,000	$ 2,150,000

Continued

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
August 31, 2011	$ 208,000	100%	$ 2,312,000
August 31, 2012	$ 218,000	100%	$ 2,150,000
August 31, 2013	$ 245,000	100%	$ 2,010,000

Funded status and funding progress. The funded status of the plan as of January 1, 2013, the most recent actuarial valuation date is as follows:

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

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 2013 and 2012 were approximately $164,000 and $176,000, 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 2013 and 2012, the Authority made matching contributions to the Plan of $38,000. The Authority did not make any non-elective contributions to the Plan in 2013 or 2012.

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, 2013 and 2012 was $25,000 and $37,000, 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 $4,000 and $7,000 during the years ended August 31, 2013 and 2012, respectively.

Continued

13. Contingencies

Financial position. As indicated in the accompanying financial statements, the Authority reported a decrease in net position of $1,614,000 and $1,787,000 in 2013 and 2012, respectively. Management's plan to improve the Authority's financial position is as follows:

- *Strategic alliance with University Health, Inc.* On October 8, 2013, the Authority entered into a broad strategic alliance with University Health, Inc. (University), which operates University Hospital in Augusta, Georgia. This will provide the Authority an opportunity to draw upon University's resources to increase revenue and leverage purchasing power to reduce costs.

- *Revenue increasing initiatives.* In alliance with University, the Authority is expanding cardiology services. This expansion will include features such as daily availability of stress tests and increase in cardiac rehabilitation usage. The Authority also reinstated orthopedic services in October 2013. This reinstatement has resulted in growth in the surgery department. There are also plans to expand orthopedic services in partnership with University. Other services lines such as vascular surgery and ENT are also under review to grow the surgery services.

- *Expense reduction.* The Authority is a member of a purchasing group which provides discounts in supply cost; however, the Authority is exploring further cost reduction by leveraging University's purchasing power and purchasing agreements. The Authority is also exploring various strategies to reduce labor cost, which could include reduction of certain benefits, reduction of overtime, reduction of shift differentials, and reduction of staff through attrition. In October 2013, the Authority changed from a PPO to POS health plan, reducing cost.

- *EHR meaningful use incentive revenue.* Between December 2013 and February 2014, the Authority received approximately $500,000 in EHR meaningful use incentive payments. The Authority also anticipates receiving the fourth year payment under the program.

- *Retirement of bond debt.* The Authority paid off the 1998 Bonds on September 1, 2013, concluding this debt payment.

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.

Continued

13. Contingencies, Continued

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 each claim. The Authority's deductible for the general liability policy is $10,000 per occurrence. 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, third-party payor settlements, accounts payable and accrued expenses:* The carrying amounts reported in the balance sheet approximate their fair value due to the short-term nature of these instruments.

- *Noncurrent cash and investments:* Fair value of common stock, which is the amount reported in the balance sheet, is based on quoted market prices.

- *Long-term debt:* Fair values of the Authority's revenue anticipation certificates are based on quoted market prices, and the carrying amounts for other long-term debt approximate their fair value.

Continued

14. Fair Value of Financial Instruments, Continued

The carrying amounts and estimated fair values of the Authority's long-term debt, excluding capital leases, at August 31, 2013 and 2012 are as follows:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 809,000	$ 809,000	$ 1,412,000	$ 1,413,000

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.

Continued

15. Electronic Health Record Incentive Payments, Continued

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 2013 and 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 2013 and 2012 totaling $811,000 and $1,153,000, respectively, and Medicaid incentive payments received for 2013 and 2012 totaling $542,000 and $439,000, respectively. These amounts are included with total operating revenues on the statement of revenues, expenses, and changes in net position. If the Authority satisfies specified meaningful use criteria in future periods, they may become entitled to additional Medicare and Medicaid incentive payments; however, as they have not met these specific requirements as of August 31, 2013, no such additional amounts are accrued.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
August 31, 2013 and 2012

Schedule of Funding Progress for Defined Benefit Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percent of Covered Payroll
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.