HOSPITAL AUTHORITY

OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

Annual Bond Complaince Reports

Septemer 30, 2011

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HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

FINANCIAL STATEMENTS

for the years ended September 30, 2011 and 2010

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Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hospital Authority of Valdosta
and Lowndes County, Georgia
Valdosta, Georgia

We have audited the accompanying balance sheets of the Hospital Authority of Valdosta and Lowndes County, Georgia (Authority) as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital Authority of Valdosta and Lowndes County, Georgia as of September 30, 2011 and 2010, 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

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Management's discussion and analysis and the analysis of funding progress for pension benefit obligation are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Draffin + Tucker, LLP

Albany, Georgia
November 11, 2011

Management's Discussion and Analysis
For the Year Ending September 30, 2011

This section of the Hospital Authority of Valdosta and Lowndes County, Georgia's ("Authority") annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended September 30, 2011. Please read it in conjunction with the Authority's financial statements and accompanying notes.

This annual financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the analysis of funding progress for the pension benefit obligation. The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using full accrual accounting.

Financial Analysis of the Authority

The following table summarizes the balance sheets as of September 30, 2011, 2010 and 2009:

Balance Sheet Data

	(Dollars In Thousands)		
	2011	2010	2009
Current assets	$ 154,378	$ 139,002	$ 133,218
Noncurrent cash and investments	205,109	164,509	150,985
Capital assets, net	134,957	94,965	96,542
Other non-current assets	34,416	7,693	5,555
Total assets	$ 528,860	$ 406,169	$ 386,300
Current liabilities	$ 46,273	$ 40,165	$ 39,892
Long-term debt	212,991	105,900	108,636
Net assets	269,596	260,104	237,772
Total liabilities and net assets	$ 528,860	$ 406,169	$ 386,300

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Management's Discussion and Analysis
For the Year Ending September 30, 2011

The Authority's financial position remained strong in 2011. Total cash and investments increased by \$52.1 million, ending the year at \$296 million. Included in the cash and investment balances at year end was \$41 million in a construction fund designated for capital projects of the Authority. The total cash and investments on hand at year end equaled a strong 459 days of expense requirements. The Authority acquired Smith Northview Hospital ("SNH") on September 1, 2011. The increases in capital assets and other non-current assets reflect the land, buildings, equipment and intangible assets associated with the acquisition. The Authority issued new debt of \$128.3 million during 2011 to fund the acquisition of SNH, to refund existing debt of \$18.3 million, and to fund other capital projects of the Authority. The total debt to capital ratio increased to a manageable 45% as a result of the new debt issuance. Overall, the Authority's financial position remained strong.

The following table summarizes the revenues and expenses for the years ended September 30, 2011, 2010 and 2009:

Statement of Revenue and Expense Data

	(Dollars In Thousands)		
	2011	2010	2009
Operating revenue	\$ 258,012	\$ 253,717	\$ 242,828
Expenses:			
Operating expenses	230,493	225,090	220,816
Depreciation	17,477	16,404	16,446
Total expenses	247,970	241,494	237,262
Operating income	10,042	12,223	5,566
Nonoperating income (expenses):			
Investment income (loss)	4,220	14,630	8,265
Interest expense	(4,894)	(4,785)	(4,977)
Noncapital contributions	-	-	2,500
Excess revenue before capital contributions	\$ 9,368	\$ 22,068	\$ 11,354

Operating income for 2011 was \$10 million, a reduction of \$2.2 million from 2010. Investment income was \$4.2 million for 2011, down from \$14.6 million in 2010. The drop in investment income was due primarily to a decrease in the market value of the Authority's investment portfolio that occurred in the last quarter of the fiscal year. Overall, excess revenue before capital contributions was \$9.4 million, down from \$22.1 million in 2010.

Management's Discussion and Analysis
For the Year Ending September 30, 2011

The sluggish economy contributed to weaker patient volumes in 2011. Patient volumes as measured by adjusted discharges dropped 4.2% from 2010 to 27,202. The decreased patient volumes were more pronounced on the inpatient business, as admissions were down by 8.5% over the prior year. Total surgeries were down by 5.6% from 2010 levels. Outpatient volume increases partially offset the inpatient declines. Outpatient areas that experienced growth included the emergency department, cardiology services, and endoscopy.

Total operating revenues increased by $4.3 million, or 1.7% over 2010. Uncompensated care, defined as indigent care and bad debt write-offs, declined slightly from 11.0% to 9.1% of gross patient charges. The improvement was due to a decrease in the amount of bad debt write-offs as a result of continued revenue cycle execution and due to a new discount for uninsured patients that is applied at the time of billing. The discount for uninsured patients is not included in the Authority's charity care totals.

Total operating expenses increased by 2.4% over 2010. Total operating expenses per adjusted patient discharge increased by 7.0% over 2010. The productivity level of the Authority workforce, as measured by the ratio of full-time equivalent employees to the adjusted occupied beds, decreased by 2.7% as a result of the lower than expected patient volumes. The Authority is self-insured for its employee health care costs. These costs decreased by 8% as a result of cost saving measures implemented in 2011. The management team implemented an initiative to reduce supply spend in 2011. This initiative resulted in a reduction in the overall supply spend. Supply cost per adjusted discharge was reduced by 1.8% in 2011. This initiative is ongoing, and the management team believes additional savings will be gained in 2012. In response to state budget shortfalls, the State of Georgia implemented a provider tax on hospitals that became effective July 1, 2010. The tax is scheduled to sunset after three years. For fiscal year 2011, the Authority expensed $3.3 million under this new tax. The Authority continued its initiative to implement an electronic health record. Operating costs associated with this initiative include costs associated with implementation, as well as support costs for the implemented components. With the rollout this summer of provider order entry, SGMC is optimistic that it will qualify as a meaningful user of clinical information technology and plans to apply for federal incentive payments in 2012.

The Authority acquired Smith Northview Hospital on September 1, 2011. The revenue and expenses associated with SNH for the month of September are included in the results for the Authority. SNH is licensed for 45 beds and operates six operating suites. For its most recent fiscal year, SNH recorded 3,070 admissions, 5,319 ambulatory surgeries, and 635 births. The costs associated with the acquisition were expensed in 2011 in accordance with accounting pronouncements. These costs amounted to $765 thousand. The Authority paid $55.8 million for the acquisition.

Investment income was $4.2 million for 2011, a reduction of $10.4 million from 2010. The reduction was due to the correction in the equity markets that occurred in the last quarter in the fiscal year, resulting in unrealized losses in investments held by the Authority. The Authority allocates approximately 30% of its internally designated capital improvement funds to equity securities, with the remaining 70% invested in fixed income securities.

Management's Discussion and Analysis
For the Year Ending September 30, 2011

Capital Assets and Long-Term Debt

In December 2010, the Authority issued the Series 2010 Revenue Certificates in the amount of $10 million for the purpose of equipping a new outpatient imaging center that opened in August, 2011. The Authority also issued Revenue Certificates in the amount of $18.3 million to refund existing debt of $18.3 million for the Series 1998 Revenue Certificates. In August 2011, the Series 2011A Revenue Certificates were issued for the purpose of acquiring Smith Northview Hospital, and for other capital projects of the Hospital. These certificates were issued as variable rate debt and were a direct bank placement. The term is for fifteen months. The Authority plans to sell thirty year fixed rate bonds in fiscal year 2012 to refund these short term certificates and provide permanent financing for SNH acquisition and the other capital projects currently underway. A recap of the Authority's long-term debt outstanding (excluding current maturities) at September 30, 2011, 2010 and 2009 follows:

		(Dollars In Thousands)		
Description	Interest Rates	2011	2010	2009
Revenue Certificates, Series 1998	Variable rates	$ -	$ 18,300	$ 19,200
Revenue Certificates, Series 2002	4.20%-5.50%	31,990	33,045	34,015
Revenue Certificates, Series 2007	4.00%-5.00%	52,605	53,420	54,215
Revenue Certificates, Series 2010	Variable rates	9,110	-	-
Refunding Revenue Certificates Series 2010	Variable rates	16,800	-	-
Revenue Certificates, Series 2011A	Variable rates	100,000	-	-
Other financing obligations	Variable rates	1,421	-	-
Total long-term debt, excluding discounts and premiums		$ 211,926	$ 104,765	$ 107,430

The Authority's investment in capital assets for 2011, 2010 and 2009 is summarized in the table below:

	(Dollars In Thousands)		
Capital Assets	2011	2010	2009
Construction/renovation projects	$ 10,127	$ 2,137	$ 4,754
Movable equipment	12,541	5,186	10,822
Information system upgrades	4,128	3,629	3,452
Total capital asset additions	$ 26,796	$ 10,952	$ 19,028

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HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

BALANCE SHEETS
September 30, 2011 and 2010

	(Dollars In Thousands)	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 74,589	$ 66,884
Short-term investments	16,346	12,579
Patient accounts receivable, net of estimated uncollectibles of $21,380 (2011) and $21,161 (2010)	51,695	48,704
Other receivables	3,229	2,762
Supplies, (first-in, first-out)	5,211	4,470
Other current assets	3,308	3,603
Total current assets	154,378	139,002
Noncurrent cash and investments:		
Internally designated for capital improvements	164,756	161,293
Under trust agreements	40,353	3,216
Total noncurrent cash and investments	205,109	164,509
Capital assets	134,957	94,965
Other assets:		
Other receivables	3,062	3,030
Deferred financing costs	1,460	1,354
Goodwill	29,894	3,309
Total other assets	34,416	7,693
Total assets	$ 528,860	$ 406,169

	(Dollars In Thousands)	
	2011	2010
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	$ 4,988	$ 2,665
Accounts payable	10,584	6,077
Accrued expenses	30,191	30,920
Estimated third-party payor settlements	510	503
Total current liabilities	46,273	40,165
Long-term debt, excluding current maturities	212,991	105,900
Total liabilities	259,264	146,065
Net assets:		
Invested in capital assets, net of related debt	(12,484)	(13,381)
Unrestricted net assets	282,080	273,485
Net assets	269,596	260,104
Total liabilities and net assets	$ 528,860	$ 406,169

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
for the years ended September 30, 2011 and 2010

	(Dollars In Thousands)	
Operating revenues:	2011	2010
Net patient service revenue (net of provision for bad debts of $29,411 in 2011 and $32,301 in 2010)	$ 248,972	$ 245,068
Other revenue	9,040	8,649
Total operating revenues	258,012	253,717
Operating expenses:		
Salaries and benefits	120,625	118,856
Supplies	59,995	63,495
Services	26,869	22,413
Depreciation and amortization	17,477	16,404
Medical and professional fees	14,925	12,973
Utilities	3,814	3,675
Insurance	2,285	1,616
Education and recruitment	1,980	2,062
Total operating expenses	247,970	241,494
Operating income	10,042	12,223
Nonoperating income (expenses):		
Investment income	4,220	14,630
Interest expense	(4,894)	(4,785)
Total nonoperating income	(674)	9,845
Excess of revenues over expenses before capital contributions	9,368	22,068
Capital contributions	124	264
Increase in net assets	9,492	22,332
Net assets at beginning of year	260,104	237,772
Net assets at end of year	$ 269,596	$ 260,104

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
for the years ended September 30, 2011 and 2010

	(Dollars In Thousands)	
	2011	2010
Cash flows from operating activities:		
Cash received from patients and payors	$ 255,028	$ 252,407
Cash payments to vendors and other suppliers	(104,462)	(107,241)
Cash payments to employees	(121,891)	(117,693)
Net cash provided by operating activities	28,675	27,473
Cash flows from capital and related financing activities:		
Repayment of long-term debt	(21,035)	(1,856)
Proceeds from issuance of long-term debt	129,434	-
Interest paid on long-term debt	(5,000)	(4,658)
Purchase of capital assets	(28,591)	(9,544)
Contributions for capital improvements and expansion	124	264
Net cash provided (used) by capital and related financing activities	74,932	(15,794)
Cash flows from investing activities:		
Purchase of investments	(44,336)	(77,862)
Proceeds from sales of investments	46,751	70,676
Income (losses) on investments	(1,659)	7,886
Acquisition of diagnostic center	-	(8,620)
Acquisition of Smith Northview Hospital	(55,754)	-
Net cash used by investing activities	(54,998)	(7,920)
Net increase in cash and cash equivalents	48,609	3,759
Cash and cash equivalents, beginning of year	82,791	79,032
Cash and cash equivalents, end of year	$ 131,400	$ 82,791

Continued

STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2011 and 2010

	(Dollars In Thousands)	
	2011	2010
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	$ 74,589	$ 66,884
Restricted cash and cash equivalents	56,811	15,907
Total cash and cash equivalents	$ 131,400	$ 82,791
Reconciliation of operating income to net cash flows provided by operating activities:		
Operating income	$ 10,042	$ 12,223
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	17,477	16,404
Changes in:		
Patient accounts receivable	(2,991)	(2,370)
Supplies	519	952
Other assets	408	(91)
Other receivables	(28)	405
Accounts payable	4,507	(2,273)
Amounts due to third-party payors	7	1,060
Accrued expenses	(1,266)	1,163
Net cash provided by operating activities	$ 28,675	$ 27,473

Supplemental disclosures of cash flow information:

- The Authority held investments at September 30, 2011 and 2010 with a fair value of $164.64 million and $161.18 million, respectively. During 2011 and 2010, the net change in fair value of these investments was a decrease of $7.32 million and an increase of $6.74 million, respectively.
- See Note 10 for additional information related to the purchase of the diagnostic center and Note 12 for additional information related to the purchase of Smith Northview Hospital.

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization

The Hospital Authority of Valdosta and Lowndes County, Georgia (Authority) owns and operates South Georgia Medical Center (Hospital) - an acute care hospital; and Greenleaf Center - a psychiatric and chemical dependency hospital. The Authority is a public corporation organized as a nonprofit organization under the Hospital Authorities Law of the State of Georgia.

On September 1, 2011, the Authority purchased Smith Northview Hospital, a 45-bed acute care hospital located in Valdosta, Georgia. Smith Northview Hospital provides inpatient, outpatient, and emergency care services for residents of Lowndes County.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, 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.

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

1. Summary of Significant Accounting Policies, Continued

Short-Term Investments

Short-term investments include assets internally designated for capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets restricted under trust agreements for professional liability claims and under trust indentures, that are anticipated to satisfy related obligations included in current liabilities.

Allowance For Doubtful Accounts

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

Supplies

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

Noncurrent Cash and Investments

Noncurrent cash and investments include assets internally designated for capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes and assets restricted under trust agreements for professional liability claims and under trust indentures.

Investments in Debt and Equity Securities

Investments in debt and equity securities are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in investment income when earned.

Continued

1. Summary of Significant Accounting Policies, Continued

Capital Assets

Capital asset acquisitions are recorded at cost. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Depreciation is provided over the estimated useful life of each depreciable asset (per the American Hospital Association (AHA) Guidelines for Depreciable Assets) and is computed using the straight-line method. The AHA Guidelines generally provide the following range in asset life by category:

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

Goodwill and Intangible Assets

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

As of September 30, 2011 and 2010, the Authority had goodwill of approximately $29.9 million and $3.4 million, respectively, which is subject to the impairment tests prescribed under the authoritative guidance. The Authority has elected June 30th as its annual impairment assessment date. The Authority completed its annual impairment assessment and concluded that no goodwill or indefinite lived intangible asset impairment charge was required.

Compensated Absences

The Authority's employees earn paid time off at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees who leave in good standing will be eligible for payment of paid time off upon their resignation.

Costs of Borrowing

Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method. 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.

Continued

1. Summary of Significant Accounting Policies, Continued

Net Assets

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

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "invested in capital assets, net of related debt."

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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.

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 investment income and interest expense, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Continued

1. Summary of Significant Accounting Policies, Continued

Grants and Contributions

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

Income Taxes

The Authority is a public corporation and is also exempt from taxation under Section 501(a) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the financial statements.

Risk Management

The Authority is exposed to various risks of loss from torts. The Authority purchases commercial insurance with a self-retention amount to protect itself against such risks. The provision for estimated professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. See Note 15 for a summary of the professional and general liability program. The Authority is self-insured for employee health and accident benefits, and purchases stop loss coverage for large claims. The expenses for employee health claims include the costs of actual claims incurred and an estimate of the claims incurred but not reported. See Note 14 for a summary of the employee health plan. The Authority has purchased commercial insurance for claims arising from theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters.

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.

Continued

2. Charity Care and Discount for Uninsured Patients

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30, 2011 and 2010.

	(Dollars In Thousands)	
	2011	2010
Charges foregone, based on established rates	$ 26,077	$ 31,759
Estimated costs and expenses incurred to provide charity care	$ 10,725	$ 13,091
Equivalent percentage of charity care patients to all patients served	4.3%	5.4%

Effective October 1, 2010, the Authority implemented a discount for uninsured patients. For the fiscal year ended September 30, 2011 and 2010, the charges foregone and the estimated costs of services related to this discount were as follows:

	(Dollars In Thousands)	
	2011	2010
Charges foregone, based on established rates	$ 9,020	$ -
Estimated costs and expenses incurred to provide discount for uninsured patients	$ 3,707	$ -
Equivalent percentage of discounts to uninsured patients to all patients served	1.5%	0.0%

Continued

3. Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. The Authority does not believe that there are any significant credit risks associated with receivables due from third-party payors.

Revenue from the Medicare and Medicaid programs accounted for approximately 36% and 11%, respectively, of the Authority's net patient revenue for the year ended 2011 and 38% and 9%, respectively, of the Authority's net patient revenue for the year ended 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Authority believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments made on or after October 1, 2007.

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

- Medicare

  Inpatient acute care, inpatient psychiatric services, outpatient and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

  The Authority is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. All Medicare cost reports have been audited by the Medicare intermediary through September 30, 2006.

Continued

3. Net Patient Service Revenue, Continued

- Medicaid

  Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per admission. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Authority is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. The Authority's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2006.

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

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

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (the Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment resulted in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately $3.3 million and $800 thousand relating to the Act is included in services in the accompanying statements of revenues, expenses and changes in net assets for the years ended September 30, 2011 and 2010, respectively.

Continued

3. Net Patient Service Revenue, Continued

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

	(Dollars In Thousands)	
	2011	2010
Medicare	$ 192,799	$ 183,136
Medicaid	57,022	51,480
Tricare	24,057	17,913
Indigent and charity care	26,077	31,759
Other third party payors	33,818	29,044
Provision for bad debts	29,411	32,301
Indigent Care Trust Fund (see Note 14)	(6,125)	(4,162)
Upper Payment Limit (see Note 20)	(3,012)	(659)
	$ 354,047	$ 340,812

4. Cash and Investments

As discussed in Note 1, the Authority's investments are generally carried at fair value. Cash and investments as of September 30, 2011 and 2010 are classified in the accompanying financial statements as follows:

	(Dollars In Thousands)	
	2011	2010
Balance sheets:		
Cash and cash equivalents	$ 74,589	$ 66,884
Short-term investments	16,346	12,579
Noncurrent cash and investments:		
Internally designated for capital improvements	164,756	161,293
Under trust agreements:		
For professional liability claims	2,174	3,216
Under indenture agreement	38,179	-
Total under trust agreement	40,353	3,216
Total cash and investments	$ 296,044	$ 243,972

Continued

4. Cash and Investments, Continued

	(Dollars In Thousands) 2011	2010
Cash and investments consist of the following:		
Cash on hand	$ 11	$ 10
Deposits with financial institutions	86,194	78,832
Money market funds	45,195	3,949
Subtotal cash and cash equivalents	131,400	82,791
Investments:		
Investments in debt securities	87,734	84,335
Investments in equity securities	29,777	30,171
Investments in mutual funds - equity securities	13,703	14,575
Investments in mutual funds - debt securities	33,430	32,100
Subtotal investments	164,644	161,181
Total cash and investments	$ 296,044	$ 243,972

Disclosures Relating to Interest Rate Risk

The Authority manages its exposure to declines in fair values from rising interest rates by investing in debt securities with short to intermediate maturities. The Authority's investment policy requires that mortgage-backed and asset-backed securities have an expected life of five years or less. The weighted average maturity presented below is calculated based on the maturity date of the security. For many of the mortgage and asset backed securities, the expected life is shorter than the maturity date as presented below.

Continued

4. Cash and Investments, Continued

As of September 30, 2011 and 2010, the Authority had the following investments in debt securities and weighted average maturities:

	2011		2010	
	(Dollars in Thousands) Amount	Weighted Average Maturity (In Years)	(Dollars in Thousands) Amount	Weighted Average Maturity (In Years)
Debt securities:				
U. S. Treasury notes	$ 27,543	4.6	$ 26,386	5.7
U. S. Agency securities	11,129	3.3	7,578	9.1
Mortgage-backed securities	9,629	14.3	12,744	9.0
Corporate bonds	39,433	5.4	37,627	4.7
Total	$ 87,734	6.9	$ 84,335	7.1

As of September 30, 2011 and 2010, the Authority owned shares of the Barclays Intermediate Govt/Credit Bond, the Vanguard Intermediate-Term Bond Index Signal Fund, the Vanguard Intermediate-Term Investment-Grade Fund, the Vanguard Intermediate-Term Bond, and the Vanguard Short-Term Investment-Grade which are included in the mutual fund - debt securities listed above. The average credit rating for all securities listed is A.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Authority manages its exposure to credit risk by requiring in its investment policy, that debt securities be rated Baa or greater by a nationally recognized rating agency. In addition, the Authority's policy requires that mortgage-backed and asset-backed securities be rated Aaa by a nationally recognized rating agency.

Continued

4. Cash and Investments, Continued

Disclosures Relating to Credit Risk, Continued

As of September 30, 2011 and 2010, the Authority's investments in debt securities and money market funds had the following ratings:

	(Dollars In Thousands)	Rating as of September 30, 2011			
	Amount	Aaa	Aa	A	Baa
Debt securities:					
U. S. Treasury notes	$ 27,543	$ 27,543	$ -	$ -	$ -
U. S. Agency securities	11,129	11,129	-	-	-
Mortgage-backed securities	9,629	9,629	-	-	-
Corporate bonds	39,433	4,000	5,442	19,820	10,171
Total debt securities	$ 87,734	$ 52,301	$ 5,442	$ 19,820	$ 10,171
Money market funds	$ 45,195	$ 45,195	$ -	$ -	$ -

	(Dollars In Thousands)	Rating as of September 30, 2010			
	Amount	Aaa	Aa	A	Baa
Debt securities:					
U. S. Treasury notes	$ 26,386	$ 26,386	$ -	$ -	$ -
U. S. Agency securities	7,578	7,578	-	-	-
Mortgage-backed securities	12,744	12,744	-	-	-
Corporate bonds	37,627	11,926	4,243	14,317	7,141
Total debt securities	$ 84,335	$ 58,634	$ 4,243	$ 14,317	$ 7,141
Money market funds	$ 3,949	$ 3,949	$ -	$ -	$ -

Disclosures Relating to Concentration of Credit Risk

The Authority's investment policy prohibits investments in any one issuer (other than U.S. Treasury securities and money market funds) that are in excess of 5% of the Authority's total investments. Accordingly, the Authority did not own investments from any one issuer in excess of 5% as of September 30, 2011 and 2010.

Continued

4. Cash and Investments, Continued

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's bank deposits at September 30, 2011 and 2010 are entirely insured or collateralized with securities held by the pledging financial institution's designated trustee in the Authority's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Authority does not have an investment policy for custodial credit risk. At September 30, 2011 and 2010, the Authority owned $164.70 million and $161.20 million, respectively, in securities held by the Authority's brokerage firm in the brokerage firm's name. Securities held in the Authority's brokerage account are protected by insurance coverage in the amount of $500,000 through the Securities Investor Protection Corporation (SIPC). In addition, the Authority's brokerage firm provides, through a licensed insurer rated A+ by Standard and Poors, unlimited insurance protection for amounts in excess of the SIPC limit.

5. Fair Value Measurements

FASB ASC 820, *Fair Value Measurement and Disclosures* defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

FASB ASC 820 describes the following three levels of inputs that may be used:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Continued

5. Fair Value Measurements, Continued

- Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

- Level 3: Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

All of the Authority's investments totaling $164.64 million and $161.18 million at September 30, 2011 and 2010, respectively, are measured using Level 1 inputs, with the exception of one investment. The Authority's investment in the Indonesia-Aid mortgage backed security, valued at $1.5 million and $1.7 million at September 30, 2011 and 2010, respectively, is valued using Level 2 inputs.

6. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at September 30, 2011 and 2010 consisted of these amounts:

	(Dollars In Thousands)	
	2011	2010
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 43,970	$ 42,530
Receivable from Medicare	20,707	20,335
Receivable from Medicaid	8,398	7,000
Total patient accounts receivable	73,075	69,865
Less allowance for uncollectible amounts	(21,380)	(21,161)
Patient accounts receivable, net	$ 51,695	$ 48,704
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 18,510	$ 19,935
Payable to suppliers	10,584	6,077
Other	11,681	10,985
Total accounts payable and accrued expenses	$ 40,775	$ 36,997

Continued

7. Capital Assets

	(Dollars In Thousands)			
	2010	Increases	Decreases	2011
Land	$ 3,858	$ 2,250	$ -	$ 6,108
Market access rights and tradename	-	9,385	-	9,385
Construction in progress	9,858	20,687	23,259	7,286
Total capital assets not being depreciated	13,716	32,322	23,259	22,779
Land improvements	5,996	857	-	6,853
Buildings and improvements	131,359	23,798	2	155,155
Equipment	135,271	24,293	2,940	156,624
Non-compete covenants and other depreciable intangibles	3,875	-	-	3,875
Total capital assets being depreciated	276,501	48,948	2,942	322,507
Less accumulated depreciation and amortization for:				
Land improvements	3,161	293	-	3,454
Buildings and improvements	90,113	4,812	2	94,923
Equipment	101,358	11,545	2,397	110,506
Non-compete covenants and other depreciable intangibles	620	826	-	1,446
Total accumulated depreciation	195,252	17,476	2,399	210,329
Capital assets being depreciated, net	81,249	31,472	543	112,178
Total capital assets, net	$ 94,965	$ 63,794	$ 23,802	$ 134,957

Continued

7. Capital Assets, Continued

	(Dollars In Thousands)			
	2009	Increases	Decreases	2010
Land	$ 3,858	$ -	$ -	$ 3,858
Construction in progress	13,477	9,013	12,632	9,858
Total capital assets not being depreciated	17,335	9,013	12,632	13,716
Land improvements	4,872	1,129	5	5,996
Buildings and improvements	127,997	3,712	350	131,359
Equipment	129,920	9,910	4,559	135,271
Non-compete covenants and other depreciable intangibles	-	3,875	-	3,875
Total capital assets being depreciated	262,789	18,626	4,914	276,501
Less accumulated depreciation and amortization for:				
Land improvements	2,886	280	5	3,161
Buildings and improvements	85,708	4,656	251	90,113
Equipment	94,988	10,848	4,478	101,358
Non-compete covenants and other depreciable intangibles	-	620	-	620
Total accumulated depreciation	183,582	16,404	4,734	195,252
Capital assets being depreciated, net	79,207	2,222	180	81,249
Total capital assets, net	$ 96,542	$ 11,235	$ 12,812	$ 94,965

Depreciation expense for the years ended September 30, 2011 and 2010 amounted to approximately $16.6 million and $15.8 million, respectively. Construction contracts exist for various projects at year end with a total commitment of approximately $14.7 million. At September 30, 2011, the remaining commitment on these contracts is approximately $12 million.

Continued

8. Long-Term Debt

A summary of long-term debt at September 30, 2011 and 2010, follows:

	(Dollars In Thousands) 2011	2010
Revenue Certificates – Series 1998, Obligations satisfied in full with proceeds from the Refunding Revenue Certificates - Series 2010.	$ -	$ 19,200
Revenue Certificates – Series 2002, Payable in annual installments ranging from $1.055 million on October 1, 2011 to $4.41 million on October 1, 2027, with interest ranging from 4.30% to 5.50% paid semi-annually.	33,045	34,015
Revenue Certificates – Series 2007, Payable in annual installments ranging from $815 thousand on October 1, 2011 to $7.24 million on October 1, 2033, with interest ranging from 4.00% to 5.00% paid semiannually.	53,420	54,215
Revenue Certificates – Series 2010, Payable in annual installments ranging from $890 thousand beginning December 1, 2011 to $1.1 million on December 1, 2020, with variable interest rate at market not to exceed 12.00% paid monthly.	10,000	-
Refunding Revenue Certificates – Series 2010, Payable in annual installments ranging from $1.5 million beginning December 1, 2011 to $2.2 million on December 1, 2020, with variable interest rate at market not to exceed 12.00% paid monthly.	18,300	-

Continued

8. Long-Term Debt, Continued

	(Dollars In Thousands)	
	2011	2010
Taxable Revenue Certificates - Series 2011A, Payable in an installment of $100 million due on November 1, 2012, with variable interest rate at market not to exceed 12.00% paid monthly	$ 100,000	-
Other financing obligations, with interest rates ranging from 0.00% to 15.11% and monthly payments ranging from $3 thousand to $35 thousand. Collateralized by equipment.	2,149	-
Total long-term debt	216,914	107,430
Less current installments of long-term debt	4,988	2,665
Long-term debt excluding current installments	211,926	104,765
Unamortized premium and discount	1,065	1,135
Long-term debt excluding current installments and unamortized discount	$ 212,991	$ 105,900

Continued

8. Long-Term Debt, Continued

A schedule of changes in the Authority's long-term debt follows:

	(Dollars In Thousands)				
	2010 Balance	Additions	Reductions	2011 Balance	Amounts Due Within One Year
Revenue certificates	$ 107,430	$ 128,300	$(20,965)	$ 214,765	$ 4,260
Other financing obligations	-	2,149	-	2,149	728
Total long-term debt	107,430	130,449	(20,965)	216,914	4,988
Unamortized premium and discount	1,135	-	(70)	1,065	-
Long-term debt	$ 108,565	$ 130,449	$(21,035)	$ 217,979	$ 4,988

	(Dollars In Thousands)				
	2009 Balance	Additions	Reductions	2010 Balance	Amounts Due Within One Year
Revenue certificates	$ 109,215	$ -	$(1,785)	$ 107,430	$ 2,665
Unamortized premium and discount	1,206	-	(71)	1,135	-
Long-term debt	$ 110,421	$ -	$(1,856)	$ 108,565	$ 2,665

Continued

8. Long-Term Debt, Continued

In January 1998, the Authority issued revenue certificates, Series 1998 in the amount of $20 million for the purpose of (i) the acquisition of certain furniture, fixtures, and equipment for installation in the Hospital and (ii) the construction of certain improvements and alterations to and the equipping of certain facilities of the Hospital.

The Series 1998 Certificates are payable from and secured by the gross revenues of the Authority.

The Series 1998 Certificates are redeemable at the option of the holder for a purchase price equal to 100% of the principal plus accrued and unpaid interest. Certificates tendered for payment are remarketed at an interest rate designed to sell the certificates at par.

The Authority converted its bond insurance/liquidity facility structure on the 1998 Certificates to a bank letter of credit structure with Branch Banking and Trust Company. The letter of credit term is for three years and expires on April 15, 2012.

The Series 1998 Certificates may be converted from the variable market rate to a fixed rate upon meeting certain conditions of the indenture agreement. The Series 1998 Certificates may be redeemed prior to maturity beginning in the fifth year following the conversion:

Year	Price
Fifth	102.0%
Sixth	101.5%
Seventh	101.0%
Eighth	100.5%
Thereafter	100.0%

In December 2010, the Authority refunded the Series 1998 Certificates by issuing the Refunding Revenue Certificates, Series 2010. No gain or loss is recorded in connection with the refunding. The purpose of the refunding is to eliminate the renewal and downgrade risk associated with bank letters of credit.

In January 2002, the Authority issued Revenue Certificates, Series 2002 in the amount of $35 million for the purpose of (i) the construction of certain improvements and alterations to and the equipping of certain facilities of the Hospital, (ii) the acquisition of certain furniture, fixtures and equipment for installation in the Hospital, and (iii) the acquisition of certain property for future expansion of the Hospital.

Continued

8. Long-Term Debt, Continued

The Series 2002 Certificates are special, limited obligations of the Authority payable from and secured by a pledge of and lien on the gross revenues of the Authority. In addition, the Series 2002 Certificates are insured under a municipal bond insurance policy.

The Series 2002 Certificates maturing on or prior to October 1, 2012 are not subject to optional redemption. The Series 2002 Certificates maturing after October 1, 2012 are subject to redemption prior to their respective maturities at a redemption price as set forth below:

Redemption Period	Redemption Price
October 1, 2012 through September 30, 2013	101%
October 1, 2013 and Thereafter	100%

The Series 2002 Certificates are subject to extraordinary redemption from the proceeds of insurance or condemnation awards in the event of any damage to, or destruction or condemnation of, any part of the Hospital if the Authority determines that the property so damaged, destroyed or taken shall not be repaired, replaced, or reconstructed, as provided in the Indenture.

The Indenture established a debt service reserve fund. The debt service reserve fund was not funded upon the original issuance of the Series 2002 Certificates and is only required to be funded if the Authority falls below certain required measures of financial and operational performance. As of September 30, 2011 and 2010, management believes they are in technical compliance with these requirements.

In January 2007, the Authority issued Revenue Certificates, Series 2007, in the amount of $55 million for the purpose of (i) the construction of certain improvements and alterations to and the equipping of certain facilities for the Hospital and (ii) the acquisition of certain furniture, fixtures and equipment for installation in the Hospital.

The Series 2007 Certificates are special, limited obligations of the Authority payable from and secured by a pledge of and lien on the gross revenues of the Authority.

The Series 2007 Certificates maturing on or prior to October 1, 2017 are not subject to optional redemption. The Series 2007 Certificates maturing after October 1, 2017 are subject to redemption prior to their respective maturities, as a whole or in part, at any time on or after October 1, 2017, at a redemption price equal to the principal amount of the Series 2007 Certificates to be redeemed plus interest thereon to the date of redemption without premium.

Continued

8. Long-Term Debt, Continued

The Series 2007 Certificates are subject to extraordinary redemption from the proceeds of insurance or condemnation awards in the event of any damage to, or destruction or condemnation of, any part of the Hospital if the Authority determines that the property so damaged, destroyed or taken shall not be repaired, replaced, or reconstructed, as provided in the Indenture.

The Indenture established a debt service reserve fund. The debt service reserve fund was not funded upon the original issuance of the Series 2007 Certificates and is only required to be funded if the Authority falls below certain required measures of financial and operational performance. As of September 30, 2011 and 2010, management believes they are in technical compliance with these requirements.

Under the terms of the 2002 and 2007 Certificate Indentures, the Authority deposits funds with a trustee sufficient to meet their scheduled Revenue Certificate payments. Such deposits are included with short-term investments in the financial statements.

In December 2010, the Authority issued Revenue Certificate, Series 2010, in the amount of $10 million for the purpose of the construction of certain improvements and alterations to and the equipping of a new outpatient imaging center to be located in the Professional Building on the main campus of South Georgia Medical Center. The Series 2010 Certificate is issued as a bank-qualified, tax-exempt obligation under Section 265(b)(3) of the Internal Revenue Code and is secured by a first priority lien on the equipment in the new imaging center. The Certificate was purchased by Branch Banking and Trust Company.

Principal on the Series 2010 Certificate is due and payable in annual installments beginning December 1, 2011, with a final maturity date of December 1, 2020. Interest on the Certificate is payable monthly at a variable rate of interest that is tied to the one month LIBOR rate. The Certificate is subject to optional redemption at the option of the Authority, without penalty, subject to written notice of the Authority of not less than ten days.

In December 2010, the Authority issued Refunding Revenue Certificate, Series 2010, in the amount of $18.3 million for the purpose of refunding the outstanding Series 1998 Revenue Certificates. The Series 2010 Refunding Revenue Certificate is issued as a bank-qualified, tax-exempt obligation under Section 265(b)(3) of the Internal Revenue Code and is secured by a pledge of and lien on the gross revenues of the Authority. The Certificate was purchased by Branch Banking and Trust Company.

Continued

8. Long-Term Debt, Continued

Principal on the Series 2010 Refunding Revenue Certificate is due and payable in annual installments beginning December 1, 2011, with a final maturity date of December 1, 2020. Interest on the Certificate is payable monthly at a variable rate of interest that is tied to the one month LIBOR rate. The Certificate is subject to optional redemption at the option of the Authority, without penalty, subject to written notice of the Authority of not less than ten days.

In August 2011, the Authority issued Taxable Revenue Certificate, Series 2011A, in the amount of $100 million for the purpose of (i) making certain additions, improvements, extensions, alterations, equipment acquisitions and expansions and (ii) financing the cost of the Series 2011A Certificate. The Series 2011A Certificate is issued as a taxable obligation and is secured by a pledge of and lien on the gross revenues of the Authority. The Certificate was purchased by Bank of America, N.A.

Principal on the Series 2011A Taxable Revenue Certificate is due and payable on November 1, 2012. The loan agreement provides for an automatic extension of the maturity date by fifteen months to end on February 1, 2014 unless the bank notifies the Authority not less than ninety days from the maturity date that the loan will not be extended. Interest on the Certificate is payable monthly at a variable rate of interest that is tied to the one month LIBOR rate. The Certificate is subject to optional redemption at the option of the Authority, without penalty, subject to written notice of the Authority of not less than five days.

The debt service requirements of long-term debt at September 30, 2011 are as follows:

	(Dollars In Thousands)	
	Principal	Interest
2012	$ 4,988	$ 4,304
2013	105,094	4,222
2014	5,153	4,134
2015	4,759	4,037
2016	4,825	3,935
2017-2021	26,230	18,080
2022-2026	16,685	14,828
2027-2031	28,475	8,767
2032-2037	20,705	1,561
Total	$ 216,914	$ 63,868

Continued

9. Deferred Financing Costs

Bond issue costs and loan origination fees are amortized over the life of the debt instrument. Amortization expense for the years ended September 30, 2011 and 2010 amounted to approximately $135 thousand and $55 thousand, respectively.

10. Goodwill and Intangibles

On January 1, 2010, the Authority purchased a diagnostic imaging center in the amount of $9 million. Included in this acquisition were certain tangible and intangible assets. The Authority assumed $1.8 million of tangible assets, which consisted primarily of $1.4 million in capital assets, and no liabilities. This transaction resulted in $3.3 million of goodwill and $3.9 million of intangible assets consisting primarily of non-compete agreements of $3 million. The goodwill recognized is the result of a long history of successful operation of a diagnostic imaging center in Valdosta, Georgia. The center was owned and operated by eight radiologists that have a reputation for high quality and excellent service to the patients in the service area. The goodwill will be evaluated for impairment each year and the intangible assets will be amortized over a period of five years. At September 30, 2011 and 2010, the balance sheet reported goodwill of $3.3 million and unamortized intangibles of $3.3 million and $2.4 million, respectively, related to the diagnostic imaging center. The statement of revenues, expenses and changes in net assets included amortization expense of $826 thousand and $620 thousand for 2011 and 2010, respectively.

On September 1, 2011 the Authority purchased the assets of Smith Northview Hospital, an acute care hospital located in Lowndes County, Georgia and licensed to operate 45 beds. This transaction resulted in $26.6 million of goodwill and $9.4 million of intangible assets consisting primarily of market access rights and trademark values. The goodwill recognized is the result of a long history of successful operations resulting in strong earnings and consistent growth in revenues. The goodwill will be evaluated for impairment each year. The market access rights and the trademark asset are deemed to have indefinite lives, and will therefore be evaluated for impairment each year. At September 30, 2011, the balance sheet reported goodwill of $26.6 million and intangibles of $9.4 million related to Smith Northview Hospital.

Continued

10. Goodwill and Intangibles, Continued

The changes in the carrying amount of goodwill for the years ended September 30, 2011 and 2010, are as follows:

	(Dollars In Thousands)	
	2011	2010
Balance at the beginning of the year:		
Goodwill	$ 3,309	$ -
Accumulated impairment losses	-	-
Net balance at the beginning of the year	3,309	-
Goodwill acquired during the year	26,585	3,309
Impairment losses	-	-
Balance at end of the year	29,894	3,309
Accumulated impairment losses	-	-
Net balance at the end of the year	$ 29,894	$ 3,309

11. Related Party Transactions

Because of the existence of common trustees and other factors, the Hospital, South Georgia Medical Center Foundation, Inc. (Foundation), South Georgia Health Alliance, Inc. (Alliance) and Lanier Health Services, Inc. (Health Services) are related parties.

The Foundation is authorized by the Hospital to solicit contributions on its behalf. In its general appeal for contributions to support the community's providers of health care services, the Foundation also solicits contributions for certain other related health care institutions. In the absence of donor restrictions, the Foundation has discretionary control over the amounts, timing, and use of its distributions. During the years ended September 30, 2011 and 2010, the Hospital provided work space, utilities and personnel free of charge to the Foundation.

Continued

11. Related Party Transactions, Continued

The Alliance operates the not-for-profit entities of the Hospice of South Georgia, an organization providing supportive care for terminally ill patients and their families and Langdale Place, a residential care facility. All funds raised in excess of operating needs are designated by the Alliance Board for health care purposes.

In 1998, the Alliance issued revenue bonds for the construction of Langdale Place. The revenue bonds were satisfied with proceeds from a note payable in the amount of $4.50 million, repayment of which is guaranteed by the Authority. Under the terms of the guarantee, the Authority is required to maintain certain required measures of financial performance as long as the letter of credit is outstanding. As of September 30, 2011 and 2010, management believes they are in technical compliance with these requirements.

On January 1, 1993, Health Services leased a 40-bed hospital and purchased a 62-bed nursing home located in Lakeland, Georgia. The Authority holds an installment note in the amount of $279 thousand bearing interest at 4.8% as of September 30, 2011. During 1997, Health Services entered into a capital lease with the Authority for a medical office building. The capitalized cost was $1.97 million with imputed interest at 5.27%. At September 30, 2011, the unpaid principal balance of the capital lease was $689 thousand. The Authority has extended a line of credit to Health Services in an amount not to exceed $9 million, bearing interest at 80% of LIBOR. At September 30, 2011 and 2010, Health Services owes the Authority approximately $8.8 million and $7.5 million, for which an allowance for uncollectibility of $8.1 million and $6.9 million is recorded, for various management and administrative services and the purchase of certain property and real estate. This debt bears interest at 80% of LIBOR.

In addition to the above, included in other receivables on the balance sheet are related party receivables in the amounts of $2.8 million and $2.4 million for fiscal years 2011 and 2010, respectively.

Continued

11. Related Party Transactions, Continued

Summarized financial information from the financial statements of the related parties follows:

South Georgia Medical Center Foundation, Inc.

	(Dollars In Thousands)	
	(Audited) June 30, 2011	(Audited) June 30, 2010
Assets, principally cash and cash equivalents and investments	$ 5,545	$ 5,626
Liabilities, accounts payable	11	10
Net assets:		
General	2,545	2,600
Restricted	2,989	3,016
Total net assets	5,534	5,616
Total liabilities and net assets	$ 5,545	$ 5,626
Support and revenue	$ 382	$ 827
Expenses:		
Administrative expenses	147	129
Charitable disbursements	317	429
Total expenses	464	558
Net support, revenue and expenses after charitable disbursements	(82)	269
Net assets, beginning	5,616	5,347
Net assets, ending	$ 5,534	$ 5,616

Continued

11. Related Party Transactions, Continued

South Georgia Health Alliance, Inc.

	(Dollars In Thousands) (Unaudited) September 30, 2011	(Audited) September 30, 2010
Current assets	$ 4,964	$ 4,967
Other assets	5,724	6,199
Total assets	$ 10,688	$ 11,166
Current liabilities	$ 3,593	$ 3,152
Long-term debt	4,771	5,142
Net assets	2,324	2,872
Total liabilities and net assets	$ 10,688	$ 11,166
Revenues and gains	$ 5,810	$ 5,456
Expenses	(6,379)	(5,935)
Excess expenses over revenues	(569)	(479)
Related party transfer	21	237
Decrease in net assets	(548)	(242)
Net assets, beginning	2,872	3,114
Net assets, ending	$ 2,324	$ 2,872

Continued

11. Related Party Transactions, Continued

Lanier Health Services, Inc.

	(Dollars In Thousands)	
	(Unaudited) September 30, 2011	(Audited) September 30, 2010
Total assets, principally patient accounts receivable and property and equipment	$ 3,906	$ 4,554
Total liabilities, current payables and long-term debt	10,878	9,964
Net assets	(6,972)	(5,410)
Total liabilities and net assets	$ 3,906	$ 4,554
Total revenues, gains and other support	$ 11,060	$ 11,812
Total expenses	(12,577)	(13,247)
Excess of expenses over revenues, gains and other support	(1,517)	(1,435)
Capital contributions	29	46
Net assets released from restriction to purchase property and equipment	(74)	(70)
Decrease in net assets	(1,562)	(1,459)
Net assets, beginning	(5,410)	(3,951)
Net assets, ending	$(6,972)	$(5,410)

Continued

12. Acquisition of Smith Northview Hospital

On September 1, 2011, the Authority purchased Smith Northview Hospital. Accordingly, the results of operations for Smith Northview Hospital have been included in the accompanying financial statements from that date forward. The acquisition was made for the purpose of strengthening the Authority's competitive position in the service area.

	(Dollars In Thousands)
Consideration for the acquisition comprised the following (at fair value):	
Cash	$ 55,754

Goodwill in the amount of $26.6 million was recognized in the acquisition of Smith Northview Hospital and is attributable to a long history of successful operations resulting in strong earnings and consistent growth in revenues.

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

	(Dollars In Thousands)
Physician receivables	$ 470
Prepaid expenses	113
Supplies	1,260
Capital assets	19,493
Current liabilities	(537)
Other assumed liabilities	(1,015)
Identifiable intangible assets	9,385
Total identifiable net assets	29,169
Goodwill	26,585
Total	$ 55,754

Identifiable intangible assets acquired include market access rights and trademark values, whose fair value is $9.4 million.

Continued

12. Acquisition of Smith Northview Hospital, Continued

The amounts of Smith Northview Hospital's revenue and earnings included in the statements of revenues, expenses and changes in net assets (from the date of acquisition) for 2011 are \$4.4 million and \$611 thousand, respectively. The following pro forma information is based on the assumption that the acquisition occurred on October 1, 2009.

	(Dollars In Thousands) 2011	2010
Operating revenue	\$ 301,110	\$ 297,883
Excess revenues over expenses before capital contributions	\$ 13,124	\$ 26,162

Costs related to the acquisition, which include legal, consulting, valuation, and other fees, in the amount of \$765 thousand have been charged directly to operations and are included in the medical and professional fees, supplies, services, insurance, and education and recruitment lines in the 2011 statements of revenues, expenses, and changes in net assets.

13. Pension Plan

Deferred Compensation Plans

The Authority has a deferred compensation plan under Section 401(k) of the Internal Revenue Code which allows employees to defer income taxes on a portion of their earnings. The Authority has no liability for investment losses incurred by the plan. The assets of the plan are in the individual participant's name and are not subject to claims by creditors of the Authority. In 2004, the Authority created an additional deferred compensation plan structured similarly to the 401(k) plan. This plan was established under Internal Revenue Code Section 457(b). Total participant contributions to the 401(k) and 457(b) plans were approximately \$3.50 million and \$3.20 million in 2011 and 2010, respectively. Total contributions by the Authority on behalf of the participants were approximately \$2.7 million and \$2.6 million in 2011 and 2010, respectively. Administrative expenses for the above plans are borne by the participants.

Continued

13. Pension Plan, Continued

Deferred Compensation Plans, Continued

The Authority also has a defined benefit pension plan covering substantially all of its employees. The Authority's trustees have the authority to establish and amend benefit provisions. The plan is a single employer plan providing retirement, death and disability benefits. The plan benefits are based on years of service and the employees' compensation. The Authority is providing for the cost of this plan as benefits are accrued based upon actuarial determinations employing the entry age normal actuarial cost method. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. For more information on the plan, contact South Georgia Medical Center administration.

Effective May 15, 2009 the accrued retirement benefit of participants was frozen at the level earned as of that date. No otherwise eligible employee who had not already reached his entry date and entered the plan on or before May 15, 2009 shall enter and participate in the plan after such date.

The plan uses the unit credit funding method to appropriately reflect the current and future benefit obligations of the plan.

Employer contributions have been determined as follows:

Actuarial Valuation Date	January 1, 2011
Actuarial Cost Method	Unit credit
Asset Valuation Method	Actuarial, Smoothed Market without phase-in
Amortization Method	Level dollar
Amortization Period	30 years, Closed

Continued

13. Pension Plan, Continued

Deferred Compensation Plans, Continued

Significant Actuarial Assumptions:

a) Rate of Return on Present and Future Assets	7.5% Compounded Annually
b) Projected Salary Increase - Attributable to Inflation	N/A; Plan is frozen
c) Additional Projected Salary Increases -	N/A; Plan is frozen

The Authority's annual pension cost and net pension obligation for 2011 and 2010 were as follows:

	(Dollars In Thousands)	
	2011	2010
Annual required contribution	$ 1,500	$ 1,140
Contributions made	(1,500)	(1,140)
(Increase) decrease in net pension asset	-	-
Net pension asset, beginning of year	-	-
Net pension asset, end of year	$ -	$ -

Continued

13. Pension Plan, Continued

Three Year Trend Information

(Dollars in Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution	Percentage of APC Contributed	Net Pension Asset
September 30, 2009	$ 2,347	$ 2,347	100%	$ -
September 30, 2010	$ 1,140	$ 1,140	100%	$ -
September 30, 2011	$ 1,500	$ 1,500	100%	$ -

The funded status for the plan as of the most recent actuarial valuation date is as follows (dollars are in thousands):

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2011	$ 68,417	$ 71,802	$ 3,385	95.3%	N/A	N/A
					Plan is frozen	

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

14. Indigent Care Trust Fund

The Hospital participates in the State of Georgia Division of Medical Assistance Indigent Care Trust Fund (Fund) with other providers having a disproportionate share of indigent patient care. The Hospital receives funds in excess of its contributions to the Fund. In 2011 and 2010, the Hospital recognized income in the amount of $6.13 million and $4.17 million, respectively, associated with the Fund.

Continued

15. Commitments and Contingencies

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Rent expense under operating leases is approximately $2.50 million for each of the years ended September 30, 2011 and 2010, respectively. Future minimum operating lease payments for noncancelable operating leases are as follows:

	(Dollars In Thousands)
2012	$ 2,404
2013	2,394
2014	2,391
2015	2,253
2016	2,253
Total	$ 11,695

16. Employee Health Plan

The Authority has a self-insurance program under which a third party administrator processes and pays claims. The Authority reimburses the third party administrator for claims incurred and paid and has purchased stop-loss insurance coverage for claims in excess of $500 thousand for each individual employee. In addition, the Authority has entered into a loss financing agreement with ten Georgia hospitals through a program developed by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims between $150 thousand and $500 thousand. Payments received from the program must be repaid over a specified period of time with interest. Under this self-insurance program, $13.58 million and $14.76 million was paid or accrued and expensed during the years ended September 30, 2011 and 2010, respectively.

Continued

17. Professional Liability Claims

The Authority has purchased commercial insurance to cover professional or general liability claims. The policy is written on a claims-made basis with a self-insured retention amount of $2.5 million per claim, $7 million aggregate for fiscal years 2011 and 2010. The Authority uses a third party administrator to review and analyze incidents that may result in a claim against the Authority. In conjunction with the third party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim. The Authority also uses independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. The Authority has designated assets to be used for liabilities resulting from claims for which the Authority may ultimately be responsible. Accrued professional claims are included in the financial statements and in management's opinion provide an adequate reserve for loss contingencies.

18. Fair Values of Financial Instruments

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

- Cash and Cash Equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.
- Short-term Investments: These assets consist primarily of cash and cash equivalents. The carrying amount reported in the balance sheet for short-term investments approximates fair value.
- Noncurrent Cash and Investments: These assets consist primarily of cash, equity securities, mutual funds, corporate bonds, mortgage-backed securities and government securities. Fair value of the noncurrent cash and investments is based on the current trading value and market inputs.
- Accounts Payable and Accrued Expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.
- Estimated Third Party Payor Settlements: The carrying amount reported in the balance sheet for estimated third party payor settlements approximates its fair value.
- Long-Term Debt: The fair value of the Authority's 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.

Continued

18. Fair Values of Financial Instruments, Continued

The carrying amounts and fair values of the Authority's financial instruments at September 30, 2011 and 2010 are as follows:

	(Dollars In Thousands)			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 74,589	$ 74,589	$ 66,884	$ 66,884
Short-term investments	$ 16,346	$ 16,346	$ 12,579	$ 12,579
Noncurrent cash and investments	$ 205,109	$ 205,109	$ 164,509	$ 164,509
Accounts payable and accrued expenses	$ 40,775	$ 40,775	$ 36,997	$ 36,997
Estimated third-party payor settlements	$ 510	$ 510	$ 503	$ 503
Long-term debt	$ 217,979	$ 231,057	$ 108,565	$ 119,570

Continued

19. Concentration of Credit Risk

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

	2011	2010
Medicare	41%	42%
Medicaid	16%	14%
Blue Cross	11%	12%
Other third-party payors	23%	20%
Patients	9%	12%
Total	100%	100%

20. Medicaid Upper Payment Limit

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for enhanced payments to Medicaid providers under the Upper Payment Limit (UPL) methodology. Subsequent to the implementation of the UPL methodology, federal budget concerns have led to reconsideration of the BIPA legislation with possible elimination or reduction of enhanced Medicaid payments. The financial statements include enhanced payments for 2011 and 2010 of approximately $3.0 million and $659 thousand, respectively.

21. 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 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.

22. Prior Year Reclassification

Certain reclassifications have been made to the fiscal year 2010 financial statements to conform to the fiscal year 2011 presentation. These reclassifications had no impact on the change in net assets in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

Analysis of Funding Progress for Pension Benefit Obligation

(Dollars In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)–Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
01/01/09	$ 62,348	$ 63,771	$ 1,423	97.8%	$ 55,818	2.5%
01/01/10	$ 67,936	$ 68,096	$ 160	99.8%	N/A	N/A
01/01/11	$ 68,417	$ 71,802	$ 3,385	95.3%	N/A	N/A

Plan is frozen

See independent auditor's report.

TAB

2

SOUTH GEORGIA
MEDICAL CENTER

Telephone (229) 259-4160
Fax (229) 259-4163
greg.hembree@sgmc.org

Greg S. Hembree
Chief Financial Officer

CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, Greg S. Hembree, the Chief Financial Officer of the Hospital Authority of Valdosta and Lowndes County, Georgia d/b/a South Georgia Medical Center, have reviewed the attached schedules itemized below. These schedules are for the fiscal year ended September 30, 2011:

Health Care Service and Operations
- Medical Staff
- Nursing and Professional Staff

Historical Utilization and Occupancy
- Utilization Statistics
- Sources of Patient Revenues

Summary Financial Information
- Summary of Revenue and Expenses and Debt Service Coverage
- Summary of Balance Sheet Data

To the best of my knowledge the schedules are true and accurate.

Greg S. Hembree
Chief Financial Officer

HEALTH CARE SERVICES AND OPERATIONS
Medical Staff

The following table shows by specialty the number of active and provisional staff members, the number of staff members who are board certified, and the average age of the members of the Hospital as of September 2011:

Specialty	Active/Provisional Staff	Board Certified	Average Age
Allergy	1	1	65
Anesthesia	12	10	52
Cardio/Thoracic Surgery	4	4	51
Cardiology	5	5	49
Dentistry	13	0	50
Dermatology	2	2	50
Emergency Medicine	42	35	46
Family Practice	15	12	47
Gastroenterology	5	5	51
General Surgery	16	15	55
Internal Medicine	19	14	51
Internal Medicine-Hospitalist	14	11	50
Nephrology	3	3	48
Neuro Surgery	2	1	50
Neurology	6	4	52
OB/GYN	13	10	50
Oncology Hematology	4	3	43
Oncology Radiology	1	1	56
Ophthalmology	10	9	49
Oral Surgery	5	3	54
Orthopedic Surgery	9	8	47
Otolaryngology Surgery	5	4	45
Pain Management	1	1	46
Pathology	3	3	51
Pediatrics	10	10	48
Plastic Surgery	4	3	52
Podiatry	10	6	38
Psychiatry	9	8	47
Pulmonology	2	2	51
Radiology	9	9	53
Rheumatology	1	1	47
Urological Surgery	3	3	55
Total	258	206	49

The following table shows the number and percentage of admissions by specialty for the fiscal year ended September 30, 2011, for specialties representing 2% or more of admissions at the Hospital:

Specialty	Number of Admissions	Percentage of Admissions
Internal Medicine	5,607	40.1%
Cardiology	426	3.1%
Nephrology	317	2.3%
OB/GYN	1,972	14.1%
Psychiatry	1,928	13.8%
Pediatrics	304	2.2%
Surgery - General	1,120	8.0%
Surgery - Orthopedic	692	5.0%
Surgery - Neuro	419	3.0%
Surgery - Cardio/Thoracic	295	2.1%
Total	13,080	93.7%

The following table shows the top ten admitting physicians by specialty and age for the fiscal year ended September 30, 2011:

Specialty	Age	Number of Admissions	Percentage of Admissions
Psychiatry	38	761	5.4%
Internal Medicine	54	421	3.0%
Int. Med./Hospitalist	52	420	3.0%
Internal Medicine	50	375	2.7%
Psychiatry	61	367	2.6%
Int. Med./Hospitalist	47	361	2.6%
Psychiatry	47	356	2.5%
Internal Med/Pediatrics	42	312	2.2%
Int. Med./Hospitalist	43	310	2.2%
Int. Med./Hospitalist	48	299	2.1%
Total		3,982	28.5%

* Includes one month of Smith Northview data

Nursing and Professional Staff

The nursing and other professional staff of the South Georgia Medical Center, Smith Northview Hospital and Greenleaf Center as of September 30, 2011 consists of the following:

Professional Staff	Full-time Equivalents	Part-time	Total
Registered Nurses	628	130	758
Licensed Practical Nurses	60	14	74
Student nurses	62	17	79
Radiology/Lab Techs	138	24	162
Pharmacists	22	9	31
Other*	377	132	509

* Includes emergency medical technicians, physician assistants, interns and other professional staff.

HISTORICAL UTILIZATION AND OCCUPANCY

Utilization Statistics

The following table provides selected statistical information regarding utilization of the Authority's facilities, including the South Georgia Medical Center, Smith Northview Hospital (Sept 2011 only) and Greenleaf Center:

	Fiscal years ended September 30,				
	2007	2008	2009	2010	2011
Licensed beds	335	335	335	335	380
Beds in service	335	335	335	335	380
Admissions	14,641	15,599	15,741	15,253	13,960
Patient days	69,958	75,093	75,828	75,901	70,932
Adjusted patient days	125,643	131,213	134,542	141,237	138,215
Adjusted discharges	26,295	27,257	27,929	28,383	27,202
Average daily census	192	205	208	208	194
Average length of stay	4.78	4.81	4.82	4.98	5.08
Occupancy percent	57.2%	61.4%	62.0%	62.1%	57.4%
Outpatient visits:					
Emergency	38,808	53,281	59,336	59,061	62,221
Walk-in clinics	31,241	10,760	6,767	7,033	8,039
Pediatric clinics	13,090	13,149	14,732	9,426	9,461
Ambulatory surgery	13,612	14,043	14,022	13,092	13,452
Behavioral health	18,694	20,467	8,250	5,474	5,433
Observation visits	1,275	1,119	1,380	2,928	3,726
Other outpatients	93,113	95,433	109,535	134,809	133,333
Outpatient revenue percent	44.3%	42.8%	43.6%	46.3%	48.7%
Full Time Equivalent Employees:					
Total	1,792	1,935	2,009	2,010	2,018
Per adjusted occupied bed	5.21	5.40	5.45	5.19	5.33
Medicare case mix index	1.55	1.57	1.57	1.62	1.63

* Includes one month of Smith Northview data

Sources of Patient Revenues

Payments for the Authority's health care services are made on behalf of certain patients by third party insurance plans and governmental agencies. The payor mix of the South Georgia Medical Center, Smith Northview Hospital and the Greenleaf Center has been stable over the past five years. The majority of the Authority's PPO contracts pay on a discounted charge basis. The following table shows a percentage breakdown of patient revenue by payor source for the five fiscal years ended September 30, 2007 through 2011.

	Fiscal years ended September 30,				
	2007	2008	2009	2010	2011
Medicare	46.0%	44.6%	45.9%	47.5%	47.0%
Medicaid	14.6	14.9	14.4	13.6	14.1
Tricare	4.5	4.9	5.4	5.1	5.1
State Health	5.2	5.3	5.1	4.9	4.9
Blue Cross	8.5	8.6	8.2	8.2	8.2
PPO	9.3	9.1	8.2	9.0	9.1
Insurance	2.3	2.6	1.2	0.9	0.8
Self pay and other	8.6	9.0	10.8	10.2	10.1
Workers compensation	1.0	1.0	0.8	0.6	0.7
Total	100%	100%	100%	100%	100%

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary historical financial and statistical information regarding the Authority for the five most recent fiscal years ended September 30, 2011. The summary historical financial information below for FY 2007 - 2010 has been derived from audited financial statements of the Authority and the related notes thereto.

SUMMARY OF REVENUES AND EXPENSES AND DEBT SERVICE COVERAGE
(dollars in thousands)

	Fiscal years ended September 30,				
	2007	2008	2009	2010	2011
Revenues:					
Net patient service revenue	$200,252	$221,104	$233,720	$245,068	$248,972
Other revenue	8,118	8,834	9,108	8,649	9,040
Total operating revenue	$208,370	$229,938	$242,828	$253,717	$258,012
Expenses:					
Salaries, wages and benefits	$98,917	$112,000	$118,243	$118,856	$120,625
Supplies and other expenses	77,832	91,834	102,573	106,234	109,868
Depreciation and amortization	11,792	12,691	16,446	16,404	17,477
Total operating expenses	$188,541	$216,525	$237,262	$241,494	$247,970
Operating income	$19,829	$13,413	$5,566	$12,223	$10,042
Nonoperating income:					
Investment income	$14,308	($2,466)	$8,265	$14,630	$4,220
Interest expense	(4,832)	(5,379)	(4,977)	(4,785)	(4,894)
Noncapital contributions	-	-	2,500	-	-
Total nonoperating income	$9,476	($7,845)	$5,788	$9,845	($674)
Excess revenues over expenses	$29,305	$5,568	$11,354	$22,068	$9,368
Debt service coverage ratios:					
Excess revenues over expenses	$29,305	$5,568	$11,354	$22,068	$9,368
Depreciation and amortization	11,792	12,691	16,446	16,404	17,477
Interest expense	4,832	5,379	4,977	4,785	4,894
Net revenues available for debt service	$45,929	$23,638	$32,777	$43,257	$31,739
Historical actual long-term debt service **	$7,452	$8,144	$8,677	$6,570	$7,559
Historical actual debt service coverage	**6.16**	**2.90**	**3.78**	**6.58**	**4.20**

SUMMARY OF BALANCE SHEET DATA
(dollars in thousands)

	As of September 30, 2007	2008	2009	2010	2011
Cash and cash equivalents	$86,011	$57,681	$64,470	$66,884	$74,589
Short-term investments	16,499	22,731	10,831	12,579	16,346
Patient accounts receivable, net	38,840	42,693	46,334	48,704	51,695
Other current assets	7,444	8,715	11,583	10,835	11,748
Total current assets	$148,794	$131,820	$133,218	$139,002	$154,378
Noncurrent cash and investments	$142,885	$143,315	$150,985	$164,509	$205,109
Property and equipment, net	77,071	93,960	96,542	94,965	134,957
Other assets	5,087	5,644	5,555	7,693	34,416
Total assets	$373,837	$374,739	$386,300	$406,169	$528,860
Current liabilities	$39,115	$37,319	$39,892	$40,165	$46,273
Long-term debt, excluding current maturities	$114,263	$111,278	$108,636	$105,900	$212,991
Net assets	220,459	226,142	237,772	260,104	269,596
Total liabilities and net assets	$373,837	$374,739	$386,300	$406,169	$528,860