

**HOSPITAL FACILITY AUTHORITY OF
DOUGLAS COUNTY, OREGON**
(A Component Unit of Douglas County, Oregon)

FINANCIAL STATEMENTS
Year Ended June 30, 2005

HOSPITAL FACILITY AUTHORITY OF DOUGLAS COUNTY, OREGON
(A Component Unit of Douglas County, Oregon)

Board of Directors

<u>Name</u>	<u>Term Expiration Date</u>
Tracy DePew P.O. Box 921 Glendale, Oregon 97442	April 19, 2006
Dell Gray 2750 W. Harvard Roseburg, Oregon 97470	April 25, 2007
Melvin Cheney 1161 NE Granite Ridge St. Roseburg, Oregon 97470	March 9, 2008
Marilyn Kittelman* 1036 SE Douglas Ave., Room 217 Roseburg, Oregon 97470	March 9, 2008
Terry Swagerty 744 SE Rose Roseburg, Oregon 97470	September 18, 2005
Jose' Vargas-Bozo 141 Umpqua College Road Roseburg, Oregon 97470	March 9, 2008
Paul Utz 1224 NE Walnut Street Roseburg, Oregon 97470	April 21, 2007
Sharon Wilson 311 Maplewood Lane Roseburg, Oregon 97470	September 4, 2005

*This member is serving as a member of the governing body (Douglas County Board of Commissioners) and shall serve only so long as he/she is a member of the governing body and, in any event, no longer than six years.

HOSPITAL FACILITY AUTHORITY OF DOUGLAS COUNTY, OREGON
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INDEPENDENT AUDITOR'S REPORT

November 18, 2005

Board of Directors
Hospital Facility Authority of Douglas County, Oregon
Roseburg, Oregon

We have audited the basic financial statements of the Hospital Facility Authority of Douglas County, Oregon, a component unit of Douglas County, Oregon, as of and for the year ended June 30, 2005, as listed in the table of contents. 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 audit.

We conducted our audit 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 audit provides 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 Facility Authority of Douglas County, Oregon as of June 30, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 and 3 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Kenneth Kuhns & Co.

Kenneth Kuhns & Co.

Hospital Facility Authority of Douglas County, Oregon

Management's Discussion and Analysis

(MD&A)

The Hospital Facility Authority was created pursuant to ORS 441.530 to provide the people of Douglas County with access to adequate medical care and hospital facilities. The Douglas County Board of Commissioners appoints members of the Authority's Board; and may change or dissolve the Authority at any time, provided the Authority has no bonds or other obligations outstanding. Therefore, the Authority is reported as a component unit in the Comprehensive Annual Financial Report of Douglas County, Oregon.

Financial Highlights

- The Hospital Facility Authority's assets equal liabilities. Assets are restricted to pay bonded debt and associated interest.
- In December 2004, the Hospital Facility Authority of Douglas County Revenue Bond Series 1994B was refunded with the issuance of Hospital Facility Authority of Umatilla County, Oregon Series 2004A Revenue Bonds. Total Series 1994B Bond principal paid in the 2005 fiscal year was \$8,015,000.
- The Hospital Facility Authority's assets and liabilities each decreased by \$8,040,000 in 2005. The decrease represents a decrease in contracts receivable due to contract collections and a decrease in bonded debt due to the redemption of the 1994B Series bonds as well as the scheduled bond principal payments.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Hospital Facility Authority's basic entity-wide financial statements, which have been prepared in accordance with generally accepted accounting principles. The entity-wide presentation is designed to provide readers with a broad overview of the Hospital Facility Authority, in a manner similar to a private sector business. These financial statements focus on the Hospital Facility Authority's overall financial condition, its results of operations and its cash flows. The entity-wide financial statements consist of:

- The *Statement of Net Assets* presents information on all of the Hospital Facility Authority's assets and liabilities, with any difference between the two reported as net assets.
- The *Statement of Activities* presents information showing how net assets changed. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- The *Statement of Cash Flows*, which presents information about cash receipts and cash payments during the year. This statement also assists users in assessing the Hospital Facility Authority's ability to generate net cash flows, its ability to meet its obligations as they come due, and its potential need for external financing.

- The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements.

Government-wide Financial Analysis

The Hospital Facility Authority's assets consist of contracts receivable from Catholic Health Initiatives and Aspen Foundation. These represent amounts loaned by the Hospital Facility Authority for construction and renovation of health care facilities and an adult congregate living facility. Collections on these receivables provide funds to meet principal and interest obligations as they become due on bonded debt sold by the Hospital Facility Authority to fund the construction and renovation of the facilities. The basic financial statements can be found on pages 4 through 6.

Financial Analysis of the Hospital Authority Fund

The Hospital Facility Authority operates from one fund. Its primary business activity is to lend money to construct hospital and related care facilities and to issue bonds to finance the construction. The Hospital Facility Authority has one contract receivable from Aspen Foundation for \$1,760,000. A detailed schedule of bonded debt can be found on page 9.

Budget

Pursuant to ORS 294.316(10), the Hospital Facility Authority is exempt from preparing and adopting a budget.

Debt Administration

Long-term Debt. As of June 30, 2005, the Hospital Facility Authority had \$1,760,000 in bonded debt. The change in long-term debt can be found in Note 3 beginning on page 8.

For the Future

The 1997 Series A Bonds provide for early redemption beginning September 1, 2007 at a redemption price of 102%, declining to 101% on September 1, 2008 and to 100% on September 1, 2009. The 1997 Series B Bonds are not redeemable prior to maturity.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Office of Management and Finance, 1036 SE Douglas Ave., Roseburg, Oregon 97470.

BASIC FINANCIAL STATEMENTS

HOSPITAL FACILITY AUTHORITY OF DOUGLAS COUNTY, OREGON
(A Component Unit of Douglas County, Oregon)

STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

Contracts receivable, restricted \$ 1,760,000

LIABILITIES and NET ASSETS

Liabilities:

Noncurrent liabilities:

Due within one year 30,000

Due in more than one year:

1997 Series A Semi-annual Tender Revenue Bonds,
7.5%, maturing through fiscal 2028 1,730,000

Total liabilities 1,760,000

Net Assets \$ -

The accompanying notes are an integral part of these financial statements.

HOSPITAL FACILITY AUTHORITY OF DOUGLAS COUNTY, OREGON
(A Component Unit of Douglas County, Oregon)

STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2005

Non-operating revenues (expenses):	
Interest income from contracts receivable	\$ 561,531
Interest expense	<u>(561,531)</u>
Change in net assets	-
Net Assets, beginning of year	<u>-</u>
Net Assets, end of year	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

HOSPITAL FACILITY AUTHORITY OF DOUGLAS COUNTY, OREGON
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STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

Cash flows from non-capital financing activities:	
Principal payments - bonds	\$ (8,040,000)
Interest paid	<u>(561,531)</u>
Net cash used in non-capital financing activities	<u>(8,601,531)</u>
Cash flows from investing activities:	
Principal payments received on contracts	8,040,000
Interest received from health care providers	<u>561,531</u>
Net cash provided by investing activities	<u>8,601,531</u>
Net change in cash	-
Cash, beginning of year	<u>-</u>
Cash, end of year	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

HOSPITAL FACILITY AUTHORITY OF DOUGLAS COUNTY, OREGON
(A Component Unit of Douglas County, Oregon)

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Hospital Facility Authority of Douglas County, Oregon (the Authority), was created pursuant to ORS 441.530 to provide the people of Douglas County with access to adequate medical care and hospital facilities. The Authority has the power to acquire, own, lease, sell and otherwise dispose of hospital facilities, or lend money to construct hospital facilities, and to issue bonds and other obligations to provide hospital facilities. The Douglas County Board of Commissioners appoints the members of the Authority's Board. The Board of Commissioners (the Board) may, at its sole discretion, alter or change the structure, organization, programs or activities of the Authority, subject to any limitations imposed by the impairment of contracts. The Board may dissolve the Authority at any time, provided the Authority has no bonds or other obligations outstanding. Therefore, the financial data of the Authority is included as a component unit in the Comprehensive Annual Financial Report of Douglas County, Oregon.

B. Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the Authority.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include contributions that are restricted to meeting the requirements of the particular function.

C. Basis of Accounting

The Authority is a single enterprise fund and uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Authority applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Federal and State Income Taxes

The Authority is a nonprofit municipal corporation not subject to federal or state income taxes; therefore, no provision for income taxes is made in the accompanying financial statements.

HOSPITAL FACILITY AUTHORITY OF DOUGLAS COUNTY, OREGON
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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

E. 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.

Note 2 – Contracts Receivable

A contract receivable from Aspen Foundation represents the amount loaned by the Authority for the purchase and renovation of an adult congregate living facility (Facility). The Aspen Foundation is a non-profit corporation of the State of Oregon.

The Aspen Foundation has entered into notes with the Authority for the funds loaned to them by the Authority. Receipts from the repayment of loaned funds are pledged for revenue bond debt service. Annual installments, interest and maturities correspond to the Hospital Facility Revenue Bonds described in note 3. During 1999, Norwest Bank of Minnesota replaced First National Bank of Omaha as Master Trustee. All notes issued under the Master Trust Indenture are jointly and severally guaranteed as to payment by all of the participants who are party thereto and are collateralized in part by the Debt Service Reserve Fund – Master Trust established thereby, as described in notes 3 and 4. The 1997 Series Bonds note was issued by the Aspen Foundation under the Indenture of Trust with First Security Bank N.A. as Trustee. The note is collateralized in part by the Series A Debt Service Reserve Fund and other funds as described in note 3. The Authority has a security interest in the gross receivables from the Facility along with a first lien on the Facility including the equipment, inventory and other personal property. Aspen Foundation representatives have advised the Authority that they are in compliance with all covenants and restrictions included in the loan agreement. The notes outstanding at June 30, 2005 are as follows:

Aspen Foundation	
Related to 1997 A & B Series Bonds	<u>\$1,785,000</u>

Note 3 - Liabilities

The 1994B Series Bonds and the interest thereon were special obligation notes of the Hospital Facility Authority of Douglas County, Oregon. These Bonds were redeemed by the Catholic Health Initiatives (Health Care Provider) in December 2004 at a redemption price of 102%. This redemption was part of a refunding bond issue through the Hospital Authority of Umatilla County, Oregon.

The 1997 Series A and Series Bonds and interest thereon are special obligations of the Hospital Facility Authority of Douglas County, Oregon. Except to the extent payable from the proceeds of such series of bonds, temporary investments, insurance proceeds or condemnation awards, the principal of, premium, if any and interest on the bonds of such series are payable solely from payments to be made on the note of the Aspen Foundation for the benefit of which such series of bonds have been issued, pursuant to the agreement between the Authority and Aspen Foundation and funds held by the trustee as listed on the following page.

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2005

During fiscal 1998, the Authority issued \$1,745,000 tax-exempt Series 1997 A Bonds and \$150,000 federally taxable, Series 1997 B Bonds. Under the terms of the agreement with the Authority, the Aspen Foundation has established the following funds with a trustee:

Series A Bond Fund	For payment of bond principal and interest
Series B Bond Fund	For payment of bond principal and interest
Series A Debt Service Fund, Repair and Replacement Fund and Operating Deficit Account	For payment of deficiencies, if any, in bond interest and bond principal funds

The 1997 Series A Bonds are redeemable at the option of the Aspen Foundation beginning September 1, 2007 at a redemption price of 102%, declining to 101% on September 1, 2008 and to 100% on September 1, 2009 and thereafter. The 1997 Series B Bonds are not redeemable prior to maturity.

Principal and interest requirements on long-term debt for the fiscal years subsequent to June 30, 2005 are as follows:

Year End June 30	1997 Series A Bonds (2)		1997 Series B Bonds (2)		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$15,000	\$130,313	\$15,000	\$675	\$30,000	\$130,988
2007	30,000	128,625			30,000	128,625
2008	30,000	126,375			30,000	126,375
2009	35,000	123,937			35,000	123,937
2010	35,000	121,313			35,000	121,313
2011	40,000	118,500			40,000	118,500
2012	45,000	115,312			45,000	115,312
2013	45,000	111,938			45,000	111,938
2014	50,000	108,375			50,000	108,375
2015	55,000	104,438			55,000	104,438
2016	60,000	100,125			60,000	100,125
2017	60,000	95,625			60,000	95,625
2018	65,000	90,938			65,000	90,938
2019	70,000	85,875			70,000	85,875
2020	75,000	80,437			75,000	80,437
2021	85,000	74,438			85,000	74,438
2022	90,000	67,875			90,000	67,875
2023	95,000	60,937			95,000	60,937
2024	105,000	53,437			105,000	53,437
2025	110,000	45,375			110,000	45,375
2026	120,000	36,750			120,000	36,750
2027	130,000	27,375			130,000	27,375
2028	300,000	11,250			300,000	11,250
	<u>\$1,745,000</u>	<u>\$2,019,563</u>	<u>\$15,000</u>	<u>\$675</u>	<u>\$1,760,000</u>	<u>\$2,020,238</u>

Interest is due semi-annually on March 1 and September 1. Bonds are due annually on September 1.

HOSPITAL FACILITY AUTHORITY OF DOUGLAS COUNTY, OREGON
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NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2005

Bonded debt activity during the year was as follows:

Bond Issue	Principal		Outstanding June 30	Interest/ Premium Paid During Year
	Outstanding July 1	Redeemed During the Year		
1994 Series B	\$8,015,000	\$8,015,000	\$0	\$428,181
1997 Series A	1,745,000	0	1,745,000	130,875
1997 Series B	40,000	25,000	15,000	2,475
	<u>\$9,800,000</u>	<u>\$8,040,000</u>	<u>\$1,760,000</u>	<u>\$561,531</u>

AUDIT COMMENTS AND DISCLOSURES REQUIRED BY STATE REGULATIONS

Oregon Administrative Rules 162-10-050 through 162-10-320 incorporated in the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosures required in audit reports. The required financial statements and schedules are set forth in the preceding sections of this report. Required comments and disclosures related to the audit of such statements and schedules are set forth in the following pages.

INDEPENDENT AUDITOR'S COMMENTS

Internal Control

We have audited the financial statements of the Hospital Facility Authority of Douglas County, Oregon as of and for the year ended June 30, 2005, and have issued our report thereon dated November 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In planning and performing our audit, we considered the Hospital Facility Authority of Douglas County, Oregon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Other Comments and Disclosures

In connection with our audit, nothing came to our attention that caused us to believe the County was not substantially in compliance with:

- ORS Chapter 295 regarding collateral securing depository balances,
- ORS 294.035 regarding the investment of surplus public funds,
- the legal requirements relating to debt,
- ORS Chapter 279 in the awarding of public contracts and the construction of public improvements, and
- the appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.

However, it should be noted that our audit was not directed primarily toward obtaining knowledge of noncompliance with such requirements.

Additionally, we make the following comments:

- The Authority is exempt from Oregon Local Budget Law.
- The accounting records are generally adequate for the needs of the Authority and are reasonably well maintained.

- We have reviewed the Authority's insurance and fidelity bond coverage for compliance with legal requirements. Since we are not experts in insurance matters, we make no representation as to the adequacy of such coverage.

COMMENDATION

The courteous assistance and cooperation extended to us by employees and officials of Douglas County during the course of the audit are sincerely appreciated.