

Financial Statements and Reports of  
Independent Certified Public Accountants

**Hospital Facilities Authority of  
Multnomah County, Oregon**

June 30, 2004

## **INTRODUCTORY SECTION**

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon**

BOARD OF DIRECTORS\* AS OF JUNE 30, 2004  
501 SE Hawthorne, 6<sup>th</sup> floor  
Portland, Oregon 97214

	<u>Term Expires</u>
Diane Linn, Chair of the Authority	December 31, 2006
Serena Cruz, Director	December 31, 2006
Lisa Naito, Director	December 31, 2004
Lonnie Roberts, Secretary of the Authority	December 31, 2004
Maria Rojo de Steffey, Vice Chair of the Authority	December 31, 2004

**REGISTERED AGENT**

David A. Boyer

**REGISTERED OFFICE**

501 SE Hawthorne Blvd., Suite 531  
Portland, Oregon 97214

\* Governing body of Hospital Facilities Authority reported on herein.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
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**HOSPITAL FACILITIES AUTHORITY OF  
MULTNOMAH COUNTY, OREGON**

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**David A. Boyer, Chief Financial Officer**  
**501 SE Hawthorne, Suite 531**  
**Portland, Oregon 97214**  
**(503) 988-3903 phone**  
**(503) 988-3292 fax**

December 20, 2004

Honorable Authority Chair, Board of Directors  
and Citizens of Multnomah County, Oregon

We are pleased to submit the Basic Financial Statements for the Hospital Facilities Authority of Multnomah County, Oregon (the Authority), for the fiscal year ended June 30, 2004. This report includes the opinion of our independent auditors, Grant Thornton LLP.

We prepared this report for the Secretary of State for the State of Oregon as required under ORS 297.425. The Authority's financial statements are not included in the Comprehensive Annual Financial Report of Multnomah County (the County) as a blended or discrete component unit.

Accounting principles generally accepted in the United States of America (US GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the independent auditors' report.

The Hospital Facilities Authority of Multnomah County, Oregon was organized under bylaws adopted December 3, 1998. The purpose of the Authority is to issue hospital revenue bonds for construction and improvement to health facilities in Multnomah County. Under the Loan Agreement, neither the revenue bonds nor the interest on the Revenue Bonds are an obligation of the Authority, Multnomah County, Oregon, or the State of Oregon, or the Authority Board of Directors, employees or agents of the Authority or Multnomah County.

The Authority is accounted for as a debt service fund. Debt Service funds account for the payment of principal and interest on revenue bonds. The principal source of revenue is loan payments from the health facilities. The primary expenditures are the payments for principal and interest transactions in the debt service fund. The measurement focus is on a flow of economic resources and the accrual basis of accounting is used. Under the accrual basis of accounting, revenues are recorded at the time they are earned and expenses are recorded at the time the liabilities are incurred.

Operating revenues for the Authority consist primarily of loan payments from the health facilities and have steadily increased over the past few years as improvements to the facilities continue to be made. Following is a summary of some key financial data which is summarized from the current and prior years financial statements:

	Year Ended June 30,		
	2004	2003	2002
Operating revenue	\$ 1,804,026	\$ 1,615,605	\$ 1,517,638
Other expenses	(193,604)	(7,263)	(5,585)
Interest and dividends	143,071	125,415	125,520
Contribution revenue	2,384,963	-	-
Interest expense	(1,710,769)	(1,647,750)	(1,667,250)
Amortization expense	(10,017)	-	-
Unrealized (loss) gain on investments	(149,770)	105,498	27,721
Change in net assets	2,267,900	191,505	(1,956)
Net working capital	5,050,014	2,629,181	2,437,676
Total assets	47,641,032	27,829,181	27,937,676
Total net assets	4,897,081	2,629,181	2,437,676

Interest and dividend revenue has remained relatively flat over the past few years due to a slow economy and market conditions. Contribution revenue includes prior reserves held by Holladay Park related to the 2003 bond issue. Amortization expense reflects a half-year's expense of capitalized loan fees in the amount of \$601,035 related to the addition of the Holladay Park Plaza. The unrealized (loss) gain on investments dropped by \$255,268 from 2003 mainly due to a reduction in corporate obligation balances in addition to a drop in the market value of the Authority's investments in US Government agencies. The Authority's cash on hand balance in 2004 as compared to 2003 increased by \$2,939,873, primarily due to the addition of the Holladay Park Plaza and as a result of lower investment balances in US Government agencies and corporate obligations.

I would like to acknowledge the help of the Finance Division staff who aided me in the preparation of this report. I appreciate their excellent work. I also want to thank the staff in the Department of Business and Community Services for their contributions during the year.

Respectfully submitted,



David A. Boyer  
Chief Financial Officer, Multnomah County  
Assistant Secretary, Hospital Authority

## **FINANCIAL SECTION**

Report of Independent Certified Public Accountants

Board of Directors  
Hospital Facilities Authority of Multnomah County, Oregon

We have audited the accompanying financial statements of the governmental activities and the major fund of the Hospital Facilities Authority of Multnomah County, Oregon, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Hospital Facilities Authority of Multnomah County, Oregon's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

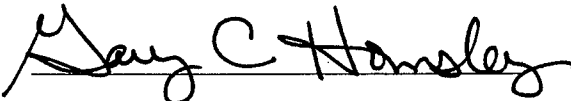
We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 governmental activities and the major fund of the Hospital Facilities Authority of Multnomah County, Oregon, as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 5 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital Facilities Authority of Multnomah County, Oregon's basic financial statements. The introductory section and supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

GRANT THORNTON LLP

By: 

Portland, Oregon  
December 3, 2004

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**HOSPITAL FACILITIES AUTHORITY OF  
MULTNOMAH COUNTY, OREGON**

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David A. Boyer, Chief Financial Officer Multnomah County  
501 SE Hawthorne, Suite 531  
Portland, Oregon 97214  
(503) 988-3903 phone  
(503) 988-3292 fax

## **MANAGEMENT DISCUSSION AND ANALYSIS**

As management of Hospital Facilities Authority, we offer readers of the Authority's basic financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages iii-iv of this report.

### **Financial Highlights**

- The assets of the Authority exceeded its liabilities at June 30, 2004 by \$4,897,081 (*net assets*) which are available to provide for future years' debt service and obligations.
- The Authority's total net assets increased by \$2,267,900 or approximately 86% over the prior year. This increase primarily reflects activity related to the \$17,200,000 in revenue and refunding bonds issued by the Authority during fiscal year 2004. These bonds were issued to refund the Series 1993 revenue bonds of Clackamas County Holladay Park Plaza and provide for various capital improvements to the Holladay Park Plaza (Holladay).
- The Authority's long-term debt increase of \$17,293,951 reflects the addition of the Holladay refunding bonds and the deferred charge from calling the 1993 bonds.
- The Authority's loan receivable increased by \$16,800,000 primarily due to the new loan receivable from Holladay.
- Loan payments from the health facility were sufficient to cover debt service requirements during the fiscal year.
- The change in fair value on investments went from an unrealized gain of \$105,498 in 2003 to a loss of \$149,770 in 2004. In 2004, the Authority had more cash on hand balances in money market accounts due to the addition of Holladay Park Plaza, but held less funds in corporate obligations and US Government agencies and also recognized a net decrease in the fair value of investments from 2003.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. They are: 1) entity-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Entity-wide financial statements.** The *entity-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances in a manner similar to a private-sector business. The *Statement of Net Assets* presents information on all the

Authority's assets and liabilities, with the difference between the two reported as net assets. The *Statement of Activities* presents information showing how the Authority's net assets changed during the most recent fiscal year. 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 entity-wide financial statements for the Authority include long-term asset and liability transactions that are otherwise not reported in the fund financial statements due to the nature of the transaction.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Debt Service Funds.** Debt Service Funds are used to account for a government's payment of principal and interest on revenue bonds. The Hospital Facilities Authority is accounted for as a debt service fund. The fund financial statements can be found on pages 8 and 10 of this report.

The Authority's principal source of revenue is receipts from the health facilities. It does not receive any funds from the state or any other government agency. The Authority's statute anticipates that it collects receipts necessary to prudently operate.

The basic financial statements can be found on pages 6-11 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 12-17 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. Supplementary information can be found on pages 18-19 of this report.

**Financial Analysis of the Authority**

Net assets may serve over time as a useful indicator of a government's financial position. As noted earlier, the Hospital Facilities Authority's total assets exceeded liabilities by \$4,897,081 at the close of the most recent fiscal year.

**Hospital Facilities Authority's Net Assets**

	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Cash and investments	\$ 5,050,014	\$ 2,629,181
Loan receivable	42,000,000	25,200,000
Other assets, net of amortization	591,018	-
Total assets	<u>47,641,032</u>	<u>27,829,181</u>
<b>Liabilities</b>		
Bonds payable		
Due within one year	650,000	400,000
Due within more than one year	42,093,951	24,800,000
Total liabilities	<u>42,743,951</u>	<u>25,200,000</u>
<b>Net Assets</b>		
Restricted for Debt Service	<u>4,897,081</u>	<u>2,629,181</u>
<b>Total Net Assets</b>	<u>\$ 4,897,081</u>	<u>\$ 2,629,181</u>

At the end of both fiscal years reported above, the Authority is able to report a positive balance for net assets restricted for future years' debt service.

**Hospital Facilities Authority's Changes in Net Assets**

	<b>For the Year Ended June 30</b>	
	<b>2004</b>	<b>2003</b>
Operating revenues	\$ 1,804,026	\$ 1,615,605
Other expenses	(193,604)	(7,263)
Interest and dividend revenue	143,071	125,415
Contribution revenue	2,384,963	-
Interest expense	(1,710,769)	(1,647,750)
Amortization expense	(10,017)	-
Net increase in fair value of investments	<u>(149,770)</u>	<u>105,498</u>
Changes in net assets	2,267,900	191,505
Beginning net assets	<u>2,629,181</u>	<u>2,437,676</u>
Ending net assets	<u>\$ 4,897,081</u>	<u>\$ 2,629,181</u>

The Authority's net assets increased by \$2,267,900 during the current fiscal year. The primary reasons for the increase in net assets are:

- Additional \$2,456,483 in cash and cash equivalents due to the addition of the Holladay Park Plaza.
- Loan payments increased by \$188,421 or approximately 12% over the prior year in order to provide for future debt service requirements on the revenue bonds.
- Other expenses increased by \$186,341 which includes various expenses related to the Holladay Park Plaza project.
- Contribution revenue of \$2,384,963 reflects prior debt service reserves and other existing funds and contributions by Holladay Park Plaza for the issue of the 2003 revenue and refunding bonds.
- Interest payments on the revenue bonds were made timely and interest expense increased by \$63,019 or approximately 4% from 2003. The increase primarily represents six months of interest at the daily interest rate for the Holladay Park Plaza.
- \$10,017 of amortization expense was recorded for a half-year expense on capitalized loan fees and other issuance costs on the Holladay Park Plaza.

**Cash and investments.** Investments are stated at fair value as determined by published market prices. Cash and investments are held by a bank trustee. At June 30, 2004 and 2003 the value of the Authority's cash and investments were \$5,050,014 and \$2,629,181, respectively.

**Long-term debt.** At the end of the fiscal year the Authority had \$42,000,000 in total debt outstanding. The Authority's long-term debt includes \$17,200,000 issued for Holladay Park Plaza during fiscal year 2004. Long-term debt due in more than one year on the statement of net assets also include the net deferred credit of \$743,951 which represents the difference between the net carrying value of the 1993 refunded debt and its reacquisition price.

### **Requests for Information**

This financial report is designed to provide a general overview of the Hospital Facilities Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the following address:

Multnomah County Finance, Budget and Tax  
501 SE Hawthorne Blvd., Suite 531  
Portland, OR 97214

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Statement of Net Assets  
June 30, 2004**

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**ASSETS**

Cash and investments	\$ 5,050,014
Loan receivable - current	<u>650,000</u>
Total current assets	<u>5,700,014</u>
Noncurrent assets:	
Loan receivable – long term	41,350,000
Other assets, net of amortization expense	<u>591,018</u>
Total noncurrent assets	<u>41,941,018</u>
Total Assets	<u>47,641,032</u>

**LIABILITIES**

Noncurrent liabilities:	
Due within one year:	
Bonds payable	650,000
Due in more than one year:	
Bonds payable	<u>42,093,951</u>
Total liabilities	<u>42,743,951</u>

**NET ASSETS**

Restricted for Debt Service	<u>4,897,081</u>
Total net assets	<u>\$ 4,897,081</u>

The notes to the financial statements are an integral part of this statement.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Statement of Activities  
For the Year Ended June 30, 2004**

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**OPERATING REVENUES**

Receipts from health care facility	\$ 1,804,026
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**OPERATING EXPENSES**

Other expenses	193,604
Operating income	<u>1,610,422</u>

**NONOPERATING REVENUES (EXPENSES)**

Interest and dividend revenue	143,071
Contribution revenue	2,384,963
Interest expense	(1,710,769)
Amortization expense	(10,017)
Unrealized loss on investments	<u>(149,770)</u>
Net nonoperating revenues	<u>657,478</u>

Change in net assets	2,267,900
Total net assets – beginning	<u>2,629,181</u>
Total net assets - ending	<u><u>\$ 4,897,081</u></u>

The notes to the financial statements are an integral part of this statement.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Debt Service Fund  
Balance Sheet  
June 30, 2004**

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**ASSETS**

Cash and investments	<u>\$ 5,050,014</u>
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**FUND BALANCE**

Reserved for Debt Service	<u>\$ 5,050,014</u>
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The notes to the financial statements are an integral part of this statement.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds – Debt Service Fund  
As of June 30, 2004**

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Fund Balance – Governmental Fund – Debt Service Funds	\$ 5,050,014
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Amounts reported for governmental activities in the statement of net assets are different because:

Other long-term assets, loan receivable	42,000,000
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Other asset – debt issuance costs, net of amortization expense	591,018
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Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental fund – debt service fund.

Bonds payable	<u>(42,743,951)</u>
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Net Assets of Governmental Activities	<u>\$ 4,897,081</u>
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The notes to the financial statements are an integral part of this statement.



**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Debt Service Fund**  
**For the Year Ended June 30, 2004**

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**REVENUES**

Receipts from Health Facilities	\$ 2,204,026
Interest and dividend revenue	130,462
Unrealized loss on investments	<u>(149,770)</u>
Total revenues	<u>2,184,718</u>

**EXPENDITURES**

Other	193,604
Debt Service:	
Principal	400,000
Interest	<u>1,710,769</u>
Total expenditures	<u>2,304,373</u>
Deficiency of revenues under expenditures	<u>(119,655)</u>

**OTHER FINANCING (USES) SOURCES**

Proceeds on revenue bonds	17,200,000
Prior debt service reserve	1,432,816
Equity contribution	49,651
Existing funds	902,496
Debt service – funds to call existing debt	(16,443,440)
Costs of issuance	<u>(601,035)</u>
Total other financing sources	<u>2,540,488</u>
Net changes in fund balance	2,420,833

Fund balance, beginning of year	<u>2,629,181</u>
Fund balance, end of year	<u><u>\$ 5,050,014</u></u>

The notes to the financial statements are an integral part of this statement.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balance to the Statement of Activities  
Governmental Funds – Debt Service Fund  
For the Year Ended June 30, 2004**

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Net change in fund balance – Governmental Fund – Debt Service Fund		\$ 2,420,833
Amounts reported for governmental activities in the statement of activities are different because:		
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the government fund.		
Collections on loan receivable		(400,000)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental fund.		
Proceeds on refunding funds	(17,200,000)	
Payment to escrow agent for existing debt	16,443,440	
Interest income recognized on the difference in refunding proceeds and the amount escrowed for payment on existing debt	12,609	(743,951)
Governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		591,018
Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bonds issued exceeded repayments.		
Principal payments		400,000
Change in Net Assets of Governmental Activities		<u>\$ 2,267,900</u>

The notes to the financial statements are an integral part of this statement.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Notes to Basic Financial Statements  
June 30, 2004**

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**Note A – Summary of Significant Accounting Policies**

**1. Nature of Business**

The Hospital Facilities Authority of Multnomah County, Oregon operates under bylaws adopted December 3, 1998. The Board of Directors consists of five members elected for two four-year terms. The Authority issues hospital revenue bonds for construction and improvements to health facilities in Multnomah County. The health facilities are located in the City of Portland.

The Authority has determined that no other outside agency meets the criteria to be included as a component unit in the Authority's financial statements. The Authority is not a component unit of any other government.

Under the Loan Agreement, neither the revenue bonds nor the interest on the Revenue Bonds are an obligation of the Authority, Multnomah County, Oregon, or the State of Oregon, or the Authority Board of Directors, employees or agents of the Authority or Multnomah County.

**2. Basis of Accounting**

The entity-wide financial statements are prepared on the accrual basis of accounting. Under the *economic resources measurement focus* and the *accrual basis of accounting*, revenues are recorded at the time they are earned and expenses are recorded at the time the liabilities are incurred. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Assets.

The debt service fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures are recorded only when payment is due.

The financial statements of the Authority have been prepared in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP). US GAAP statements include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Notes to Basic Financial Statements  
June 30, 2004**

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**Note A – Summary of Significant Accounting Policies - continued**

**3. Fund Accounting**

The accompanying basic financial statements have been prepared for purposes of Oregon statutory reporting requirements. The accompanying financial statements are structured into the fund type as described below.

**4. Debt Service Fund**

Debt Service Funds account for the payment of principal and interest on revenue bonds. The principal source of revenue is loan payments from the health facilities.

**5. Income Taxes**

The Authority is a municipal corporation exempt from federal and state income taxes.

**6. Cash and Investments**

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, municipal bonds, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool. Investments for the Authority are reported at fair value.

**7. Loans Receivable**

Loans receivable represent long-term assets due from various health care facilities on the statement of net assets.

**8. Long-term Debt**

Long-term debt of the Authority is reported as a liability on the statement of net assets.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Notes to Basic Financial Statements  
June 30, 2004**

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**Note A – Summary of Significant Accounting Policies – continued**

**9. Bond Issuance Costs**

Bond issuance costs for underwriting fees, legal fees and other related costs are capitalized and included in other assets on the Statement of Net Assets and are being amortized as an adjustment using the straight-line method over the life of the bonds on the Statement of Activities.

**10. Deferred Charge on Refunding**

The difference between the reacquisition price (funds required to refund the old debt) of the Holladay Park revenue and refunding bonds and the net carrying value of the refunded debt is treated as a deferred charge on refunding. This deferred charge is reported as an addition to the new bonds payable on the Statement of Net Assets and is being amortized as a component of interest expense.

**11. Fund Equity**

In the fund financial statements, the debt service fund reports reservations of fund balance that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**12. Use of Estimates**

In preparing the basic financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 B – Detailed notes on the fund**

**1. Cash and Investments**

Investments are stated at market value. Cash and investments are held by a bank trustee. At June 30, 2004 the value of these investments was \$5,050,014.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Notes to Basic Financial Statements  
June 30, 2004**

**Note B – Detailed notes on the fund – continued**

The types of investments made by the Authority are summarized below. The investments that are represented by specific identifiable investment securities are classified by credit risk in three categories described below:

Category 1 – Insured or registered, or securities held by the Authority or it's agent in the Authority's name.

Category 2 – Uninsured or unregistered, with securities held by the counter party's trust department or agent in the Authority's name.

Category 3 – Uninsured or unregistered, with securities held by the counter party's trust department or agent but not in the Authority's name.

At year-end, the Authority's investment balances were as follows:

	Category			Reported Amount / Fair Value
	1	2	3	
US Government Agencies	\$ -	\$ 925,738	\$ -	\$ 925,738
Corporate Obligations	\$ -	763,011	-	763,011
Total	\$ -	\$ 1,688,749	\$ -	\$ 1,688,749
Investments not subject to categorization:				
Cash and cash equivalents				3,361,265
Total Cash and investments				\$ 5,050,014

**2. Loans Receivable**

The Authority entered into a Loan Agreement with Terwilliger Plaza Care Center (Terwilliger) on March 1, 1999. The loan agreement provides for, among other things, the principal and interest payments on the revenue and refunding bonds, series 1999 and other related expenses the Authority may incur. The loan agreement states that Terwilliger is subject to various financial covenants and restrictions. The loan receivable is stated at estimated fair value. The fair value of the loan receivable is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of the loan receivable equals the related liability at year-end. As of June 30, 2004 the balance on the loan receivable from Terwilliger was \$24,800,000.

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Notes to Basic Financial Statements  
June 30, 2004**

**Note B – Detailed notes on the fund – continued**

On December 1, 2003 the Authority entered into a Loan Agreement with Holladay Park Plaza (Holladay). The loan agreement provides for, among other things, the principal and interest payments on the revenue and refunding bonds, series 2003 and other related expenses the Authority may incur. The loan agreement states that Holladay is subject to various financial covenants and restrictions. The loan receivable is stated at estimated fair value. The fair value of the loan receivable is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of the loan receivable equals the related liability at year-end. As of June 30, 2004, the balance on the loan receivable from Holladay was \$17,200,000.

**3. Revenue Bonds Payable**

**Outstanding Bond Schedule**

During 1999, the Authority issued \$26,000,000 to construct and improve facilities at Terwilliger and to advance refund the Hospital Facility Authority of Clackamas County, Oregon Revenue Bonds, Series 1995. The Series 1999 Bonds are due in varying annual installments of \$400,000 in 2004 to \$1,900,000 in 2029 with an interest rate at 6.50%.

During 2003, the Authority issued \$17,200,000 to construct and improve facilities at Holladay Park and to advance refund the State of Oregon and the Oregon Facilities Authority, Oregon Revenue Bonds, Series 1993. The Series 2003 Bonds are due in varying annual installments of \$250,000 in 2005 to \$1,995,000 in 2034 with a daily interest rate.

Maturities of bond principal at June 30, 2004 consists of the following:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 650,000	\$ 2,110,000
2006	665,000	2,077,000
2007	675,000	2,042,000
2008	790,000	2,004,750
2009-2013	4,475,000	9,362,000
2014-2018	6,010,000	8,002,250
2019-2023	7,975,000	6,161,250
2024-2028	10,785,000	3,648,000
2029-2034	9,975,000	882,750
Total	\$ 42,000,000	\$ 26,520,000
Deferred credit, net	743,951	
Total bonds payable	\$ 42,743,951	

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Notes to Basic Financial Statements  
June 30, 2004**

**Note B – Detailed notes on the fund – continued**

Changes to bonds payable consisted of the following:

<u>Debt Service Fund</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	<u>\$ 25,200,000</u>	<u>\$ 17,200,000</u>	<u>\$ 400,000</u>	<u>\$ 42,000,000</u>	<u>\$ 650,000</u>

**4. Debt Defeasance**

A portion of the proceeds of the 1999 issue of \$26,000,000 was used to advance refund and defease the Hospital Facility Authority of Clackamas County, Oregon Gross Revenue Bonds, Series 1995. The defeased bond issue was placed in an irrevocable trust fund until the debt is called or matured. Accordingly, the trust account assets and related liability for the defeased bonds are not included in the Authority's financial statement. At June 30, 2004 the balance on the defeased debt was \$3,735,000.

**5. Transactions with Multnomah County**

The County Department of Business and Community Services provides operating management and planning for the Authority. General administrative functions are performed by other units of the County.

**Note C – Subsequent event**

In July of 2004, the Authority issued \$100,000,000 in Oregon Revenue Bonds, Series 2004, to provide for construction, remodeling and equipping projects at Providence Medical Center. The debt carries an interest rate from 3.0% to 5.25% and matures in 2024.



## **SUPPLEMENTARY INFORMATION**

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Schedule of Future Debt Service Requirements  
June 30, 2004**

Following are the future debt payments on the revenue and refunding bonds, Series 1999 and 2003, required until maturity:

Fiscal Year of Maturity	Series 1999 Dated 3/01/99		Series 2003 Dated 12/04/03		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	400,000	1,599,000	250,000	511,000	650,000	2,110,000
2006	400,000	1,573,000	265,000	504,000	665,000	2,077,000
2007	400,000	1,547,000	275,000	495,000	675,000	2,042,000
2008	500,000	1,517,750	290,000	487,000	790,000	2,004,750
2009	500,000	1,485,250	305,000	478,000	805,000	1,963,250
2010	500,000	1,452,750	320,000	468,000	820,000	1,920,750
2011	600,000	1,417,000	335,000	459,000	935,000	1,876,000
2012	600,000	1,378,000	350,000	448,000	950,000	1,826,000
2013	600,000	1,339,000	365,000	437,000	965,000	1,776,000
2014	700,000	1,296,750	385,000	426,000	1,085,000	1,722,750
2015	700,000	1,251,250	400,000	414,000	1,100,000	1,665,250
2016	800,000	1,202,500	420,000	402,000	1,220,000	1,604,500
2017	800,000	1,150,500	440,000	389,000	1,240,000	1,539,500
2018	900,000	1,095,250	465,000	375,000	1,365,000	1,470,250
2019	900,000	1,036,750	485,000	361,000	1,385,000	1,397,750
2020	1,000,000	975,000	510,000	346,000	1,510,000	1,321,000
2021	1,100,000	906,750	535,000	330,000	1,635,000	1,236,750
2022	1,100,000	835,250	560,000	314,000	1,660,000	1,149,250
2023	1,200,000	760,500	585,000	296,000	1,785,000	1,056,500
2024	1,300,000	679,250	615,000	278,000	1,915,000	957,250
2025	1,400,000	591,500	645,000	259,000	2,045,000	850,500
2026	1,500,000	497,250	675,000	239,000	2,175,000	736,250
2027	1,600,000	396,500	710,000	218,000	2,310,000	614,500
2028	1,600,000	292,500	740,000	197,000	2,340,000	489,500
2029	1,800,000	182,000	775,000	174,000	2,575,000	356,000
2030	1,900,000	61,750	815,000	150,000	2,715,000	211,750
2031	-	-	855,000	125,000	855,000	125,000
2032	-	-	895,000	98,000	895,000	98,000
2033	-	-	940,000	70,000	940,000	70,000
2034	-	-	1,995,000	22,000	1,995,000	22,000
Total	<u>\$24,800,000</u>	<u>\$26,520,000</u>	<u>\$17,200,000</u>	<u>\$9,770,000</u>	<u>\$42,000,000</u>	<u>\$36,290,000</u>

**HOSPITAL FACILITIES AUTHORITY of  
Multnomah County, Oregon  
Schedule of Revenue Bond Transactions  
For the Year Ended June 30, 2004**

	Amount of Original Issue	Bond Principal			
		Outstanding June 30, 2003	Bonds Issued	Matured and Paid	Outstanding June 30, 2004
Series 1999 Revenue and Refunding Bonds, Terwilliger Park Plaza	\$ 26,000,000	<u>\$ 25,200,000</u>	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ 24,800,000</u>
Series 2003 Revenue and Refunding Bonds, Holladay Park Plaza	\$ 17,200,000	<u>\$ -</u>	<u>\$17,200,000</u>	<u>\$ -</u>	<u>\$ 17,200,000</u>
Bond Interest					
		Outstanding June 30, 2003	Matured During Year	Paid During Year	Outstanding June 30, 2004
Series 1999 Revenue and Refunding Bonds, Terwilliger Park Plaza		<u>\$ -</u>	<u>\$ 1,625,000</u>	<u>\$ 1,625,000</u>	<u>\$ -</u>
Series 2003 Revenue and Refunding Bonds, Holladay Park Plaza		<u>\$ -</u>	<u>\$ 85,769</u>	<u>\$ 85,769</u>	<u>\$ -</u>

**REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
REQUIRED BY STATUTES**

Report of Independent Certified Public Accountants on the Authority's  
Compliance and Certain Items Based on an Audit of Basic  
Financial Statements Performed in Accordance  
with Oregon Auditing Standards

Board of Directors  
Hospital Facilities Authority of Multnomah County, Oregon

We have audited the basic financial statements of the Hospital Facilities Authority of Multnomah County, Oregon as of June 20, 2004 and for the year then ended, and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accounts and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to the Hospital Facilities Authority of Multnomah County, Oregon is the responsibility of the Authority's management. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. Certain areas covered, as required by Oregon Administrative Rules 162-10-230 through 162-10-320, included but were not limited to the following:

Accounting and Internal Control Structure – Our report on the accounting and internal control structures is presented separately under this cover.

Programs Funded from Outside Sources – Pertaining to programs funded with state and federal revenues, if any.

Financial Reporting Requirements – Whether financial reports and related data filed with other governmental agencies in conjunction with programs funded wholly or partially by such agencies were in agreement with or supported by the accounting records.

Compliance with Legal or Other Requirements

Accounting Records – Pertaining to the condition and adequacy of accounting records.

Indebtedness – Relating to debt and the limitation on the debt amount, liquidation of debt within the prescribed period of time, and compliance with provisions of indentures or agreements, including restrictions on the use of monies available to retire indebtedness.

Insurance – Relating to insurance and fidelity bond coverage.


Investments – Pertaining to the investment of public funds (see ORS Chapter 294.035 to 294.046).

Public Contracts and Purchasing – Pertaining to (as contained in ORS Chapter 279) the awarding of public contracts and the construction of public improvements.

The results of our tests indicate that, with respect to the items tested, the Hospital Facilities Authority of Multnomah County, Oregon complied, in all material respects, with the provisions referred to above except the Authority does not have procedures in place to monitor the types of investments acquired to ensure that they are in accordance with Oregon Statutes. It appears the Authority holds investments that do not meet the requirements of ORS 294.035. With respect to items not tested, nothing came to our attention that caused us to believe that the Authority had not complied, in all material respects, with those provisions.

This report is intended solely for the use of management, the Board of Directors and the Secretary of State, Division of Audits, of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.

Portland, Oregon  
December 3, 2004

A handwritten signature in black ink, appearing to read "Grant Thornton LLP", is written over a horizontal line.

Report of Independent Certified Public Accountants  
on the Authority's Internal Control Structure Based on  
an Audit of Basic Financial Statements

Board of Directors  
Hospital Facilities Authority of Multnomah County, Oregon


We have audited the basic financial statements of the Hospital Facilities Authority of Multnomah County, Oregon as of June 30, 2004 and for the year then ended, and have issued our report thereon dated December 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants and the provisions of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of the Hospital Facilities Authority of Multnomah County, Oregon is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of the Hospital Facilities Authority of Multnomah County, Oregon, for the year ended June 30, 2004, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. Those standards define a material weakness as a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic 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 structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the use of management, the Board of Directors and the Secretary of State, Division of Audits, of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kent Thornton CP". The signature is fluid and cursive, with the "CP" at the end likely standing for Certified Public Accountant.

Portland, Oregon  
December 3, 2004