

Financial Statements and Reports of
Independent Certified Public Accountants

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

June 30, 2005

INTRODUCTORY SECTION

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

BOARD OF DIRECTORS* AS OF JUNE 30, 2005
501 SE Hawthorne, 6th 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, 2008
Lonnie Roberts, Secretary of the Authority	December 31, 2008
Maria Rojo de Steffey, Vice Chair of the Authority	December 31, 2008

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
Table of Contents**

Introductory Section:	<u>Pages</u>
Title Page	i
Table of Contents	ii
Transmittal Letter	iii - iv
Financial Section:	
Report of Independent Certified Public Accountants	1
Management Discussion and Analysis	2-5
Basic Financial Statements	
Entity-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Balance Sheet – Governmental Funds – Debt Service Fund	8
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds – Debt Service Fund	9
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds – Debt Service Fund	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds – Debt Service Fund	11
Notes to Basic Financial Statements	12-19
Supplementary Information	
Schedule of Future Debt Service Requirements	20
Schedule of Revenue Bond Transactions	21
Reports of Independent Certified Public Accountants Required by Statutes	
Report of Independent Certified Public Accountants on the Authority’s Internal Control Structure Based on an Audit of Basic Financial Statements	22-23
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	24-25



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

**501 SE Hawthorne, Suite 531
Portland, Oregon 97214
(503) 988-3903 phone
(503) 988-3292 fax**

September 2, 2005

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, 2005. This report includes the opinion of our independent auditors, Grant Thornton LLP. Also included are Audit Comments and Disclosures required under the Minimum Standards for Audits of Oregon Municipal Corporations Section of the Oregon Administrative Rules.

This report, required by State law, Oregon Revised Statutes 297.425, is prepared by the accounting section of the Department of County Management. 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 for the entity wide statements is on the flow of economic resources and the accrual basis of accounting is used. On 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.

I would like to acknowledge the help of the accounting 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 County Management for their contributions during the year.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David A. Boyer". The signature is fluid and cursive, with the first name "David" being more prominent.

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 (the Authority), 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 audits.

We conducted our audits 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 Authority'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Hospital Facilities Authority of Multnomah County, Oregon, as of June 30, 2005, and the respective 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.

As discussed in Note B6 of the financial statements, an error resulting in an overstatement of the previously reported loan receivable as of June 30, 2004, was discovered by Authority management during the current year. Accordingly, an adjustment has been made to previously reported net assets as of July 1, 2005 to correct the error.

GRANT THORNTON LLP

By:



Portland, Oregon
September 18, 2005



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

**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, 2005. 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, 2005 by \$1,052,700 (*net assets*) which is available to provide for future years' debt service and obligations.
- The Authority's total net assets decreased by \$2,498,375 or approximately (70)% over the prior year. This decrease is primarily due to additional interest expense of \$3,153,101 related to the \$100,000,000 Series 2004 revenue bonds issued by the Authority for Providence Health Systems (Providence) during fiscal year 2005.
- The Authority's long-term debt increase of \$103,795,639 reflects the addition of the Series 2004 revenue bonds.
- The Authority's loan receivable increased by \$37,454,642 as a result of the loan issued to Providence.
- Loan payments from the health facilities were not sufficient to cover debt service requirements during the fiscal year. Per the loan agreement with Providence, interest expense incurred on the Series 2004 revenue bonds prior to the first loan payment in September 2006 is to be paid from available cash from the proceeds of the revenue bonds.
- The change in fair value on investments went from an unrealized loss of \$149,770 in 2004 to an unrealized gain of \$7,752 in 2005 due to changes in economic factors and market conditions.

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 transactions.

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 Fund. A debt service fund is 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 12-19 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 20-21 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 \$1,052,700 at the close of the most recent fiscal year. The Authority's net assets are restricted for future debt service.

Hospital Facilities Authority's Net Assets

	June 30	
	2005	2004 (Restated)
Assets		
Cash and investments	\$ 67,907,261	\$ 5,050,014
Loan receivable	78,108,636	40,653,994
Other assets, net of amortization	1,591,393	591,018
Total assets	<u>147,607,290</u>	<u>46,295,026</u>
Liabilities		
Bonds payable		
Due within one year	665,000	650,000
Due within more than one year	145,889,590	42,093,951
Total liabilities	<u>146,554,590</u>	<u>42,743,951</u>
Net Assets		
Restricted for debt service	1,052,700	3,551,075
Total Net Assets	<u>\$ 1,052,700</u>	<u>\$ 3,551,075</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

	For the Year Ended June 30	
	2005	2004 (Restated)
Operating revenues	\$ 1,523,755	\$ 1,804,026
Other expenses	(6,600)	(193,604)
Interest and dividend revenue	1,077,373	143,071
Contribution revenue	-	1,038,957
Interest expense	(5,041,515)	(1,710,769)
Amortization expense	(59,791)	(10,017)
Gain on sale of investments	651	-
Net increase (decrease) in fair value of investments	<u>7,752</u>	<u>(149,770)</u>
Changes in net assets	(2,498,375)	921,894
Beginning net assets, restated	<u>3,551,075</u>	<u>2,629,181</u>
Ending net assets	<u>\$ 1,052,700</u>	<u>\$ 3,551,075</u>

The Authority's net assets decreased by \$2,498,375 during the current fiscal year. The primary reasons for the decrease in net assets are:

- Operating revenues primarily consist of receipts from the health care facilities to adequately fund the Authority's interest expense on the long-term debt. Receipts from Terwilliger Plaza in 2005 were reduced by \$275,339 as a result of excess funds in the debt service reserve account. These additional funds were used to reduce the amount due from Terwilliger needed to meet the debt service interest requirements.
- Interest and dividend revenue increased by \$934,302, primarily due to higher cash balances in 2005 and higher interest rates as compared to 2004.
- Interest payments on the revenue bonds were made timely and interest expense increased by \$3,330,746 from 2004. The increase is primarily attributed to the interest on the Providence Health Systems Series 2004 revenue bonds.

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, 2005 and 2004 the value of the Authority's cash and investments were \$67,907,261 and \$5,050,014 respectively. The increase in the Authority's cash balance is due to the issuance of debt for Providence Health Systems.

Long-term debt. At the end of the fiscal year the Authority had \$141,350,000 in total debt outstanding, excluding the premium and deferred charge. The Authority's long-term debt includes \$100,000,000 in revenue bonds issued for Providence Health Systems during fiscal year 2005. Long-term debt due in more than one year on the statement of net assets also includes the net deferred refunding charge of \$718,732 which represents the difference between the net carrying value of the 1993 refunded debt and its reacquisition price. The net unamortized bond premium of \$4,485,858 is also included in long-term debt due in more than one year, and will be amortized over the life of the Providence revenue bonds.

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
Department of County Management
501 SE Hawthorne Blvd., Suite 531
Portland, OR 97214

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Statement of Net Assets
June 30, 2005**

ASSETS

Cash and investments	\$ 67,907,261
Loan receivable - current	670,833
Total current assets	<u>68,578,094</u>
Noncurrent assets:	
Loan receivable - long-term	77,437,803
Other assets, net of amortization expense	1,591,393
Total noncurrent assets	<u>79,029,196</u>
Total assets	<u>147,607,290</u>

LIABILITIES

Noncurrent liabilities:	
Due within one year:	
Bonds payable	665,000
Due in more than one year:	
Bonds payable	145,889,590
Total liabilities	<u>146,554,590</u>

NET ASSETS

Restricted for debt service	1,052,700
Total net assets	<u>\$ 1,052,700</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, 2005**

OPERATING REVENUES

Receipts from health facility	\$ 1,523,755
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OPERATING EXPENSES

Other expenses	<u>6,600</u>
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Operating income	<u>1,517,155</u>
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NON-OPERATING REVENUES (EXPENSES)

Interest and dividend revenue	1,077,373
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Interest expense	(5,041,515)
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Amortization expense	(59,791)
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Gain on sale of investments	651
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Unrealized gain on investments	<u>7,752</u>
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Total non-operating expenses	<u>(4,015,530)</u>
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Change in net assets	(2,498,375)
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Total net assets – beginning:

As previously stated	4,897,081
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Prior period adjustment, Note 6	<u>(1,346,006)</u>
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As restated	<u>3,551,075</u>
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Total net assets - ending	<u><u>\$ 1,052,700</u></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
Debt Service Fund
Balance Sheet
June 30, 2005**

ASSETS

Cash and investments	<u>\$ 67,907,261</u>
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FUND BALANCES

Reserved for debt service	<u>\$ 67,907,261</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, 2005**

Fund Balances - Governmental Funds - Debt Service Fund	\$ 67,907,261
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Amounts reported for governmental activities in the statement of
net assets are different because:

Long-term, loan receivable	78,108,636
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Other assets - debt issuance costs, net of amortization expense	1,591,393
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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 funds - debt service fund.

Bonds payable	<u>(146,554,590)</u>
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Net Assets of Governmental Activities	<u>\$ 1,052,700</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, 2005**

REVENUES

Receipts from Health Facilities	\$ 2,326,037
Interest and dividend revenue	<u>1,052,155</u>
Total revenues	<u>3,378,192</u>

EXPENDITURES

Current expenditures:	
Health Facilities construction draws	38,263,526
Bond issuance costs	1,060,165
Debt service:	
Principal	650,000
Interest	<u>5,459,896</u>
Total expenditures	<u>45,433,587</u>
Deficiency of revenues under expenditures	<u>(42,055,395)</u>

OTHER FINANCING SOURCES

Bond proceeds	100,000,000
Net premium issued on long-term debt	4,904,239
Gain on sale of investment	651
Unrealized gain on investments	<u>7,752</u>
Total other financing sources	<u>104,912,642</u>
Net change in fund balance	62,857,247
Fund balance, beginning of year	<u>5,050,014</u>
Fund balance, end of year	<u><u>\$ 67,907,261</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, 2005**

Net change in fund balances - Governmental Funds	\$ 62,857,247
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Amounts reported for governmental activities in the statement of activities are different because:

Expenditures made to healthcare facilities out of current financial resources in the governmental fund are reported as long-term receivables on the statement of net assets. Receipts from the healthcare facilities are reported as revenues in the governmental fund but reduce the loan receivable on the statement of net assets.

Expenditures made to healthcare facilities	38,256,926
Receipts on loan receivable	(802,283)

The proceeds of long-term debt provides current financial resources to governmental funds, but is recognized as a long-term liability in the statement of net assets.	(100,000,000)
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Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(3,460,265)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which bonds issued exceeded repayments.	650,000
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Change in Net Assets of Governmental Activities	<hr/> \$ (2,498,375)
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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, 2005**

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 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, 2005**

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. Governmental Fund - 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

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.

9. Bond Issuance Costs

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as bond issuance costs such as underwriting fees, legal fees and other related costs during the current period. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuance are reported as other financing uses. Issuance costs are reported as current expenditures.

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Notes to Basic Financial Statements
June 30, 2005**

Note A – Summary of Significant Accounting Policies – continued

Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method in the entity wide statements. Long-term debt is reported net of the applicable bond premium or discount in the Statement of Net Assets. Bond issuance costs are capitalized and included in other assets in the Statement of Net Assets.

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 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 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

The Authority's cash and investments represent debt proceeds and are held by the bond trustee and are governed by provisions outlined in the trust indentures, rather than the general provisions of the Oregon Revised Statutes. Hence the Authority has not adopted a formal investment policy.

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Notes to Basic Financial Statements
June 30, 2005**

Note B – Detailed notes on the fund – continued

The Authority's investments are recorded at fair market value at year-end. All cash, deposits and investments are held by the bond trustee and recorded in the debt service fund. Cash, deposits and investments at June 30, 2005 consist of the following:

Deposits with financial institutions	\$ 64,269,296
U.S. Government Obligation Bond Funds	1,838,787
U.S. Government Agency Obligations	744,775
Corporate Obligations	1,054,403
Total cash and investments	<u>\$ 67,907,261</u>

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of each investment classification in the portfolio. As of June 30, 2005 the Authority's investments were as follows:

Investment Type	Fair Value at June 30, 2005	Weighted Average Maturity (in years)
U.S. Government Obligation Bond Funds	\$ 1,838,787	0.11
U.S. Government Agency Obligations	744,775	15.83
Corporate Obligations	1,054,403	0.13
Total fair value	<u>\$ 3,637,965</u>	
	Portfolio weighted average maturity	15.39

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. The Authority does not have a policy addressing custodial credit risk. As of June 30, 2005, \$64,169,296 of the Authority's deposits with financial institutions in excess of Federal Depository Insurance Corporation limits was held in uncollateralized accounts. In addition, the Authority's investments in mutual funds which were uninsured and uncollateralized in the amount of \$1,838,787 as of June 30, 2005.

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Notes to Basic Financial Statements
June 30, 2005**

Note B – Detailed notes on the fund – continued

Concentration of Credit Risk

The Authority has no policy covering the amount that they may invest in any one issuer. As of June 30, 2005 investments in any one issuer that represented five percent or more of the Authority's total investments were as follows:

Issuer	Investment Type	Fair Value at June 30, 2005	% of Total Investments
Tennessee Valley Authority	U.S. Government Agency Obligation	\$ 614,160	17%
Fidelity Governmental Fund 57	U.S. Government Obligation Bond Fund	1,174,955	32%
First American Treasury Obligation Fund Class D	U.S. Government Obligation Bond Fund	663,832	18%
Total fair value		<u>\$ 2,452,947</u>	<u>67%</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of year-end for each investment type by a recognized rating agency, Standard and Poor's.

Investment Type	Fair Value at June 30, 2005	Standard & Poor's Rating as of Year-End				
		AAA	AA	A	BBB	BB
U.S. Government Agency Obligations	\$ 744,775	\$ 744,775	-	-	-	-
Corporate Obligations	1,054,403	184,149	159,064	393,137	162,072	155,981
U.S. Government Obligation Bond Funds	1,838,787	1,838,787	-	-	-	-
Total fair value	<u>\$ 3,637,965</u>	<u>\$2,767,711</u>	<u>\$ 159,064</u>	<u>\$ 393,137</u>	<u>\$ 162,072</u>	<u>\$ 155,981</u>

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

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Notes to Basic Financial Statements
June 30, 2005**

Note B – Detailed notes on the fund – continued

remaining maturities. The fair value of the loan receivable equals the related liability at year-end. As of June 30, 2005 the balance on the loan receivable from Terwilliger was \$24,402,300.

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 is less than the related liability at year-end because the loan payments from Holladay are designed to cover the amount of the next bond principal payment at the time it is due in November. As of June 30, 2005, the balance on the loan receivable from Holladay was \$16,795,416.

On July 1, 2004 the Authority entered into a Loan Agreement with Providence Health Systems (Providence). The loan agreement provides for, among other things, the principal and interest payments on the revenue bonds, series 2004 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 is less than the related liability at year-end as the loan receivable balance represents the expenditures paid to the health facility as needed for capital project expenditures. The total amount of the expenditures and loan receivable over the life of the bonds will not exceed the amount of the Authority's debt. As of June 30, 2005, the balance on the loan receivable from Holladay was \$36,910,920.

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 2005 to \$1,900,000 in 2029 with an interest rate at 6.50%.

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Notes to Basic Financial Statements
June 30, 2005**

Note B – Detailed notes on the fund – continued

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 \$265,000 in 2005 to \$1,995,000 in 2034 with a daily interest rate.

During 2004, the Authority issued \$100,000,000 to finance the costs of construction, remodeling and equipping projects at Providence Health Systems. The Series 2004 Bonds are due in varying annual installments of \$1,300,000 in 2007 to \$9,185,000 in 2024 with interest rates from 3.0% to 5.25%.

Maturities of bond principal at June 30, 2005 consists of the following:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 665,000	\$ 7,219,935
2007	675,000	7,184,935
2008	2,090,000	7,128,185
2009	1,705,000	7,053,685
2010	1,315,000	6,989,518
2011-2015	28,790,000	31,557,444
2016-2020	38,745,000	22,786,375
2021-2025	50,565,000	10,955,893
2026-2030	12,115,000	2,408,000
2031-2034	4,685,000	315,000
Total	<u>\$ 141,350,000</u>	<u>\$ 103,598,970</u>
Deferred charge, net	718,732	
Bond premium, net	4,485,858	
Total bonds payable	<u>\$146,554,590</u>	

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>\$ 42,000,000</u>	<u>\$100,000,000</u>	<u>\$ 650,000</u>	<u>\$ 141,350,000</u>	<u>\$ 665,000</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

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Notes to Basic Financial Statements
June 30, 2005**

Note B – Detailed notes on the fund – continued

bonds are not included in the Authority's financial statement. At June 30, 2005 the balance on the defeased debt was \$3,615,000.

5. Transactions with Multnomah County

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

6. Prior period adjustment

In preparing the financial statements for the year ended June 30, 2004, an error was inadvertently made which was identified during the year ended June 30, 2005. An adjustment to reduce the loan receivable (and prior year change in net assets) by \$1,346,006 received from Holladay Park as part of the refunding transaction was not recorded properly, resulting in an overstatement of loans receivable and net assets at June 30, 2004. A prior period adjustment was recorded to restate the beginning restricted net assets at June 30, 2005. This change did not effect the fund financial statements.

SUPPLEMENTARY INFORMATION

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Schedule of Future Debt Service Requirements
June 30, 2005**

Following are the future debt payments on the revenue and refunding bonds, Series 1999, 2003 and 2004, required until maturity:

Fiscal Year of Maturity	Series 1999 Dated 3/01/99		Series 2003 Dated 12/04/03		Series 2004 Dated 7/21/04		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	400,000	1,573,000	265,000	504,000	-	5,142,935	665,000	7,219,935
2007	400,000	1,547,000	275,000	495,000	-	5,142,935	675,000	7,184,935
2008	500,000	1,517,750	290,000	487,000	1,300,000	5,123,435	2,090,000	7,128,185
2009	500,000	1,485,250	305,000	478,000	900,000	5,090,435	1,705,000	7,053,685
2010	500,000	1,452,750	320,000	468,000	495,000	5,068,768	1,315,000	6,989,518
2011	600,000	1,417,000	335,000	459,000	1,310,000	5,037,675	2,245,000	6,913,675
2012	600,000	1,378,000	350,000	448,000	6,640,000	4,840,450	7,590,000	6,666,450
2013	600,000	1,339,000	365,000	437,000	5,000,000	4,534,900	5,965,000	6,310,900
2014	700,000	1,296,750	385,000	426,000	5,265,000	4,265,444	6,350,000	5,988,194
2015	700,000	1,251,250	400,000	414,000	5,540,000	4,012,975	6,640,000	5,678,225
2016	800,000	1,202,500	420,000	402,000	5,765,000	3,747,381	6,985,000	5,351,881
2017	800,000	1,150,500	440,000	389,000	6,070,000	3,436,713	7,310,000	4,976,213
2018	900,000	1,095,250	465,000	375,000	6,390,000	3,109,637	7,755,000	4,579,887
2019	900,000	1,036,750	485,000	361,000	6,725,000	2,765,369	8,110,000	4,163,119
2020	1,000,000	975,000	510,000	346,000	7,075,000	2,394,275	8,585,000	3,715,275
2021	1,100,000	906,750	535,000	330,000	7,465,000	2,003,756	9,100,000	3,240,506
2022	1,100,000	835,250	560,000	314,000	7,860,000	1,591,650	9,520,000	2,740,900
2023	1,200,000	760,500	585,000	296,000	8,290,000	1,157,887	10,075,000	2,214,387
2024	1,300,000	679,250	615,000	278,000	8,725,000	711,244	10,640,000	1,668,494
2025	1,400,000	591,500	645,000	259,000	9,185,000	241,106	11,230,000	1,091,606
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	\$24,400,000	\$24,921,000	\$16,950,000	\$9,259,000	\$100,000,000	\$69,418,970	\$141,350,000	\$103,598,970

**HOSPITAL FACILITIES AUTHORITY of
Multnomah County, Oregon
Schedule of Revenue Bond Transactions
For the Year Ended June 30, 2005**

	Amount of Original Issue	Bond Principal			
		Outstanding June 30, 2004	Bonds Issued	Matured and Paid	Outstanding June 30, 2005
Series 1999 Revenue and Refunding Bonds, Terwilliger Park Plaza	\$ 26,000,000	<u>\$ 24,800,000</u>	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ 24,400,000</u>
Series 2003 Revenue and Refunding Bonds, Holladay Park Plaza	\$ 17,200,000	<u>\$ 17,200,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>	<u>\$ 16,950,000</u>
Series 2004 Revenue Bonds, Providence Health Systems	\$ 100,000,000	<u>\$ -</u>	<u>\$100,000,000</u>	<u>\$ -</u>	<u>\$ 100,000,000</u>
		Bond Interest			
		Outstanding June 30, 2004	Matured During Year	Paid During Year	Outstanding June 30, 2005
Series 1999 Revenue and Refunding Bonds, Terwilliger Park Plaza		<u>\$ -</u>	<u>\$ 1,599,000</u>	<u>\$ 1,599,000</u>	<u>\$ -</u>
Series 2003 Revenue and Refunding Bonds, Holladay Park Plaza		<u>\$ -</u>	<u>\$ 289,413</u>	<u>\$ 289,413</u>	<u>\$ -</u>
Series 2004 Revenue Bonds, Providence Health Systems		<u>\$ -</u>	<u>\$ 3,571,483</u>	<u>\$ 3,571,483</u>	<u>\$ -</u>

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

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, 2005 and for the year then ended, and have issued our report thereon dated September 18, 2005. 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, 2005, 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 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 operations 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.

Grant Thornton LLP

Portland, Oregon
September 18, 2005

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 30, 2005 and for the year then ended, and have issued our report thereon dated September 18, 2005. 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.

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 structure 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.

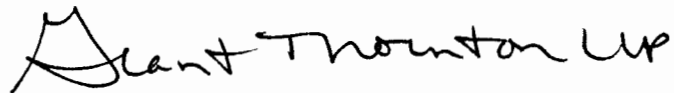
Investments – Pertaining to the investment of public funds (see ORS Chapter 294.035 to 294.046).

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
September 18, 2005

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.