



**SOUTHERN COOS HEALTH
DISTRICT**

**INDEPENDENT AUDITOR'S
REPORT
AND FINANCIAL STATEMENTS**

JUNE 30, 2010 AND 2009

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

CONTENTS

	PAGE
DISTRICT OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 10
FINANCIAL STATEMENTS	
Balance sheets	11 – 12
Statements of revenues, expenses, and changes in net assets	13
Statements of cash flows	14 – 15
Notes to financial statements	16 – 30
ADDITIONAL COMMENTS	
Schedule of revenues and expenditures – budget (non-GAAP budgetary basis) and actual Hospital Fund	31
INDEPENDENT AUDITOR'S COMMENTS	32 – 33

DISTRICT OFFICIALS
June 30, 2010

BOARD OF DIRECTORS

David Allen, Chairman
P.O. Box 1256
Bandon, Oregon 97411

Vicki Gernandt, Treasurer
P.O. Box 946
Bandon, Oregon 97411

Bob Hundhausen, Director
8795 Beach Loop Drive
Bandon, Oregon 97411

Marilyn Noorda, Director
375 Ninth St. SE
Bandon, Oregon 97411

Brian Vick, Director
585 Franklin Ave.
Bandon, Oregon 97411

REGISTERED AGENT

James A. Wathen, CEO/Administrator

REGISTERED OFFICE

Southern Coos Hospital and Health Center
900 11th Street SE
Bandon, Oregon 97411

LEGAL COUNSEL

David R. Koch
P.O. Box 1006
North Bend, Oregon 97459

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southern Coos Health District

We have audited the balance sheets of Southern Coos Health District (the District) as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District'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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Coos Health District at June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 3 through 10 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 comprise Southern Coos Health District's financial statements. The supplemental schedules, as listed in the accompanying table of contents, have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.



For Moss Adams, LLP
Portland, Oregon
November 17, 2010

SOUTHERN COOS HEALTH DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Southern Coos Health District (the District) provides this Management's Discussion and Analysis of the District's annual financial statements. This narrative overview and analysis of the financial activities is intended to enhance the reader's awareness and understanding of some of the elements and issues influencing the District's financial position for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Hospital's financial statements, which follow.

About The District

Southern Coos Health District is a non-profit, municipal corporation (which includes a hospital and clinic). The District serves a large, predominantly rural, non-metropolitan geographic area in southern Coos County, Oregon, inclusive of the city of Bandon and its surrounding area. The population of the District's service area includes approximately 7,500 people.

The District was established in 1955, and is governed by a five-member elected board of directors. Its hospital is licensed for 21 acute care beds. The District serves the residents of the community by operating a 24-hour emergency room, laboratory and diagnostic imaging services, surgical services, respiratory care, and inpatient and outpatient services. The District employed 167 people on June 30, 2010 (including full-time, part-time, and on call staff) and has annual salary and benefits costs of approximately \$9.3 million.

The District serves a high proportion of Medicare, Medicaid, and patients without the ability to pay for services received (identified as charity and bad debt). Consequently less than 22 % of the charges for hospital services provided are paid at or near the billed amount. The community supports the hospital with a property tax, at the rate of \$0.8892 per \$1,000 of assessed valuation that provides an important resource to help enable the facility to continue to serve the needs of those without the ability to pay for services rendered. While helpful, this tax support along with fund raising from a Foundation (separately organized as a 501(c)3 entity that operates to support the hospital) covers less than 4% of the hospital and clinic total annual operating expenses. The remaining 96% of the funding needed to operate the hospital and clinic comes solely from amounts collected for hospital and clinic services billed.

SOUTHERN COOS HEALTH DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Issues Facing the District

At this time last year there were many unanswerable questions regarding the anticipation of the likely passage of a national healthcare reform law. Rather than resolving many of these questions, the actual passage of a national healthcare reform law during FY 2010 seems to have raised more questions and uncertainty. Much of the 2,000 plus page bill containing numerous provisions is still not widely understood, including by much of the healthcare community. The department of Health and Human Services (HHS) which is responsible for implementing much of this new healthcare reform legislation, has been slow to issue key definitions and guidance essential to allow for a better understanding of the implications and related costs associated with this law. In addition the apparent widespread unpopularity of this legislation (and the resultant potential for legal challenges, significant amendment, or even repeal of the law) will continue to hamper our efforts to understand the impact this bill will ultimately have on our hospital operations and finances in both the intermediate and longer term.

The prolonged and deep economic weakness (both locally and nationally) represents a dual financial challenge to the District due to the likelihood of fewer patients covered under employer provided insurance, while at the same time resulting in the need for a higher level of charity care and likely increased bad debt expense. Additional issues and concerns that may potentially become challenges for the District to meet include:

- Potential changes / reductions in funding from Medicare & Medicaid.
- Unfunded regulatory mandates that increase the cost of providing care.
- The high cost of technology, for example the current HIS / EMR project is projected to exceed well over two million dollars in cost.
- Hiring and retaining qualified employees. Our remote location and the frequent lack of employment opportunities for spouses, challenges our ability to hire and retain staff.

In addition to these challenges, small low volume hospitals like Southern Coos Hospital, have the added burden of operating under a higher cost structure. The Critical Access Hospital designation was a significant acknowledgement by Medicare and Medicaid that small rural hospitals necessarily operate at a higher cost structure than other hospitals. While the Critical Access Designation results in higher reimbursement from Medicare and Medicaid, the reimbursement received is still less than the full cost to provide the care.

While much uncertainty exists as a result of the current economic conditions and the forthcoming yet still largely unknown impacts from the recently enacted healthcare reform legislation, hospital management anticipates the current fiscal year will likely be similar to the last, and will maintain a close watch over resources available to meet these unknown challenges going forward.

SOUTHERN COOS HEALTH DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

2010 Financial Highlights

- The Hospital's operating loss decreased 45.3%, or approximately \$279,000, from FY 2009 to FY 2010.
- Net patient service revenues increased 9.1%, or approximately \$1,266,000 from FY 2009 to FY 2010
- Operating expenses increased 6.8%, or approximately \$981,000, from FY 2009 to FY 2010.
- Non-Operating Revenues decreased 31.5%, or approximately \$268,000, from FY 2009 to FY 2010.
- The Hospital's net assets increased 6.3%, or approximately \$248,000 from FY 2009 to FY 2010.

Using This Annual Report

The annual report contains three primary financial statements – a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements, related notes, and supplementary information contained in this annual report provide information about the operations and activities of the District, including resources held by the District but restricted for specific purposes.

Overview of Financial Statements

One of the most important questions asked about the District's finances is – “Is the District as a whole better or worse off as a result of the year's activities?” These financial statements report information about the District's resources and its activities in a way that helps answer this question. These financial statements present all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. And all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Balance Sheet measures our financial position in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information reported on the Balance Sheet reflects the District's assets in relation to its liabilities to bond and mortgage holders, suppliers, employees, and any other creditors. The excess of our assets over liabilities is our equity or net assets.

SOUTHERN COOS HEALTH DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of Financial Statements – (continued)

The Statement of Revenues, Expenses, and Changes in Net Assets (sometimes alternately referred to as an Income Statement) shows how much our overall net assets increased or decreased during the year as a result of our operations and for other reasons. Over time, increases or decreases in the District's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the District's patient mix (the ratio of patients with good insurance or who can pay their bill, compared with the number of patients without insurance who cannot pay their bill), changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic conditions, are also important in making this determination.

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents for the District during the year. It reflects all the cash we received during the year from operations, contributions, and other sources; and how we applied those funds (for example, payment of operating expenses, repayment of debt, purchases of new property and equipment). In addition it reports the net change in cash position (increases or decreases to our cash reserves) that occurred during the year.

**SOUTHERN COOS HEALTH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The District's Balance Sheet

As noted earlier, net assets as reported on the Balance Sheet may serve over time as a useful indicator of financial position. The Hospital's net assets increased \$248,014 (6.3%) from FY 2009 to FY 2010. The following is a presentation of certain financial information derived from the District's Balance Sheet:

	June 30,		
	2010	2009	2008
ASSETS			
Current assets	\$ 5,921,354	\$ 6,303,879	\$ 5,877,345
Capital assets, net	5,804,264	6,158,488	4,804,214
Noncurrent assets	250,062	245,932	248,593
Total assets	<u>\$ 11,975,680</u>	<u>\$ 12,708,299</u>	<u>\$ 10,930,152</u>
LIABILITIES			
Current liabilities	\$ 2,114,077	\$ 2,454,582	\$ 2,324,648
Noncurrent liabilities	5,686,591	6,326,719	4,915,872
Total liabilities	<u>7,800,668</u>	<u>8,781,301</u>	<u>7,240,520</u>
NET ASSETS			
Invested in capital assets, net of related debt	(519,121)	(868,853)	(449,696)
Restricted	210,333	186,963	248,593
Unrestricted	4,483,800	4,608,888	3,890,735
Total net assets	<u>4,175,012</u>	<u>3,926,998</u>	<u>3,689,632</u>
Total liabilities and net assets	<u>\$ 11,975,680</u>	<u>\$ 12,708,299</u>	<u>\$ 10,930,152</u>

The District succeeded in accelerating collections on outstanding patient accounts, reducing patient accounts receivable by approximately \$331,000 (12%) from FYE 2009 to FYE 2010. The cash flow generated from this acceleration of collections was used primarily to pay down debt – Accounts payable declined by approximately 244,000 (44%) and total liabilities declined by approximately \$981,000 (11%) from FYE 2009 to FYE 2010.

Subsequent to FYE 2010, the District received funding for a USDA Loan/Grant application that provided approximately \$500,000 in additional funding for the new health information system (HIS) / electronic medical record (EMR) project underway. Approximately \$400,000 of this funding is additional new debt that was not reflected on the District's FY 2010 Balance Sheet.

**SOUTHERN COOS HEALTH DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The District's Statement of Revenues, Expenses, and Changes in Net Assets

The following is a presentation of summary financial information derived from the District's Statement of Revenues, Expenses and Changes in Net Assets:

	Year Ended June 30,		
	2010	2009	2008
OPERATING REVENUES			
Net patient service revenue	\$ 15,114,366	\$ 13,848,435	\$ 13,007,547
Other operating revenue	14,267	20,161	34,693
Total operating revenues	<u>15,128,633</u>	<u>13,868,596</u>	<u>13,042,240</u>
OPERATING EXPENSES			
Salaries and benefits	9,291,061	8,864,524	8,277,193
Medical supplies and drugs	1,168,397	918,727	903,049
Insurance	164,564	152,593	169,762
Other operating expenses	4,203,040	3,956,354	4,702,638
Depreciation and amortization	<u>637,960</u>	<u>591,913</u>	<u>459,399</u>
Total operating expenses	<u>15,465,022</u>	<u>14,484,111</u>	<u>14,512,041</u>
OPERATING LOSS	(336,389)	(615,515)	(1,469,801)
NONOPERATING REVENUES	<u>584,403</u>	<u>852,881</u>	<u>692,233</u>
CHANGE IN NET ASSETS	248,014	237,366	(777,568)
NET ASSETS, beginning of year	<u>3,926,998</u>	<u>3,689,632</u>	<u>4,467,200</u>
NET ASSETS, end of year	<u><u>\$ 4,175,012</u></u>	<u><u>\$ 3,926,998</u></u>	<u><u>\$ 3,689,632</u></u>

Operating Losses

The first component of the overall change in the District's net assets is its operating loss, which is the difference between the sum of the net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's operating history as the District was formed as a tax exempt community owned and supported Hospital and is operated primarily to serve residents of Bandon and its surrounding area, including lower income and other residents without the ability to pay for services received.

SOUTHERN COOS HEALTH DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Losses – (continued)

The operating loss for FY 2010 decreased \$279,126 or 45.3%, compared to FY 2009. The primary components of the decreased operating loss are:

- An increase in net patient revenues of 1.3 million dollars (9%) from FY 2009 to FY 2010, as patient volumes recovered from the significant reduction that had occurred during FY 2008/2009. Gross patient revenues of 21.5 million dollars increased 2.7 million dollars (14%) from FY 2009 to FY 2010, and were 1.0 million dollars (5%) higher than budget. Revenue deductions of approximately 6.4 million dollars were 1.4 million dollars higher (29%) from FY 2009 to FY 2010, primarily as a result of higher Medicare contractual allowances.
- Operating expenses were also higher due to the increased patient volumes and HIS implementation related expenses as outlined below, however because this increase in operating expenses was lower than the increase in revenue (6.8% versus 9.1%) our operating loss actually declined for FY 2010.
- Surgery supply costs increased approximately \$145,000 (77%) from FY 2009 to FY 2010 due primarily to an increase in the number of orthopedic surgery cases performed (these cases have a very high supply cost component). HIS project management expenses increased approximately \$90,000 (121%) from FY 2009 to FY 2010 as HIS/EMR project implementation costs ramped up. Agency/contract nursing expense was approximately \$69,000 (114%) higher due to higher utilization to fill staff vacancies in FY 2010 versus FY 2009. And the increase in total salary and benefits costs of approximately \$427,000 (4.8%) from FY 2009 to FY 2010 was due in part to the resumption of employer funded retirement contributions and the lifting of a salary reduction/freeze that had previously been implemented in FY 2009 during an extended period of lower patient volumes.

Net Non-Operating Income and Expense consisting primarily of property taxes received, grants and donations, and investment income (offset or reduced by interest expense) was lower by \$268,478 (31.5%) from FY 2009 to FY 2010. The primary reason for this reduction was due to interest income that declined by approximately \$42,000 (126%) from FY 2009 to FY 2010, and Grants and donations that were lower by approximately \$228,000 (55%) from FY 2009 to FY 2010.

The District's Cash Flows

Cash flow provided from operating activities of a positive \$397,415 for FY 2010 represented a significant improvement over the negative \$(105,112) cash flow from operating activities for FY 2009, and was primarily due to improved/accelerated collections on patient accounts.

SOUTHERN COOS HEALTH DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

The District's Cash Flows – (continued)

Cash flow used for capital and related financing activity of approximately \$1,273,000 was primarily used to make principal and interest payments of approximately one million dollars related to long-term debt during FY 2010.

The net overall change in cash flow for the District was a positive increase of \$27,364 in cash and cash equivalents for FY 2010.

Capital Assets and Debt Administration

Capital Assets – At June 30, 2010, the Hospital had approximately \$5.8 million dollars invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In FY 2010, the District acquired capital assets costing approximately \$284,000, of which \$128,000 was for land and \$156,000 for equipment and other.

Debt Administration – At June 30, 2010, the District had approximately \$6.3 million dollars in non-current notes payable and capital lease obligations as detailed in Note 7 to the financial statements. The Hospital issued no new debt in fiscal 2010, however subsequent to the fiscal year ended June 30, 2010 the hospital received funding on its USDA loan grant application that included approximately \$100,000 in grant funding and \$400,000 in loan proceeds.

Contacting the District's Financial Management

This financial report provides our patients, suppliers, taxpayers and creditors with a general overview of Southern Coos Health District's finances and shows the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administrative Office at Southern Coos Hospital and Health Center; 900 11th Street SE, Bandon, OR 97411.

**SOUTHERN COOS HEALTH DISTRICT
BALANCE SHEETS**

ASSETS

	June 30,	
	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,220,040	\$ 2,553,968
Receivables		
Patient accounts, net of estimated uncollectible amounts	2,477,456	2,808,007
Property taxes	85,743	108,033
Other	152,451	213,333
Supplies inventories	127,153	129,234
Assets limited as to use, current portion	709,592	371,670
Prepaid expenses	148,919	119,634
Total current assets	5,921,354	6,303,879
 Assets limited as to use, net of current portion	 210,333	 186,963
 Capital assets:		
Land	461,527	333,522
Depreciable capital assets, net of accumulated depreciation	4,322,251	4,852,280
Construction in progress	1,020,486	972,686
Total capital assets, net	5,804,264	6,158,488
 Other assets, net	 39,729	 58,969
 Total assets	 \$ 11,975,680	 \$ 12,708,299

**SOUTHERN COOS HEALTH DISTRICT
BALANCE SHEETS**

LIABILITIES AND NET ASSETS

	June 30,	
	2010	2009
CURRENT LIABILITIES		
Accounts payable	\$ 308,940	\$ 553,354
Accrued salaries and employee benefits	431,571	485,944
Accrued vacation	354,465	344,551
Accrued expenses	61,308	55,275
Estimated third party payor settlement	197,780	183,325
Accrued interest	123,219	131,511
Current maturities of long-term debt	636,794	700,622
Total current liabilities	<u>2,114,077</u>	<u>2,454,582</u>
Long-term debt, net of current maturities	<u>5,686,591</u>	<u>6,326,719</u>
Total liabilities	<u>7,800,668</u>	<u>8,781,301</u>
NET ASSETS		
Invested in capital assets, net of related debt	(519,121)	(868,853)
Restricted		
For debt service	210,333	186,963
Unrestricted	4,483,800	4,608,888
Total net assets	<u>4,175,012</u>	<u>3,926,998</u>
Total liabilities and net assets	<u>\$ 11,975,680</u>	<u>\$ 12,708,299</u>

SOUTHERN COOS HEALTH DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	2010	2009
REVENUES		
Net patient service revenue (net of provision for bad debts of \$1,337,354 in 2010 and \$1,344,141 in 2009)	\$ 15,114,366	\$ 13,848,435
Other operating revenues	14,267	20,161
Total operating revenues	<u>15,128,633</u>	<u>13,868,596</u>
EXPENSES		
Salaries and benefits	9,291,061	8,864,524
Medical supplies and drugs	1,168,397	918,727
Insurance	164,564	152,593
Other operating expenses	4,203,040	3,956,354
Depreciation and amortization	637,960	591,913
Total operating expenses	<u>15,465,022</u>	<u>14,484,111</u>
Operating loss	<u>(336,389)</u>	<u>(615,515)</u>
NONOPERATING INCOME (EXPENSE)		
Ad valorem taxes	621,720	673,039
Interest income	33,079	74,584
Grants and donations	185,900	413,717
Other	21,000	24,302
Loss on disposal of capital assets	-	(7,301)
Interest expense	(277,296)	(325,460)
Net nonoperating income	<u>584,403</u>	<u>852,881</u>
Change in net assets	248,014	237,366
Net assets, beginning of year	<u>3,926,998</u>	<u>3,689,632</u>
Net assets, end of year	<u>\$ 4,175,012</u>	<u>\$ 3,926,998</u>

SOUTHERN COOS HEALTH DISTRICT
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$ 15,459,372	\$ 14,028,439
Cash paid to suppliers	(5,740,704)	(5,209,601)
Cash paid to employees	(9,335,520)	(8,944,111)
Other receipts from operations, net	14,267	20,161
Net cash from operating activities	<u>397,415</u>	<u>(105,112)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Ad-valorem taxes	644,010	643,700
Proceeds from grants and donations	206,901	438,019
Net cash from non-capital financing activities	<u>850,911</u>	<u>1,081,719</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from long-term debt	-	2,125,000
Purchase of capital assets	(283,736)	(1,768,486)
Proceeds from sale of capital assets	-	18,134
Principal payments on long-term debt	(703,956)	(672,580)
Interest payments on long-term debt	(285,589)	(325,488)
Net cash from capital and related financing activities	<u>(1,273,281)</u>	<u>(623,420)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	33,079	74,584
Net cash provided (used) from other assets	19,240	(58,969)
Net cash from investing activities	<u>52,319</u>	<u>15,615</u>
Net increase in cash and cash equivalents	27,364	368,802
CASH AND CASH EQUIVALENTS, beginning of year	<u>3,112,601</u>	<u>2,743,799</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,139,965</u>	<u>\$ 3,112,601</u>

SOUTHERN COOS HEALTH DISTRICT
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2010	2009
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (336,389)	\$ (615,515)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	637,960	591,913
Provision for bad debts	1,337,354	1,344,141
Changes in assets and liabilities:		
Patient accounts receivable	(1,006,803)	(1,283,510)
Other receivables	60,882	(35,190)
Supplies inventories	2,081	(35,503)
Prepaid expenses	(29,285)	43,299
Accounts payable	(244,414)	(99,994)
Accrued salaries and employee benefits	(54,373)	(46,613)
Accrued vacation	9,914	(32,974)
Accrued expenses	6,033	(54,539)
Estimated third party payor settlements	14,455	119,373
Net adjustments	733,804	510,403
Net cash provided by (used in) operating activities	\$ 397,415	\$ (105,112)

The District entered into capital lease obligations of \$321,011 for new equipment for the year ended June 30, 2009.

Increase in capital assets included in accounts payable totaled \$117,875 at June 30, 2009.

SOUTHERN COOS HEALTH DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity – The Southern Coos Health District (the District), a municipal corporation, was organized under Oregon Revised Statutes (ORS) 440.305 through 440.410, to provide various health care and health care-related services to the citizens of its district. The District operates Southern Coos Hospital and Health Center (the Hospital). The District serves a very large, predominantly rural, non-metropolitan geographic area in coastal Coos County, Oregon inclusive of the Cities of Bandon and Langlois and their surrounding areas. An elected five-member board governs the District.

The financial statements of the Southern Coos Health District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. Based on the application of the criteria established by the GASB, there are no potential component units of the District, other than the Foundation.

For financial reporting purposes, management considers the activities relating to the operation of the District as those of a unitary enterprise fund accounting approach which is based on the full accrual method of accounting. However, for budgetary and legal purposes these activities are accounted for in the following fund:

- The *Hospital Fund* accounts for all general operating revenues and expenditures of the Hospital. The major sources of revenue are for charges for patient services and ad-valorem taxes and the major source of expenses are for personal services.
- *Southern Coos Health Foundation* – In February 2008, the Southern Coos Hospital Foundation re-established itself as a 501(c)(3) non-profit corporation. Prior to 2008, the Foundation was recognized as a proprietary fund within the District. Due to the oversight the Hospital District has over the selection of Foundation Board Members, the Foundation will continue to be consolidated with the District in accordance with Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations Are Component Units*.

Budgetary information – ORS 440.403 establishes standard procedures relating to the preparation, adoption, and execution of the annual budget. Budgetary comparisons for enterprise funds are not required by accounting principles generally accepted in the United States of America (GAAP). Accordingly, such comparisons of approved budgeted amounts with actual results of operations for individual funds prepared on a basis other than GAAP are set forth as supplemental information as listed in the table of contents.

SOUTHERN COOS HEALTH DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Enterprise fund accounting – The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and cash equivalents – Cash and cash equivalents include certain highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates market value.

Patient accounts receivable – Patient accounts receivable are reported net of estimated uncollectible accounts and contractual adjustments. The District manages receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts based on experience, third-party contractual reimbursement arrangements, and other circumstances which may affect the ability of patients to meet their obligations. The District determines past due accounts based upon contract terms.

Other receivables – Other receivables relate to a physician advance reported at net of amortized cost. The advance is amortized annually over the life of the guarantee.

Supplies inventories – Supplies inventories, comprised primarily of medical and surgical inventories are stated at lower of cost (first-in, first-out) or net realizable value.

Assets limited as to use – Periodically, the Board of Directors sets aside cash resources for the funding future capital improvements, programs. In addition, certain funds are restricted by bond indentures to be used solely for debt service. Funds restricted by external sources are classified as non-current.

SOUTHERN COOS HEALTH DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Property taxes – The District received approximately 4% in 2010 and 2009 of its financial support from property taxes. These funds were used to support general operations. Property taxes are levied by the County on the District’s behalf on July 1 and are payable on November 15 and may be paid in installments due November 15, February 15, and May 15. Taxes are billed and collected by the County of Coos and remittance to the District is made at periodic intervals. Property tax revenues are recognized when levied.

Capital assets – The District’s capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Expenditures for maintenance and repairs are charged to operations as incurred. Betterments and major renewals with an estimated useful life of one year or greater and with a cost of over \$5,000 are capitalized. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	8 - 25 years
Buildings	5 - 30 years
Equipment	3 - 20 years

Accrued vacation – The District has a paid time off plan, which includes vested vacation and holiday time. These benefits are accrued and expensed as they are earned.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

Net assets – Net assets of the District are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets*.

Operating revenues and expenses – The District’s statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District’s principal activity. Nonexchange revenues, including taxes, investment income, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

SOUTHERN COOS HEALTH DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

Charity care – The District provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under the District's charity policy aggregated approximately \$334,573 and \$291,314 in 2010 and 2009, respectively.

Income taxes – The District is a municipal corporation under Oregon state law and is not subject to Federal income taxes.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The District's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued.

During 2009 the District entered into an agreement with the United States Department of Agriculture (USDA) Office of Rural Development. The agreement consists of a loan and grant which allows the District to purchase equipment related to the installation of an electronic medical record system. Loan proceeds total \$594,361 and grant proceeds total \$148,590. The loan obligation portion of the agreement contains bi-annual payment terms for a period of 5 years including interest of 4.7%. While the application process for these funds began during the fiscal year 2009 the request for reimbursement and funding of the obligation occurred subsequent to June 30, 2010.

The District has evaluated subsequent events through November 17, 2010, which is the date the financial statements are issued.

SOUTHERN COOS HEALTH DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 2 – NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Effective November 1, 2000, Southern Coos converted to a critical access hospital (CAH) for Medicare program purposes. As a CAH, the Hospital may operate no more than 25 beds. In addition, the annual average length of stay for all acute inpatients cannot exceed 96 hours per stay. As a CAH, the Hospital is reimbursed for Medicare inpatient and outpatient services at the cost of providing the service plus 1% rather than on a fee schedule or the inpatient DRG and outpatient APC prospective payment system. Medicare swing-bed services are also reimbursed at cost for a CAH. The Hospital is paid at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2008.

Net revenue billed under the Medicare program totaled approximately \$10,030,507 and \$9,232,157 for the years ended June 30, 2010 and 2009, respectively.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under cost reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2007. Net revenue billed under the Medicaid program totaled approximately \$1,140,212 and \$935,435 for the years ended June 30, 2010 and 2009, respectively.

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

NOTE 3 – CASH AND INVESTMENTS

Oregon Revised Statutes, Chapter 294, authorizes the District to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, bankers' acceptances guaranteed by a qualified financial institution, commercial paper, corporate bonds, repurchase agreements, State of Oregon Local Government Investment Pool, and various interest-bearing bonds of Oregon and other municipalities. The District has no investment policy that would further limit its investment choices.

SOUTHERN COOS HEALTH DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CASH AND INVESTMENTS – (continued)

The District had the following cash and investments at June 30:

	<u>2010</u>	<u>2009</u>
Demand deposits	\$ 88,902	\$ 525,775
Petty cash	900	700
Certificare of deposit	480,122	-
Local Government Investment Pool	<u>2,570,041</u>	<u>2,586,126</u>
Total cash and investments	<u>\$ 3,139,965</u>	<u>\$ 3,112,601</u>

Cash and investments are classified as follows:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 2,220,040	\$ 2,553,968
Assets limited as to use	<u>919,925</u>	<u>558,633</u>
	<u>\$ 3,139,965</u>	<u>\$ 3,112,601</u>

The District maintains their investments in the State of Oregon Local Government Investment Pool (LGIP), which is an alternate investment vehicle offered to participants that by law are made the custodian of, or have control of, any public funds. The investments are booked at fair value and are the same as the value of the pool shares. The LGIP investments are governed by a written investment policy that is reviewed annually by the Oregon Short-Term Fund Board. The Oregon Short-Term Fund Board is comprised of members of local government and private investment professionals, who are appointed by the Governor of the State of Oregon. The LGIP is not rated by any national rating service.

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk.

SOUTHERN COOS HEALTH DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – CASH AND INVESTMENTS – (continued)

Custodial credit risk

Deposits

Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits. The District does not have a deposit policy for custodial credit risk. As of June 30, 2010, the District's bank balance of approximately \$113,000 was fully covered by depository insurance and not exposed to custodial credit risk.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District does not have any investments subject to custodial credit risk at June 30, 2010.

NOTE 4 – PATIENT ACCOUNTS RECEIVABLE

The District provides services to patients, most of whom are local residents, who are either uninsured, covered by commercial insurance, Medicare, or Oregon Department of Human Resources Adult and Family Services Division ("Welfare") programs. The District grants credit without collateral and maintains reserves for potential credit losses. Such losses have historically been within management's expectations.

Receivables, including the applicable allowance for estimated contractual adjustments and uncollectible accounts, are as follows:

	<u>2010</u>	<u>2009</u>
Receivables from patients and their insurance carriers	\$ 2,319,366	\$ 2,515,968
Receivable from Medicare	1,621,913	1,684,148
Receivable from Medicaid	177,177	205,880
Total patient accounts receivable	<u>4,118,456</u>	<u>4,405,996</u>
Less allowance for uncollectible amounts	<u>(1,641,000)</u>	<u>(1,597,989)</u>
Patient accounts receivable, net	<u>\$ 2,477,456</u>	<u>\$ 2,808,007</u>

**SOUTHERN COOS HEALTH DISTRICT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – PROPERTY TAXES RECEIVABLE

For the fiscal year June 30, 2010, the District levied their property taxes at the rate of \$.8892 per \$1,000 of assessed property value. This levy was expected to raise \$710,214 in property tax revenues, including \$17,820 in discounts, allowance and losses due to constitutional limits. The actual net levy imposed for 2009-2010 was \$728,034. Property tax revenues are recognized when levied, and are used to support general operations.

	Receivable June 30, 2009	2009-2010 Net Levy	Collections	Interest Received	Discounts Allowed	Adjustments Applied	Receivable June 30, 2010
2009-10	\$ -	\$ 728,034	\$ (663,647)	\$ 107	\$ (17,457)	\$ (1,373)	\$ 45,664
2008-09	74,960	-	(53,021)	1,369	9	(689)	22,628
2007-08	18,714	-	(8,574)	1,200	4	(296)	11,048
2006-07	9,010	-	(5,246)	1,192	9	(442)	4,523
2005-06	3,973	-	(3,213)	766	1	(106)	1,421
2004-05	998	-	(605)	34	1	(78)	350
Prior Years	378	-	(276)	26	-	(19)	109
	<u>\$ 108,033</u>	<u>\$ 728,034</u>	<u>\$ (734,582)</u>	<u>\$ 4,694</u>	<u>\$ (17,433)</u>	<u>\$ (3,003)</u>	<u>\$ 85,743</u>

SOUTHERN COOS HEALTH DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the fiscal years:

	Balance June 30, 2009	Additions	Retirements	Transfers	Balance June 30, 2010
CAPITAL ASSETS AT COST					
Land	\$ 333,522	\$ 128,005	\$ -	\$ -	\$ 461,527
Land improvements	755,417	-	-	-	755,417
Buildings	5,188,912	-	-	-	5,188,912
Major movable equipment	2,555,767	107,931	-	238,187	2,901,885
Equipment under capital lease	555,410	-	-	(238,187)	317,223
Construction in progress	972,686	47,800	-	-	1,020,486
	<u>10,361,714</u>	<u>283,736</u>	<u>-</u>	<u>-</u>	<u>10,645,450</u>
LESS ACCUMULTED DEPRECIATION AND AMORTIZATION FOR:					
Land improvements	(561,863)	(37,524)	-	-	(599,387)
Buildings	(1,824,599)	(209,318)	-	-	(2,033,917)
Major movable equipment	(1,422,306)	(391,118)	-	(227,437)	(2,040,861)
Equipment under capital lease	(394,458)	-	-	227,437	(167,021)
Total accumulated depreciation and amortization	<u>(4,203,226)</u>	<u>(637,960)</u>	<u>-</u>	<u>-</u>	<u>(4,841,186)</u>
Capital assets, net	<u>\$ 6,158,488</u>	<u>\$ (354,224)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,804,264</u>
	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
CAPITAL ASSETS AT COST					
Land	\$ 245,070	\$ -	\$ -	\$ 88,452	\$ 333,522
Land improvements	754,017	-	-	1,400	755,417
Buildings	5,277,363	-	-	(88,451)	5,188,912
Major movable equipment	2,139,917	226,049	(272,683)	462,484	2,555,767
Equipment under capital lease	347,740	321,011	(101,332)	(12,009)	555,410
Construction in progress	-	1,424,562	-	(451,876)	972,686
	<u>8,764,107</u>	<u>1,971,622</u>	<u>(374,015)</u>	<u>-</u>	<u>10,361,714</u>
LESS ACCUMULTED DEPRECIATION AND AMORTIZATION FOR:					
Land improvements	(502,087)	(59,776)	-	-	(561,863)
Buildings	(1,613,513)	(211,086)	-	-	(1,824,599)
Major movable equipment	(1,542,312)	(228,574)	348,580	-	(1,422,306)
Equipment under capital lease	(301,981)	(92,477)	-	-	(394,458)
Total accumulated depreciation and amortization	<u>(3,959,893)</u>	<u>(591,913)</u>	<u>348,580</u>	<u>-</u>	<u>(4,203,226)</u>
Capital assets, net	<u>\$ 4,804,214</u>	<u>\$ 1,379,709</u>	<u>\$ (25,435)</u>	<u>\$ -</u>	<u>\$ 6,158,488</u>

SOUTHERN COOS HEALTH DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – CAPITAL ASSETS – (continued)

Depreciation and amortization expense for the years ended June 30, 2010 and 2009 was \$637,960 and \$591,913, respectively. Total cost of equipment under capital leases was \$317,223 and \$555,410 for the years ended June 30, 2010 and 2009, respectively. For the years ended June 30, 2010 and 2009, amortization expense of equipment under capital lease was \$105,107 and \$92,477 and accumulated amortization was \$167,021 and \$394,458, respectively.

NOTE 7 – LONG-TERM DEBT

A schedule of changes in the District's noncurrent liabilities for 2010 and 2009 is as follows:

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Long-term debt					
Revenue bonds	\$ 3,922,872	\$ -	\$ (57,176)	\$ 3,865,696	\$ 59,749
Certificates of participation-1998F	430,000	-	(80,000)	350,000	80,000
Certificates of participation-2008E	1,790,000	-	(270,000)	1,520,000	280,000
Certificates of participation-2008G	65,000	-	(10,000)	55,000	10,000
Certificates of participation-2004H	80,000	-	(80,000)	-	-
Term note	481,581	-	(92,772)	388,809	97,487
Total long term debt	<u>6,769,453</u>	-	<u>(589,948)</u>	<u>6,179,505</u>	<u>527,236</u>
Capital lease obligations	<u>257,888</u>	-	<u>(114,008)</u>	<u>143,880</u>	<u>109,558</u>
Total noncurrent liabilities	<u><u>7,027,341</u></u>	<u>-</u>	<u><u>(703,956)</u></u>	<u><u>6,323,385</u></u>	<u><u>636,794</u></u>

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
Long-term debt					
Revenue bonds	3,977,587	-	(54,715)	3,922,872	57,176
Certificates of participation-1998F	505,000	-	(75,000)	430,000	80,000
Certificates of participation-2008E	-	2,060,000	(270,000)	1,790,000	270,000
Certificates of participation-2008G	-	65,000	-	65,000	10,000
Certificates of participation-2004H	155,000	-	(75,000)	80,000	80,000
Term note	566,105	-	(84,524)	481,581	95,940
Total long term debt	<u>5,203,692</u>	<u>2,125,000</u>	<u>(559,239)</u>	<u>6,769,453</u>	<u>593,116</u>
Capital lease obligations	<u>50,218</u>	<u>321,011</u>	<u>(113,341)</u>	<u>257,888</u>	<u>107,506</u>
Total noncurrent liabilities	<u><u>\$ 5,253,910</u></u>	<u><u>\$ 2,446,011</u></u>	<u><u>\$ (672,580)</u></u>	<u><u>\$ 7,027,341</u></u>	<u><u>\$ 700,622</u></u>

SOUTHERN COOS HEALTH DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – LONG-TERM DEBT – (continued)

The revenue bonds are issued through United States Department of Agriculture, Rural Development, and will be retired in October 2041 by annual payments of \$233,705 including interest at 4.5% per annum. The District is required to reserve \$23,370 annually if it has operating revenues. The reserve is completed when the District accumulates \$233,705, which will be used to fund the final bond payment. The District has reserved \$210,333 as of June 30, 2010.

The certificates of participation series 1998F will be retired in January 2014 by minimum variable annual principal payments of \$50,000 together with semiannual interest payments at an interest rate ranging from 4.7% to 5.0% per annum. Payments began January 1, 2000.

The certificates of participation series 2008E will be retired in January 2015 by minimum variable annual principal payments of \$270,000 together with semiannual interest payments at an interest rate ranging from 2.8% to 4.25% per annum. Payments began January 1, 2009.

The certificates of participation series 2008G will be retired in January 2014 by minimum variable annual principal payments of \$10,000 together with semiannual interest payments at an interest rate ranging from 3.20% to 4.60% per annum. Payments began January 1, 2010.

All of the above debt is collateralized by un-obligated net revenues and real property of the District.

The term note will be retired in March 2014 by monthly principal payments of approximately \$8,500, which are adjusted annually. The interest rate adjusted to prime annually on March 1 plus 1%, but can only increase or decrease by 1% each adjustment period. The interest rate was adjusted to 4.25% for the period beginning March 1, 2010. The term note is 90% guaranteed by USDA Rural Development.

The prime rate at March 1, 2010 was 3.25%.

Capital lease obligations are at an imputed interest rate of 3.69%, and are collateralized by the leased equipment.

SOUTHERN COOS HEALTH DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 7 – LONG-TERM DEBT – (continued)

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

Year	Revenue Bonds		Term Note		Certificate of Participation 1998F		Certificate of Participation 2004H	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 59,749	\$ 173,956	\$ 97,487	\$ 15,502	\$ 80,000	\$ 15,290	\$ -	\$ -
2012	62,438	171,268	101,966	11,023	85,000	11,288		
2013	65,248	168,458	106,650	6,339	90,000	6,978		
2014	68,184	165,522	82,706	1,551	95,000	2,375		
2015	71,252	162,453						
2016-2020	407,339	761,188						
2021-2025	507,620	660,907						
2026-2030	632,588	535,942						
2031-2035	788,318	380,210						
2036-2040	982,387	186,139						
2041-2042	220,573	9,926						
	<u>\$ 3,865,696</u>	<u>\$ 3,375,969</u>	<u>\$ 388,809</u>	<u>\$ 34,415</u>	<u>\$ 350,000</u>	<u>\$ 35,931</u>	<u>\$ -</u>	<u>\$ -</u>

Year	Certificate of Participation 2008E		Certificate of Participation 2008G		Capital Lease Obligations		Total Long-term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 280,000	\$ 55,073	\$ 10,000	\$ 2,170	\$ 109,558	\$ 4,429	\$ 636,794	\$ 266,420
2012	290,000	44,732	15,000	1,665	34,322	489	588,726	240,465
2013	305,000	33,198	15,000	1,020			581,898	215,993
2014	315,000	20,561	15,000	345			575,890	190,354
2015	330,000	7,012					401,252	169,465
2016-2020							407,339	761,188
2021-2025							507,620	660,907
2026-2030							632,588	535,942
2031-2035							788,318	380,210
2036-2040							982,387	186,139
2041-2042							220,573	9,926
	<u>\$ 1,520,000</u>	<u>\$ 160,576</u>	<u>\$ 55,000</u>	<u>\$ 5,200</u>	<u>\$ 143,880</u>	<u>\$ 4,918</u>	<u>\$ 6,323,385</u>	<u>\$ 3,617,009</u>

SOUTHERN COOS HEALTH DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 8 – DEFERRED ANNUITY RETIREMENT PLAN

On January 1, 2000, the District entered into a contract with The Variable Annuity Life Insurance Company (VALIC) to establish a qualified tax deferred annuity retirement plan under Section 401(a) and related paragraphs of the Internal Revenue Service Code. The amount of the employee deferral is governed under Section 415 IRC. The Board of Directors is solely responsible for changes and modifications to either Plan.

There are two separate type Plans: One is a “Matching/Thrift” Plan, funded exclusively through the purchase of annuity contracts. This is funded by the District at a set amount as agreed upon in labor negotiations with certain Administrative and Physician employees and the said employee may also contribute. For the years ended June 30, 2010 and 2009, the District’s contribution to the Plan was \$81,412 and \$78,560, respectively and the employee’s contributions to the Plan were \$81,187 and \$65,232, respectively.

The second type of retirement plan is a 403(b) plan which is very similar to the traditional 401(k) type retirement savings plans. Matching contributions will be made for employees who make elective deferrals to the Plan. The District will determine the uniform matching percentage to be contributed on behalf of each employee who is eligible for Employer Contributions from Plan Year to Plan Year. In addition, the District makes a set percentage contribution to the Plan based upon the employee’s wages. To be eligible for the Plan, the employee must have completed one year of service and have reached age 18. The Plan’s vesting schedule is as follows: after 2 years of service the participant is 25% vested, after 3 years of service the participant is 50% vested, after 4 years of service the participant is 75% vested and after 5 years of service the participant is considered fully vested. For the years ended June 30, 2010 and 2009, the District’s contribution to the Plan was \$124,131 and \$119,782, respectively. Employee contributions to the plan were \$303,679 and \$341,056 for the years ended June 30, 2010 and 2009, respectively.

SOUTHERN COOS HEALTH DISTRICT
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – COMMITMENTS

The District leases equipment under various operating leases. Total lease expense for the years ended June 30, 2010 and 2009 was approximately \$63,000 and \$168,000, respectively. The following is a schedule of future minimum operating lease payments as of June 30, 2010 with remaining lease terms in excess of one year:

2011	\$ 30,083
2012	20,606
2013	11,730
2014	<u>390</u>
	<u>\$ 62,809</u>

NOTE 10 – CONTINGENT LIABILITIES

The District renders service to patients under contractual arrangements with Medicare and Medicaid programs. The programs' administrative procedures preclude final determination of amounts due to/from the District for services to program patients until after the District's cost reports are audited or otherwise reviewed and settled upon with the respective administrative agencies. Preliminary calculations of revenue adjustments relative to third-party contractual agreements are included in the accompanying financial statements.

Compliance with laws and regulations – The District is subject to many complex federal, state and local laws and regulations. Compliance with these laws and regulations is subject to government review and interpretation, and unknown or unasserted regulatory actions. Government activity with respect to investigations and allegations regarding possible violations of these laws and regulations by health care providers, including those related to medical necessity, coding and billing for services, has increased significantly. Violations of these laws can result in large fines and penalties, sanctions on providing future services, and repayment of past patient service revenues. The District has implemented a voluntary corporate compliance program, which includes guidance for all District employees' adherence to applicable laws and regulations. Management believes any actions that may result from investigations of non-compliance with laws and regulations will not have a material effect on the District's future financial position or results of operations.

SOUTHERN COOS HEALTH DISTRICT

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – CONTINGENT LIABILITIES – (continued)

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets, business interruption, errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

General and professional liability – Southern Coos Health District maintains primary and umbrella general and professional liability insurance coverage through “claims made” type policies. The District also maintains tail coverage covering professional liability claims from January 1, 1997, to June 30, 2004. Current coverage is for \$1,000,000 per claim with a \$3,000,000 annual aggregate limit. The coverage has a deductible of \$25,000. Should the “claims made” policies not be renewed, or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination may be uninsured.

Accounting principles generally accepted in the United States of America require that a health care facility disclose the estimated costs of malpractice claims in the period of the incident of malpractice if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. Management is not aware of any potential liabilities that would exceed its coverage at June 30, 2010.

NOTE 11 – HEALTH CARE REFORM

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal healthcare reform legislation does not affect the 2010 financial statements.

SUPPLEMENTAL INFORMATION

**SOUTHERN COOS HEALTH DISTRICT
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL HOSPITAL FUND**

	YEAR ENDED JUNE 30, 2010				
	Actual	Budgetary Adjustment	Budgetary Basis	Original/Final Budget	Variance
Revenues					
Total revenues except property taxes	\$ 15,368,612	\$ -	\$ 15,368,612	\$ 19,777,720	\$ (4,409,108)
Property tax revenue	621,720	-	621,720	673,039	(51,319)
Total revenues	<u>15,990,332</u>	<u>-</u>	<u>15,990,332</u>	<u>20,450,759</u>	<u>(4,460,427)</u>
Expenditures					
Personal services	9,291,061	-	9,291,061	9,374,970	(83,909)
Materials and services	5,536,001	-	5,536,001	3,847,789	1,688,212
Capital outlay	637,960	(383,486)	254,474	276,042	(21,568)
Debt service	277,296	703,956	981,252	771,669	209,583
Total expenditures	<u>15,742,318</u>	<u>320,470</u>	<u>16,062,788</u>	<u>14,270,470</u>	<u>1,792,318</u>
Excess of revenues over expenditures (expenditures over revenues)	<u>248,014</u>	<u>(320,470)</u>	<u>(72,456)</u>	<u>6,180,289</u>	<u>(6,252,745)</u>
Other financing sources (uses)	-	-	-	(1,943,256)	1,943,256
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,943,256)</u>	<u>1,943,256</u>
Excess of revenues over expenditures (expenditures over revenues) and other financing uses	<u>\$ 248,014</u>	<u>\$ (320,470)</u>	<u>(72,456)</u>	<u>4,237,033</u>	<u>(4,309,489)</u>
FUND BALANCE, beginning of year			<u>4,795,848</u>	<u>-</u>	<u>4,795,848</u>
FUND BALANCE, end of year			<u>\$ 4,723,392</u>	<u>\$ 4,237,033</u>	<u>\$ 486,359</u>

INDEPENDENT AUDITOR'S COMMENTS

To the Board of Directors
Southern Coos Health District

We have audited the accompanying financial statements of Southern Coos Health District (the "District") as of June 30, 2010, and for the year then ended and have issued our report thereon dated November 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement.

Compliance

Compliance with laws, regulations, contracts and grants applicable to Southern Coos Hospital District is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including provisions of Oregon Revised Statutes (ORS) as specified in Oregon Administrative Rules OAR 162-10-000 to 162-10-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting systems and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt, if any, and the limitation on the debt amount, liquidation of debt within the prescribed period of time, and provisions of indentures or agreements, including restrictions on the use of monies available to retire the indebtedness.
- The requirements relating to the preparation, adoption and execution of the annual budget for the current fiscal year and the preparation and adoption of the budget for the next succeeding fiscal year.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules, and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

MOSS ADAMS LLP

To the Board of Directors
Southern Coos Health District
Page 2

However, providing an opinion on compliance with those provisions was not an objective of our audit. Accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Minimum Standards for Audits for Oregon Municipal Corporations, prescribed by the Secretary of State, except as noted below.

Accounting Records and Internal Control (OAR 162-010-0230)

A summary of recommendations made to improve or strengthen the accounting records and internal control has been made by management letter to the District's Board of Directors.

Insurance and Fidelity Bond Coverage (OAR 162-010-0270)

Although Moss Adams is not an insurance expert and does not hold itself out to be one, we determined the District is in compliance with the requirements relating to insurance coverage.

However, the District was not in compliance with the requirements relating to fidelity bond coverage. The District's 2000 Revenue Bond agreement requires the District's Chief Executive Officer and Chief Financial Officer to have a Fidelity Bond in an amount not less than \$233,705. The District did not have a fidelity bond for their Chief Financial Officer in place at year-end.

This report is intended solely for the information and 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.



For Moss Adams, LLP
Portland, Oregon
November 17, 2010