



**Financial Statements and  
Supplementary Information  
and Single Audit Reports**

**Years Ended  
December 31, 2011  
and 2010**

# Santiam Memorial Hospital

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## Independent Auditors' Report

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To the Board of Directors of  
Santiam Memorial Hospital

We have audited the accompanying balance sheets of Santiam Memorial Hospital (the Hospital) (an Oregon nonprofit corporation) as of December 31, 2011 and 2010, and the related statements of operations and changes in unrestricted net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Hospital'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 financial position of Santiam Memorial Hospital as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2012, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters as of and for the year ended December 31, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2011 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

**DELAP LLP**

April 10, 2012

# Santiam Memorial Hospital

## Balance Sheets

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 7,113,816	\$ 4,376,452
Short-term investments	103,141	102,960
Patient accounts receivable - net of allowance for doubtful accounts of \$1,218,000 in 2011 (\$956,000 in 2010)	5,389,769	4,433,676
Supplies inventory	1,103,455	1,170,123
Prepaid expenses and other current assets	<u>1,256,226</u>	<u>1,038,954</u>
Total current assets	14,966,407	11,122,165
Assets limited as to use	1,474,324	1,468,033
Long-term investments	501,339	550,485
Property and equipment - net	26,045,656	11,580,792
Rental property - professional buildings and property held for future development - net of accumulated depreciation of \$569,293 in 2011 (\$510,134 in 2010)	953,280	719,069
Other assets - net	<u>1,654,325</u>	<u>1,350,396</u>
<b>Total Assets</b>	<u>\$ 45,595,331</u>	<u>\$ 26,790,940</u>

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

# Santiam Memorial Hospital

## Balance Sheets (Continued)

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Liabilities and Unrestricted Net Assets</b>		
Current liabilities		
Accounts payable	\$ 756,041	\$ 759,699
Accrued liabilities		
Payroll, payroll taxes, and withholdings	613,540	551,952
Vacation	424,910	369,228
Other	387,160	396,201
Estimated third-party payor settlements payable	534,015	473,672
Mortgage note payable due within one year	<u>120,092</u>	<u>-</u>
Total current liabilities	2,835,758	2,550,752
Retainage and construction accounts payable	4,770,334	139,323
Mortgage note payable - net of current portion	10,334,733	1,315,762
Other liabilities	<u>1,052,670</u>	<u>513,164</u>
Total liabilities	18,993,495	4,519,001
Unrestricted net assets	<u>26,601,836</u>	<u>22,271,939</u>
<b>Total Liabilities and Unrestricted Net Assets</b>	<u>\$ 45,595,331</u>	<u>\$ 26,790,940</u>

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

# Santiam Memorial Hospital

## Statements of Operations and Changes in Unrestricted Net Assets

### Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenue		
Net patient service revenue	\$ 33,734,275	\$ 29,538,276
Electronic health record incentive payments	1,436,713	-
Other revenue	<u>224,448</u>	<u>260,795</u>
Total revenue	<u>35,395,436</u>	<u>29,799,071</u>
Expenses		
Operating departments	19,699,097	17,725,913
Service departments	2,396,910	2,262,812
Administrative and general	4,431,846	3,808,022
Provision for bad debts	3,235,109	3,444,404
Depreciation related to health care operations	<u>1,365,752</u>	<u>1,168,812</u>
Total expenses	<u>31,128,714</u>	<u>28,409,963</u>
<b>Operating Income</b>	<u>4,266,722</u>	<u>1,389,108</u>
Other income (loss)		
Investment income (loss) - net	(2,522)	65,776
Other - net	<u>65,697</u>	<u>37,867</u>
Total other income - net	<u>63,175</u>	<u>103,643</u>
<b>Excess of Revenue Over Expenses</b>	4,329,897	1,492,751
Unrestricted net assets - beginning of year	<u>22,271,939</u>	<u>20,779,188</u>
<b>Unrestricted Net Assets - End of Year</b>	<u><u>\$ 26,601,836</u></u>	<u><u>\$ 22,271,939</u></u>

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

# Santiam Memorial Hospital

## Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash Flows From Operating Activities</b>		
Excess of revenue over expenses	\$ 4,329,897	\$ 1,492,751
Adjustments to reconcile excess of revenue over expenses to net cash provided by operating activities		
Provision for bad debts	3,235,109	3,444,404
Depreciation and amortization	1,405,742	1,205,424
Net realized and unrealized losses (gains) on investments	19,965	(47,833)
Changes in certain operating assets and liabilities		
Investments	29,000	(87,077)
Patient accounts receivable	(4,191,202)	(3,544,134)
Supplies inventory	66,668	(128,114)
Prepaid expenses and other current assets	(217,272)	(490,855)
Other assets	(300,132)	114,766
Accounts payable	(3,658)	(151,939)
Accrued liabilities	108,229	166,590
Estimated third-party payor settlements payable	60,343	73,675
Other liabilities	<u>539,506</u>	<u>25,503</u>
Net cash provided by operating activities	<u>5,082,195</u>	<u>2,073,161</u>
<b>Cash Flows From Investing Activities</b>		
Increase in assets limited as to use - net	(6,291)	(430,256)
Purchases of property and equipment and rental and other property - net	<u>(2,334,743)</u>	<u>(904,345)</u>
Net cash used by investing activities	<u>(2,341,034)</u>	<u>(1,334,601)</u>
<b>Cash Flows From Financing Activities</b>		
Payment of debt issuance costs	<u>(3,797)</u>	<u>(928,906)</u>
Net cash used by financing activities	<u>(3,797)</u>	<u>(928,906)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,737,364	(190,346)
Cash and cash equivalents - beginning of year	<u>4,376,452</u>	<u>4,566,798</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 7,113,816</u></u>	<u><u>\$ 4,376,452</u></u>
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Property and equipment purchased with proceeds of mortgage note payable	<u><u>\$ 9,139,063</u></u>	<u><u>\$ 1,315,762</u></u>

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

# **Santiam Memorial Hospital**

## **Notes to Financial Statements**

### **Years Ended December 31, 2011 and 2010**

#### **1. Business, Organization, and Summary of Significant Accounting Policies**

##### **Business and organization**

Santiam Memorial Hospital (the Hospital) is an Oregon nonprofit corporation located in Stayton, Oregon. The Hospital provides inpatient, outpatient, and emergency health care services primarily to residents in the local geographic area.

##### **Method of accounting**

The accompanying financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (U.S.) (GAAP) using the accrual method of accounting which recognizes revenue and income when earned and expenses and losses when incurred. The preparation of financial statements in conformity with GAAP requires management of the Hospital (Management) to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, income, expenses, and losses during the reporting period. Actual results could differ from those estimates.

##### **Cash and cash equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with remaining maturities of three months or less at the time of purchase by the Hospital, excluding assets limited as to use.

The Hospital maintains its bank accounts at several financial institutions. The Hospital's non-interest bearing accounts are protected by unlimited insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) through December 31, 2012. The Hospital's interest bearing accounts are insured by the FDIC up to \$250,000 at each financial institution. Periodically, the Hospital's bank balances may exceed FDIC coverage; however, Management believes that the Hospital's credit risk with respect to these accounts is minimal due to the financial strength of the financial institutions.

##### **Investments and assets limited as to use**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying balance sheets (see Note 9). Investment income or loss (including interest, dividends, and realized and unrealized gains and losses on sales of investments) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. As of December 31, 2011 and 2010, all of the Hospital's investment securities are classified as trading securities which are debt and equity securities that the Hospital buys and holds principally to sell in the near-term. For cash flow reporting purposes, purchases, sales, and maturities of assets limited as to use are classified as investing activities, and purchases, sales, and maturities of other investments are classified as cash flows from operating activities.

Assets limited as to use consist of assets (money market accounts and certificates of deposit) designated by the Hospital's Board of Directors (the Board) for future capital acquisitions, over which the Board retains control and may, at its discretion, subsequently use for other purposes (internally designated assets); and cash held in an escrow account restricted for certain off-site improvements under a mortgage note payable agreement (the Mortgage Note) (see Notes 2 and 4).



# Santiam Memorial Hospital

## Notes to Financial Statements

Years Ended December 31, 2011 and 2010

### 1. Business, Organization, and Summary of Significant Accounting Policies (Continued)

#### Investments and assets limited as to use (continued)

Investments consist of mutual funds, a certificate of deposit, and equity securities (see Note 2). Management believes that the Hospital's credit risk with respect to investments and assets limited as to use is minimal due to the diversity of the individual instruments, FDIC insurance coverage, and the financial strength of the entities which have issued the securities or instruments. However, due to changes in economic conditions, interest rates, and common stock prices, the fair value of the Hospital's investments and assets limited as to use can be volatile, and, consequently, the fair value can significantly change in the near-term as a result of such volatility.

#### Patient accounts receivable and allowance for doubtful accounts

The collection of receivables from third-party payors and patients is the Hospital's primary source of cash and is critical to its operating performance. When the Hospital provides care to patients, it does not require collateral; however, it maintains an estimated allowance for doubtful accounts. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but the patient is responsible for the remaining amount outstanding (generally deductibles and co-payments). The allowance for doubtful accounts is estimated based primarily upon the Hospital's historical collection experience, the age of patients' accounts, Management's estimate of the patient's economic ability to pay, and the effectiveness of collection efforts. Patient accounts receivable balances are routinely reviewed in conjunction with historical collection rates and other economic conditions which might ultimately affect the collectibility of patient accounts when considering the adequacy of the amounts recorded in the allowance for doubtful accounts. Actual write-offs have historically been within Management's expectations. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental health care coverage could affect the Hospital's collection of patient accounts receivable, cash flows, and results of operations.

Significant concentrations of gross patient accounts receivable as of December 31, 2011 and 2010 were approximately as follows:

	<u>2011</u>	<u>2010</u>
Medicare	37%	31%
Oregon Health Plan (OHP) and Medicaid	20	14
Commercial insurance and other third-party payors	23	26
Self-pay	<u>20</u>	<u>29</u>
	<u>100%</u>	<u>100%</u>

During the year ended December 31, 2011, the Hospital refined its approach to estimating the allowances for doubtful accounts and certain contractual adjustments. This refinement in estimate had the effect of decreasing net patient accounts receivable and increasing the provision for bad debts and deductions from patient service revenue by approximately \$560,000 as of and for the year ended December 31, 2011.

#### Supplies inventory

Supplies inventory is recorded at the lower of cost (first-in, first-out method) or market.

# **Santiam Memorial Hospital**

## **Notes to Financial Statements**

**Years Ended December 31, 2011 and 2010**

### **1. Business, Organization, and Summary of Significant Accounting Policies (Continued)**

#### **Property and equipment**

Property and equipment acquisitions (including acquisitions of rental property - professional buildings and property held for future development) are recorded at cost. Donated property and equipment items are recorded on the basis of estimated fair value at the date of their donation. Improvements and replacements of property and equipment are capitalized. Routine maintenance and repairs are charged to expense as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Management reviews property and equipment for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. If there is an indication of impairment, Management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

Contributions of long-lived assets such as land, buildings, and equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Contributions of long-lived assets with explicit restrictions that specify how the assets are to be used and contributions of cash or other assets that must be used to acquire long-lived assets would be reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports expirations of donor restrictions as support when the donated or acquired long-lived assets are placed in service.

#### **Other assets**

Other assets as of December 31, 2011 and 2010 include deferred financing costs of approximately \$1,016,000 and \$1,012,000, respectively, incurred in connection with the mortgage note payable (see Note 4). Deferred financing costs are amortized to interest expense over the term of the mortgage note payable using the interest method.

#### **Net patient service revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements primarily include prospectively determined rates per discharge, reimbursed costs, and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimates for potential retroactive revenue adjustments under reimbursement agreements with third-party payors. Such estimates are adjusted in future periods as final settlements are determined.

A significant portion of the Hospital's services is provided to Medicare, OHP, and Medicaid patients under contractual arrangements. Inpatient acute care services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors (i.e., "Medicare severity-diagnosis related groups" or "MS-DRGs"). Such payments include a capital cost component and may be

# **Santiam Memorial Hospital**

## **Notes to Financial Statements**

### **Years Ended December 31, 2011 and 2010**

#### **1. Business, Organization, and Summary of Significant Accounting Policies (Continued)**

##### **Net patient service revenue (continued)**

greater or less than the actual charges for services. Most outpatient services related to Medicare beneficiaries are reimbursed prospectively under the ambulatory payment classifications methodology. Inpatient non-acute care services related to Medicare beneficiaries are reimbursed under a cost reimbursement methodology. In addition, certain outpatient services related to Medicare beneficiaries are reimbursed based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited and final settled by the Medicare fiscal intermediary through December 31, 2006.

Services rendered to OHP beneficiaries are primarily reimbursed at discounts from standard charges. Services rendered to Medicaid program beneficiaries primarily are reimbursed under a cost reimbursement methodology. Under this methodology, the Hospital is reimbursed at a tentative rate with final settlement determined after audits of the Hospital's annual cost reports by Medicaid. The Hospital's Medicaid cost reports have been audited and final settled by Medicaid through December 31, 2006.

Gross patient service revenue for services provided by the Hospital to Medicare, OHP, and Medicaid patients aggregated approximately \$30,123,000 and \$24,110,000 for the years ended December 31, 2011 and 2010, respectively.

The laws and regulations governing the Medicare, OHP, and Medicaid programs are extremely complex and subject to interpretation. In addition, the Recovery Audit Contractors program requires the evaluation of certain Medicare and Medicaid claims for propriety by third-party contractors. As a result, there is at least a reasonable possibility that estimated third-party payor settlements payable will change by a material amount in the near-term. Net patient service revenue for the years ended December 31, 2011 and 2010 was increased by approximately \$6,000 and \$203,000, respectively, as a result of revisions of estimates for prior year cost reports and changes to reimbursement and risk sharing settlements relating to services rendered to OHP participants in prior years.

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

##### **Charity care**

The Hospital also provides services to patients who meet certain criteria of its charity care policy without charge or at amounts less than its established rates. The Hospital's criteria for the determination of charity care include the patient's – or other responsible party's – annual household income, assets, credit history, existing debt obligations, and other indicators of the patient's ability to pay. Generally, those individuals with an annual household income at, or less than, 150% of the Federal Poverty Guidelines (the Guidelines) qualify for charity care under the Hospital's policy. In addition, the Hospital provides discounts on a sliding scale to those individuals with an annual household income of between 150% and 250% of the Guidelines. Since the Hospital does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net patient service revenue (see Note 5).

# **Santiam Memorial Hospital**

## **Notes to Financial Statements**

**Years Ended December 31, 2011 and 2010**

### **1. Business, Organization, and Summary of Significant Accounting Policies (Continued)**

#### **Electronic health record (EHR) incentive payments**

Under certain provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), federal incentive payments are available to hospitals, physicians, and certain other professionals (collectively, "health care providers") when they adopt, implement, or upgrade (AIU) certified electronic health record (EHR) technology or become "meaningful users" – as defined under ARRA – of EHR technology in ways that demonstrate improved quality, safety, and effectiveness of care. Health care providers can become eligible for annual Medicare incentive payments by demonstrating meaningful use of EHR technology in each federal fiscal year. Medicaid providers can receive their initial incentive payment by satisfying AIU criteria but must demonstrate meaningful use of EHR technology in subsequent federal fiscal years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments; however, physicians and other professionals may be eligible for either Medicare or Medicaid incentive payments but not both. Hospitals that are meaningful users under the Medicare EHR incentive payment program are deemed meaningful users under the Medicaid EHR incentive payment program and do not need to meet additional criteria imposed by Medicaid. Medicaid EHR incentive payments to health care providers are 100% federally funded and administered by individual states. The Centers for Medicare and Medicaid Services (CMS) established the federal fiscal year ended September 30, 2011 as the first year states could offer EHR incentive payments. Before a state may offer EHR incentive payments, the state must submit – and CMS must approve – the state's incentive plan.

The Hospital recognizes EHR incentive payments in income using the "contingency model." Under the contingency model, the income from the payments is recognized in the year for which payment is made if all significant contingencies related to the payment are resolved. Generally, the Hospital expects to recognize payments from the Medicare and Medicaid programs in the Hospital's fiscal year that includes the end of the federal fiscal year for which the payments are made. As a result, the Hospital recognized \$1,436,713 of Medicare and Medicaid EHR incentive payments as operating revenue in the accompanying 2011 statement of operations and changes in unrestricted net assets. Medicare EHR incentive payments are scheduled to be paid out in decreasing amounts over four federal fiscal years, while Medicaid EHR payments are scheduled to be paid out in decreasing amounts over three federal fiscal years. Medicare and Medicaid EHR incentive payments are subject to audit and/or final approval by CMS and Medicaid. As a result, there is at least a reasonable possibility that recorded Medicare and Medicaid EHR incentive payments will change by a material amount in the near-term.

#### **Statements of operations and changes in unrestricted net assets**

For purposes of presentation, transactions deemed by Management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as other income (loss).

#### **Income taxes**

The Hospital is a tax-exempt organization pursuant to Internal Revenue Code Section 501(c)(3). As such, only unrelated business income is subject to federal or state income taxes. It is Management's belief that none of the Hospital's activities have generated material unrelated business income; therefore, no provision for income taxes has been made in the accompanying financial statements.

# Santiam Memorial Hospital

## Notes to Financial Statements

Years Ended December 31, 2011 and 2010

### 1. Business, Organization, and Summary of Significant Accounting Policies (Continued)

#### Income taxes (continued)

Income tax positions that meet a "more-likely-than-not" recognition threshold are measured at the largest amount of income tax benefit that is more than 50% likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized income tax benefits in the Hospital's balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized income tax benefits would be classified as income taxes in the Hospital's statement of operations and changes in unrestricted net assets. There were no unrecognized income tax benefits, nor any interest and penalties associated with unrecognized income tax benefits, accrued or expensed as of and for the years ended December 31, 2011 and 2010.

The Hospital files a federal information return in the U.S. and a state information return in Oregon. The Hospital is no longer subject to tax examinations by the related tax authorities for the Hospital's U.S. federal and Oregon information returns for years prior to 2008.

#### Recently issued accounting standards

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-23, *Health Care Entities (Topic 954) – Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. As a result of the amendments in ASU 2010-23, various techniques will likely be used to determine how the direct and indirect costs are identified, such as obtaining the information directly from a costing system or through reasonable estimation techniques. Therefore, the amendments in ASU 2010-23 also require disclosure of the method used to identify or determine such costs. In the opinion of the FASB, ASU 2010-23 improves current GAAP by requiring all entities to use the same measurement basis for charity care, therefore, enhancing comparability between entities' financial statements. A health care entity does not recognize revenue when charity care is provided; accordingly, the amendments in ASU 2010-23 have no effect on the Hospital's financial condition or results of operations. ASU 2010-23 was effective for the Hospital beginning in 2011. The adoption of ASU 2010-23 did not have a significant effect on the Hospital's financial statements (see Note 5).

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954) – Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). ASU 2010-24 was issued to provide additional guidance to health care entities regarding accounting for medical malpractice and other similar claims subject to anticipated insurance recoveries. ASU 2010-24 clarifies that a health care entity should not net insurance recoveries against a related claim liability, and requires that a health care entity estimate the amount of the claim liability without consideration of any anticipated insurance recoveries. ASU 2010-24 eliminates an industry exception by requiring health care entities to conform to existing GAAP which generally does not permit offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third-parties. Upon initial application, the difference between the change in the amount of the liability recognized for claims and the change in the amount of receivables recognized for anticipated insurance recoveries was to be recognized as a cumulative-effect adjustment to opening unrestricted net assets as of the beginning of the period of adoption. ASU 2010-24 was effective for the Hospital beginning in 2011, and its adoption had the effect of increasing other assets - net and other liabilities by approximately \$376,000 as of December 31, 2011 and had no effect on the statement of operations and changes in unrestricted net assets (see Note 8).

# Santiam Memorial Hospital

## Notes to Financial Statements

Years Ended December 31, 2011 and 2010

### 1. Business, Organization, and Summary of Significant Accounting Policies (Continued)

#### Recently issued accounting standards (continued)

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The provisions of ASU 2011-04 clarify the FASB's intent regarding application of existing fair value measurement guidance and revise certain measurement and disclosure requirements to achieve convergence of GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies the FASB's intent about the application of the highest-and-best-use and valuation premise and with respect to the measurement of fair value of an instrument classified as equity. ASU 2011-04 also expands the information required to be disclosed with respect to fair value measurements categorized in Level 3 fair value measurements and the items not measured at fair value but for which fair value must be disclosed. ASU 2011-04 will be effective for the Hospital in 2012. Management does not expect that ASU 2011-04 will have a significant effect on the Hospital's future financial statements.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954) – Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). ASU 2011-07 was issued to provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. ASU 2011-07 requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered – even though they do not assess the patient's ability to pay – to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statements of operations and unrestricted net assets. ASU 2011-07 will require certain health care entities to change the presentation of their statements of operations and unrestricted net assets by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. ASU 2011-07 also requires disclosures of patient service revenue (net of contractual allowances and discounts), as well as certain qualitative and quantitative information about changes in the allowance for doubtful accounts. ASU 2011-07 will be effective for the Hospital in 2012. Management is currently evaluating the effect that ASU 2011-07 will have on the Hospital's future financial statements.

#### Reclassifications

The Hospital reclassified approximately \$2,499,000 of employee benefits and payroll tax expenses from administrative and general expense to operating and service department expenses for 2010 to conform with the 2011 presentation. In addition, certain other amounts for 2010 have also been reclassified to conform with the 2011 presentation.

#### Subsequent events

Management has evaluated, for potential recognition or disclosure in the financial statements, subsequent events that have occurred through April 10, 2012, which is the date that the financial statements were available to be issued.

# Santiam Memorial Hospital

## Notes to Financial Statements

### Years Ended December 31, 2011 and 2010

#### 2. Investments and Assets Limited as to Use

Investments consisted of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Mutual and exchange-traded funds	\$ 466,269	\$ 513,695
Certificate of deposit	103,141	102,960
Equity securities	<u>35,070</u>	<u>36,790</u>
	604,480	653,445
Less short-term investments	<u>(103,141)</u>	<u>(102,960)</u>
Long-term investments	<u>\$ 501,339</u>	<u>\$ 550,485</u>

Assets limited as to use consisted of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Internally designated for capital acquisitions		
Money market accounts	\$ 75,845	\$ 75,695
Certificates of deposit	<u>969,442</u>	<u>963,301</u>
	1,045,287	1,038,996
Restricted under the Mortgage Note (see Note 4)		
Cash held in escrow account for certain off-site improvements	<u>429,037</u>	<u>429,037</u>
Total assets limited as to use	<u>\$ 1,474,324</u>	<u>\$ 1,468,033</u>

Investment income consisted of the following for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 17,443	\$ 17,943
Realized gains on sales of investments - net	7,821	48,690
Net unrealized losses on trading securities	<u>(27,786)</u>	<u>(857)</u>
Investment income (loss) - net	<u>\$ (2,522)</u>	<u>\$ 65,776</u>

# Santiam Memorial Hospital

## Notes to Financial Statements

### Years Ended December 31, 2011 and 2010

#### 3. Property and Equipment

Property and equipment consisted of the following as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,091,087	\$ 1,091,087
Land improvements	616,390	616,390
Buildings and improvements	9,726,025	9,621,789
Equipment	<u>9,787,199</u>	<u>8,567,118</u>
	21,220,701	19,896,384
Less accumulated depreciation	<u>(11,798,743)</u>	<u>(10,465,832)</u>
	9,421,958	9,430,552
Construction in progress	<u>16,623,698</u>	<u>2,150,240</u>
Property and equipment - net	<u>\$ 26,045,656</u>	<u>\$ 11,580,792</u>

Construction in progress as of December 31, 2011 primarily includes costs incurred in connection with a building expansion and renovation construction project (the Building Project) that is mostly being financed with proceeds from the Mortgage Note (see Note 4) and is anticipated to be completed in the summer of 2012. The Hospital has entered into a guaranteed maximum price contract with a general contractor to complete the Building Project for approximately \$20 million. As of December 31, 2011, Management estimates that the remaining cost to complete the Building Project, including equipment and furnishings, will be approximately \$10 million.

Retainage and construction accounts payable are classified as non-current liabilities in the accompanying balance sheets, because such amounts will be paid from proceeds of the Mortgage Note.

#### 4. Mortgage Note Payable

In December 2010, the Hospital entered into a building loan agreement and the Mortgage Note, whereby the lender (Dougherty Mortgage LLC) agreed to loan the Hospital up to \$27,100,000 in connection with the Building Project. As of December 31, 2011, the Hospital had \$10,454,825 in outstanding borrowings under the Mortgage Note. The Mortgage Note is insured by the U.S. Department of Housing and Urban Development (HUD) and is secured by substantially all assets of the Hospital. Interest is payable at a fixed rate of 5.65%. In October 2012, the Hospital is required to begin principal and interest payments of approximately \$169,000 per month through September 2037 (if the Hospital borrows the full amount available under the Mortgage Note).

In addition, also commencing in October 2012, the Hospital is required make a deposit each quarter into a mortgage reserve fund so that such fund reaches certain scheduled year-end balances (including interest earned by the fund) growing from approximately \$93,000 as of December 31, 2012 to a maximum of approximately \$4,547,000 as of December 31, 2026. As of December 31, 2011, no deposits had been made to the mortgage reserve fund. The mortgage reserve fund schedule (based on estimated interest earnings) anticipates that no quarterly deposits will be required from 2022 through 2026. Beginning in 2027, the mortgage reserve fund can be reduced (i.e., the Hospital can begin withdrawing amounts from the fund) in accordance with the mortgage reserve fund schedule such that no balance will remain as of December 31, 2036.



# Santiam Memorial Hospital

## Notes to Financial Statements

Years Ended December 31, 2011 and 2010

### 4. Mortgage Note Payable (Continued)

The Mortgage Note may be prepaid in whole or in part, beginning October 1, 2014, with a prepayment penalty of 8%, decreasing 1% per year thereafter, and without any penalty after September 30, 2022. The Mortgage Note and related agreements with Dougherty Mortgage LLC and HUD include requirements to meet certain financial and operating covenants. A regulatory agreement between the Hospital and HUD relating to the Mortgage Note requires the Hospital to annually report certain financial ratios. As of and for the year ended December 31, 2011, Management has calculated these ratios (each as defined in the regulatory agreement) to be as follows: (1) debt service coverage ratio of approximately 115.7, (2) current ratio of approximately 5.3, (3) average payment period of approximately 39.0 days, and (4) equity financing ratio of approximately 57.4%.

If the Hospital borrows the entire amount available under the Mortgage Note, required principal payments on the Mortgage Note for the five years subsequent to December 31, 2011, and thereafter, are approximately as follows:

2012	\$ 120,000
2013	494,000
2014	523,000
2015	553,000
2016	582,000
Thereafter	<u>24,828,000</u>
Total	<u>\$ 27,100,000</u>

Interest costs incurred and capitalized during the year ended December 31, 2011 was approximately \$297,000. Interest paid during the year ended December 31, 2011 was approximately \$246,000. Interest cost incurred and paid during the year ended December 31, 2010 was not significant.

### 5. Net Patient Service Revenue

Net patient service revenue for the years ended December 31, 2011 and 2010 was comprised of the following:

	<u>2011</u>	<u>2010</u>
Charges at established rates	<u>\$ 58,264,469</u>	<u>\$ 48,836,074</u>
Deductions		
Medicare, OHP, and Medicaid contractual allowances	(17,365,413)	(14,058,795)
Charity allowances	(1,283,615)	(1,061,623)
Other allowances	<u>(5,881,166)</u>	<u>(4,177,380)</u>
Total deductions	<u>(24,530,194)</u>	<u>(19,297,798)</u>
Net patient service revenue	<u>\$ 33,734,275</u>	<u>\$ 29,538,276</u>

# Santiam Memorial Hospital

## Notes to Financial Statements

Years Ended December 31, 2011 and 2010

### 5. Net Patient Service Revenue (Continued)

Management estimates that the net cost of charity care provided was approximately \$640,000 and \$603,000 for the years ended December 31, 2011 and 2010, respectively. These estimates were based on the Hospital's overall ratio of cost to charges in each year. The largest proportion of services provided on a charity care basis was for emergency room and surgical services.

### 6. Retirement Plan

The Hospital maintains a tax-deferred retirement savings plan (the 401(k) Plan) which is available to all employees who are regularly scheduled to work at least twenty hours per week and are age nineteen or older. Employees can defer a portion of their earnings on a pre-tax basis through contributions to the 401(k) Plan. Participants who have completed one year of service are also eligible to receive Hospital contributions. Each eligible participant receives a "safe harbor" contribution from the Hospital equal to 3% of the participant's compensation. In addition, the Hospital may make additional contributions to the 401(k) Plan, at its discretion. For the years ended December 31, 2011 and 2010, the Hospital did not make any additional discretionary contributions to the 401(k) Plan. Employees are immediately vested in their own contributions and the Hospital's "safe harbor" contributions. Employees are vested in the Hospital's discretionary contributions based on a cliff vesting schedule after three years of service.

Total expense incurred by the Hospital related to the 401(k) Plan during the years ended December 31, 2011 and 2010 was approximately \$324,000 and \$268,000, respectively.

### 7. Functional Classification of Expenses

Expenses on a functional basis for the years ended December 31, 2011 and 2010 were approximately as follows:

	2011	2010
Health care services	\$ 28,410,000	\$ 26,093,000
General and administrative	2,719,000	2,317,000
	<u>\$ 31,129,000</u>	<u>\$ 28,410,000</u>

### 8. Commitments and Contingencies

#### Medical malpractice insurance

The Hospital has a claims-made basis medical malpractice insurance policy. Under this policy, medical malpractice claims reported by the Hospital to the insurance company during the policy period are covered; however, any medical malpractice claim that has been incurred but not reported (IBNR) to the insurance company during the policy period is not covered.

Based on an actuarial valuation (with estimated future medical malpractice losses discounted at 2.0%), the Hospital has recorded estimated liabilities for IBNR medical malpractice claims, which, along with reported claims, aggregated \$557,000 and \$120,000 as of December 31, 2011 and 2010, respectively, and is included in other non-current liabilities in the accompanying balance sheets. Management believes that these estimated liabilities are adequate; however, the establishment of estimated liabilities for reported and IBNR medical malpractice claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods.

# **Santiam Memorial Hospital**

## **Notes to Financial Statements**

**Years Ended December 31, 2011 and 2010**

### **8. Commitments and Contingencies (Continued)**

#### **Medical malpractice insurance (continued)**

Prior to the Hospital's current medical malpractice policy, the Hospital had an occurrence basis policy (the Prior Policy) with a different insurance carrier (the Carrier). Under the Prior Policy, a portion of the premiums paid to the Carrier could be refunded to the Hospital after a period of six years based on the ultimate loss experience under each policy. The Hospital received an approximate \$105,000 refund in early 2012 related to the policy year ended December 31, 2005, and the Hospital received refunds aggregating approximately \$227,000 in January 2011 primarily related to the policy year ended December 31, 2004. Accordingly, the Hospital recorded receivables of approximately \$105,000 and \$319,000 as of December 31, 2011 and 2010, respectively, (included in other assets - net, in the accompanying balance sheets) and recorded other revenue of approximately \$13,000 and \$92,000 related to such refunds for the years ended December 31, 2011 and 2010, respectively.

#### **Self-insured health and dental claims**

The Hospital is self-insured for health and dental benefits provided to its employees for individual claims up to \$60,000. Such benefits are provided through the Santiam Memorial Hospital Health Plan (the Health Plan) (a revocable trust fund), which is administered by a third-party administrator. The provision and accrual for estimated claims include estimates of the ultimate costs for both reported claims and IBNR claims and are based upon the estimated costs of settlement. The Hospital has recorded estimated liabilities for reported and IBNR employee health and dental claims aggregating approximately \$206,000 and \$233,000, which are included in other accrued liabilities in the accompanying balance sheets as of December 31, 2011 and 2010, respectively. Management believes that these estimated liabilities are adequate to cover any related potential losses; however, the establishment of estimated liabilities for IBNR health and dental claims is an inherently uncertain process, and there can be no assurance that currently established reserves will prove adequate to cover actual ultimate expenses. Subsequent actual experience could result in reserves being too high or too low, which could positively or negatively impact the Hospital's reported results of operations in future periods. The Hospital's financial statements do not include the accounts of the Health Plan, as such accounts are not significant to the Hospital's financial statements.

#### **Risk management**

In the ordinary course of business, the Hospital 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; and natural disasters. However, Management believes that adequate commercial insurance coverage has been purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for the years ended December 31, 2011 and 2010.

#### **Regulation and litigation**

The health care industry is subject to various laws and regulations from federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has remained strong with respect to investigations and allegations concerning possible violations by health care providers of regulations which could result in the expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed and collected. Management believes that the Hospital is in compliance with the fraud and abuse regulations, as well as other applicable government laws and regulations; however, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

# Santiam Memorial Hospital

## Notes to Financial Statements

Years Ended December 31, 2011 and 2010

### 8. Commitments and Contingencies (Continued)

#### Regulation and litigation (continued)

In addition, the Hospital becomes involved in litigation and other regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, Management believes that these matters will be resolved without causing a material adverse effect on the Hospital's future financial position or results of operations.

#### Health care reform legislation

Health care reform legislation was passed in 2010, and – although its constitutionality is currently being considered by the U.S. Supreme Court – it is expected to dramatically impact the delivery of, and payment for, health care services as various provisions are phased in over approximately the next decade. This legislation had minimal impact on the accompanying financial statements; however, Management cannot presently determine the impact of such legislation on the Hospital's future financial position or results of operations.

### 9. Fair Value Measurements

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The hierarchy of fair value valuation techniques under GAAP provides for three levels ranging from Level 1 – which provides the most reliable measure of fair value – to Level 3 which, if applicable, generally would require significant management judgment. The three levels for categorizing assets and liabilities under GAAP's fair value measurement requirements are as follows:

- Level 1: Fair value of the asset or liability is determined using observable inputs such as quoted unadjusted prices in active markets for identical assets or liabilities;
- Level 2: Fair value of the asset or liability is determined using inputs other than quoted prices that are observable for the applicable asset or liability, either directly or indirectly, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and
- Level 3: Fair value of the asset or liability is determined using unobservable inputs that are significant to the fair value measurement and reflect the organization's own assumptions regarding the applicable asset or liability.

As of December 31, 2011 and 2010, the Hospital's financial assets measured at fair value on a recurring basis were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>2011</u></b>				
Investments	\$ 604,480	\$ -	\$ -	\$ 604,480
Assets limited as to use	1,474,324	-	-	1,474,324
	<u>\$ 2,078,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,078,804</u>

# Santiam Memorial Hospital

## Notes to Financial Statements

Years Ended December 31, 2011 and 2010

### 9. Fair Value Measurements (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>2010</u></b>				
Investments	\$ 653,445	\$ -	\$ -	\$ 653,445
Assets limited as to use	<u>1,468,033</u>	<u>-</u>	<u>-</u>	<u>1,468,033</u>
	<u>\$ 2,121,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,121,478</u>

Certain non-financial assets may also be measured at fair value on a non-recurring basis. These assets primarily consist of non-financial long-lived assets which are measured at fair value for periodic impairment assessments. As of December 31, 2011 and 2010, the Hospital had no financial liabilities – and no nonfinancial assets or liabilities – measured at fair value on a recurring basis and had no assets or liabilities measured at fair value on a nonrecurring basis. In addition, there were no transfers of assets or liabilities between Levels 1, 2, and 3 during 2011 or 2010.



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## **Independent Auditors' Report on Supplementary Information**

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To the Board of Directors of  
Santiam Memorial Hospital

We have audited the financial statements of Santiam Memorial Hospital (the Hospital) as of and for the years ended December 31, 2011 and 2010, and our report thereon dated April 10, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**DELAP LLP**

April 10, 2012

# Santiam Memorial Hospital

## Summary of Operations

### Years Ended December 31, 2011 and 2010

#### Comparative Summary

The following schedule compares operations for the years ended December 31, 2011 and 2010. The per adjusted patient day amounts include both inpatient and outpatient revenue and expenses and include an adjustment to patient days for the effect of outpatient revenue:

	2011			2010			2011 as Compared to 2010	
	Amount	Per Adjusted Patient Day	% of Total Revenue	Amount	Per Adjusted Patient Day	% of Total Revenue	Increase (Decrease)	% Increase (Decrease)
Revenue								
Net patient service revenue	\$ 33,734,275	\$ 2,960	95 %	\$ 29,538,276	\$ 2,918	99 %	\$ 4,195,999	14 %
Electronic health record incentive payments	1,436,713	126	4	-	-	-	1,436,713	NA
Other revenue	224,448	20	1	260,795	26	1	(36,347)	(14)
Total revenue	35,395,436	3,106	100	29,799,071	2,944	100	5,596,365	19
Expenses								
Salaries, payroll taxes, and employee benefits	17,036,991	1,495	48	15,232,620	1,505	51	1,804,371	12
Other operating departments' expenses	6,689,458	587	19	6,113,023	604	21	576,435	9
Other service departments' expenses	867,600	76	3	772,346	76	2	95,254	12
Other expenses	1,933,804	170	5	1,678,758	166	6	255,046	15
Provision for bad debts	3,235,109	284	9	3,444,404	340	11	(209,295)	(6)
Depreciation related to health care operations	1,365,752	120	4	1,168,812	116	4	196,940	17
Total expenses	31,128,714	2,732	88	28,409,963	2,807	95	2,718,751	10
<b>Operating Income</b>	<b>\$ 4,266,722</b>	<b>\$ 374</b>	<b>12 %</b>	<b>\$ 1,389,108</b>	<b>\$ 137</b>	<b>5 %</b>	<b>\$ 2,877,614</b>	<b>207 %</b>
Total patient days, excluding newborns and swing beds		2,972			2,937			
Total adjusted patient days, excluding newborns and swing beds		11,397			10,121			

The accompanying notes and independent auditors' report on supplementary information should be read with the supplementary schedules.

**Santiam Memorial Hospital**  
**Gross Patient Service Revenue**  
**Years Ended December 31, 2011 and 2010**

	<b>2011</b>			<b>2010</b>		
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
Daily patient revenue						
Nursing	\$ 2,670,206	\$ 123,195	\$ 2,793,401	\$ 2,814,140	\$ 180,761	\$ 2,994,901
Nursery	137,435	-	137,435	94,145	-	94,145
Medical/surgical	88,409	228,170	316,579	70,663	156,278	226,941
	<u>2,896,050</u>	<u>351,365</u>	<u>3,247,415</u>	<u>2,978,948</u>	<u>337,039</u>	<u>3,315,987</u>
Other nursing services						
Surgery and recovery room	2,319,296	4,275,475	6,594,771	2,034,392	2,696,088	4,730,480
Labor and delivery	442,862	100,934	543,796	308,058	64,302	372,360
Emergency	1,171,926	7,651,601	8,823,527	1,284,118	7,397,182	8,681,300
SHOTS	-	920,819	920,819	-	771,684	771,684
	<u>3,934,084</u>	<u>12,948,829</u>	<u>16,882,913</u>	<u>3,626,568</u>	<u>10,929,256</u>	<u>14,555,824</u>
Other professional services						
Laboratory	1,513,557	5,832,574	7,346,131	1,562,703	5,181,032	6,743,735
Radiology	2,047,011	10,833,588	12,880,599	1,651,018	7,648,418	9,299,436
Pharmacy	1,675,674	1,929,532	3,605,206	1,636,153	1,484,395	3,120,548
Anesthesiology	730,133	1,189,488	1,919,621	612,799	1,113,368	1,726,167
Respiratory therapy	2,318,742	673,899	2,992,641	2,022,829	592,242	2,615,071
Physical therapy	77,889	58	77,947	81,298	454	81,752
Ambulance	-	2,048,163	2,048,163	-	1,849,024	1,849,024
Clinics	-	7,263,833	7,263,833	-	5,528,530	5,528,530
	<u>8,363,006</u>	<u>29,771,135</u>	<u>38,134,141</u>	<u>7,566,800</u>	<u>23,397,463</u>	<u>30,964,263</u>
<b>Total Gross Patient Service Revenue</b>	<u>\$ 15,193,140</u>	<u>\$ 43,071,329</u>	<u>\$ 58,264,469</u>	<u>\$ 14,172,316</u>	<u>\$ 34,663,758</u>	<u>\$ 48,836,074</u>

The accompanying notes and independent auditors' report on supplementary information should be read with the supplementary schedules.



# Santiam Memorial Hospital

## Operating Departments' Expenses

### Years Ended December 31, 2011 and 2010

	2011			2010		
	Salaries, Benefits, and Payroll Taxes	Other	Total	Salaries, Benefits, and Payroll Taxes	Other	Total
Daily patient services						
Nursing	\$ 2,624,524	\$ 120,452	\$ 2,744,976	\$ 2,597,530	\$ 149,638	\$ 2,747,168
Nursery	25,249	16,586	41,835	15,384	13,301	28,685
Cardiac monitoring	-	5,070	5,070	-	3,510	3,510
Medical/surgical	-	263,464	263,464	-	191,763	191,763
	<u>2,649,773</u>	<u>405,572</u>	<u>3,055,345</u>	<u>2,612,914</u>	<u>358,212</u>	<u>2,971,126</u>
Other nursing services						
Surgery and recovery room	890,207	1,453,260	2,343,467	732,844	1,205,742	1,938,586
Labor and delivery	34,594	15,645	50,239	28,306	16,835	45,141
Emergency	966,488	1,259,964	2,226,452	889,881	1,243,261	2,133,142
SHOTS	192,800	276,765	469,565	163,691	133,420	297,111
	<u>2,084,089</u>	<u>3,005,634</u>	<u>5,089,723</u>	<u>1,814,722</u>	<u>2,599,258</u>	<u>4,413,980</u>
Other professional services						
Laboratory	841,784	1,102,781	1,944,565	812,841	1,034,055	1,846,896
Radiology	1,364,808	509,515	1,874,323	899,620	401,033	1,300,653
Pharmacy	409,972	453,565	863,537	385,467	615,071	1,000,538
Anesthesiology	848,209	57,072	905,281	860,651	55,505	916,156
Respiratory therapy	294,760	41,868	336,628	280,110	51,726	331,836
Physical therapy	-	50,665	50,665	-	53,166	53,166
Ambulance	209,713	221,400	431,113	206,849	205,189	412,038
Clinics	4,306,531	841,386	5,147,917	3,739,716	739,808	4,479,524
	<u>8,275,777</u>	<u>3,278,252</u>	<u>11,554,029</u>	<u>7,185,254</u>	<u>3,155,553</u>	<u>10,340,807</u>
<b>Total Operating Departments' Expenses</b>	<u>\$ 13,009,639</u>	<u>\$ 6,689,458</u>	<u>\$ 19,699,097</u>	<u>\$ 11,612,890</u>	<u>\$ 6,113,023</u>	<u>\$ 17,725,913</u>

The accompanying notes and independent auditors' report on supplementary information should be read with the supplementary schedules.

# Santiam Memorial Hospital

## Service Departments' Expenses and Administrative and General Expenses

### Years Ended December 31, 2011 and 2010

	2011			2010		
	Salaries, Benefits, and Payroll Taxes	Other	Total	Salaries, Benefits, and Payroll Taxes	Other	Total
Service departments' expenses						
Medical records	\$ 616,864	\$ 57,403	\$ 674,267	\$ 605,747	\$ 46,885	\$ 652,632
Dietary and cafeteria	457,924	283,989	741,913	425,383	259,955	685,338
Operation and maintenance of plant	189,838	405,640	595,478	201,276	369,193	570,469
Housekeeping	264,684	59,137	323,821	258,060	38,074	296,134
Laundry and linen	-	61,431	61,431	-	58,239	58,239
<b>Total Service Departments' Expenses</b>	<b>\$ 1,529,310</b>	<b>\$ 867,600</b>	<b>\$ 2,396,910</b>	<b>\$ 1,490,466</b>	<b>\$ 772,346</b>	<b>\$ 2,262,812</b>
					<b>2011</b>	<b>2010</b>
Administrative and general expenses						
Salaries and wages					\$ 1,361,188	\$ 1,250,798
Employee benefits					989,775	695,203
Payroll taxes					147,079	183,263
Office supplies and rental					568,799	523,960
Community relations					429,944	350,505
Professional fees					256,201	164,833
Insurance and bonding					247,965	248,306
Postage and stationery					113,823	98,656
Collections					105,737	64,947
Education					58,315	63,025
Physician					54,183	70,968
Telephone					26,855	30,175
Electronic health records training and consulting					20,409	9,644
Interest					5,223	7,991
Other					46,350	45,748
<b>Total Administrative and General Expenses</b>					<b>\$ 4,431,846</b>	<b>\$ 3,808,022</b>

The accompanying notes and independent auditors' report on supplementary information should be read with the supplementary schedules.



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## **Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of  
Santiam Memorial Hospital

We have audited the financial statements of Santiam Memorial Hospital (the Hospital) (an Oregon nonprofit corporation) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hospital in a separate letter dated April 10, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within the Hospital, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

**DELAP LLP**

April 10, 2012





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## **Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

To the Board of Directors of  
Santiam Memorial Hospital

### **Compliance**

We have audited Santiam Memorial Hospital's (the Hospital's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2011. The Hospital's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

### **Internal Control Over Compliance**

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the Hospital, and federal awarding agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

DELAP LLP

April 10, 2012

**Santiam Memorial Hospital**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended December 31, 2011**

<b>Program Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
U.S. Department of Housing and Urban Development Section 242 - Mortgage Insurance for Hospitals	14.128	\$ 10,454,825
Total expenditure of federal awards		\$ 10,454,825

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

# **Santiam Memorial Hospital**

## **Notes to Schedule of Expenditures of Federal Awards**

### **Year Ended December 31, 2011**

**1. Basis of Accounting**

The accompanying schedule of expenditures of federal awards (the Schedule) includes all federal grant and contract activity of Santiam Memorial Hospital (the Hospital) and is presented on the accrual basis of accounting in accordance with the requirements of the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Accordingly, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the Hospital's basic financial statements.

**2. Catalog of Federal Domestic Assistance (CFDA)**

The CFDA number reported in the Schedule is based on the November 2011 *Catalog of Federal Domestic Assistance* (the Catalog) and previous archived versions of the Catalog.

**3. Non-Cash Programs**

The U.S. Department of Housing and Urban Development has insured certain mortgage loan borrowings undertaken by the Hospital in connection with capital projects. As of December 31, 2011, outstanding principal totaled \$10,454,825.

# Santiam Memorial Hospital

## Schedule of Findings and Questioned Costs

### Year Ended December 31, 2011

#### Section 1 - Summary of Auditors' Results

##### *Financial Statements*

1. Type of auditors' report issued - **unqualified**
2. Significant deficiency(ies) in internal control identified in the audit of the financial statements - **none reported**
3. Material weakness(es) in internal control identified in the audit of the financial statements - **none**
4. Noncompliance that is material to the financial statements noted - **none**

##### *Federal Awards*

5. Significant deficiency(ies) in internal control over major programs identified in the audit of the financial statements - **none reported**
6. Material weakness(es) in internal control over major programs identified in the audit of the financial statements - **none**
7. The type of auditors' report issued on compliance for major programs - **unqualified**
8. Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 - **none**

##### *Identification of Major Programs*

- **U.S. Department of Housing and Urban Development, Section 242 - Mortgage Insurance for Hospitals (CFDA No. 14.128)**
9. Dollar threshold used to distinguish between Type A and Type B programs - **\$300,000**
  10. Is the auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133? - **no**

#### Section 2 - Financial Statement Findings

11. Findings relating to the financial statements reported in accordance with *Government Auditing Standards* - **none**

#### Section 3 - Federal Award Findings and Questioned Costs

12. Findings and questioned costs relating to federal awards - **none**



**Santiam Memorial Hospital**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended December 31, 2011**

There were no audit findings reported in the prior year.