

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED DECEMBER 31, 2014 AND 2013**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Country Doctor Community Health Centers  
Seattle, Washington

### Report on the Financial Statements

We have audited the accompanying financial statements of Country Doctor Community Health Centers, a nonprofit corporation which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets and cash flows for the years then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Country Doctor Community Health Centers as of December 31, 2014 and 2013, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of functional expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015, on our consideration of Country Doctor Community Health Centers' 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. 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* in considering Country Doctor Community Health Centers' internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
April 30, 2015



<b>LIABILITIES AND NET ASSETS</b>	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 181,129	\$ 346,445
Checks Drawn in Excess of Bank Balance	214,617	-
Accrued Wages and Related Payables	1,034,582	922,933
FQHC Enhancement Settlement	96,816	-
Current Portion of Long-Term Debt	75,869	71,261
Current Portion of Obligations Under Capital Leases	-	3,109
Total Current Liabilities	<u>1,603,013</u>	<u>1,343,748</u>
<b>LONG-TERM LIABILITIES</b>		
Long-Term Debt, Less Current Portion	<u>1,789,548</u>	<u>2,618,324</u>
Total Long Term Liabilities	<u>1,789,548</u>	<u>2,618,324</u>
Total Liabilities	3,392,561	3,962,072
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	3,607,841	2,409,476
Designated by the Board of Directors	<u>763,412</u>	<u>931,881</u>
Total Unrestricted	4,371,253	3,341,357
Permanently Restricted Net Assets	<u>83,055</u>	<u>83,055</u>
Total Net Assets	<u>4,454,308</u>	<u>3,424,412</u>
Total Liabilities and Net Assets	<u>\$ 7,846,869</u>	<u>\$ 7,386,484</u>

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>REVENUE AND SUPPORT</b>		
Public Sponsored Insurance	\$ 2,757,082	\$ 2,547,322
Private Insurance	1,400,398	1,039,070
Capitation Revenues and Entitlements	2,420,763	1,419,303
Patient Paid Fees	743,457	1,255,866
Pharmacy Revenue	<u>4,824,567</u>	<u>1,977,864</u>
Net Patient Service Revenue	12,146,267	8,239,425
In-Kind Contributions	280,144	295,693
Fees and Grants from Government Agencies	4,383,808	4,102,535
Contributions and Private Grants	426,319	394,632
Investment Income	10,126	20,725
Other Revenue	<u>358,773</u>	<u>70,491</u>
Total Revenue and Support	17,605,437	13,123,501
<b>EXPENSES</b>		
Program Services	15,823,984	11,823,576
Supporting Services	<u>1,635,039</u>	<u>1,825,269</u>
Total Expenses	17,459,023	13,648,845
<b>OTHER REVENUE</b>		
Gain on Debt Forgiveness	755,749	-
Realized and Unrealized Loss on Investments, Net	(2,525)	(43,510)
Risk Pool Revenue	32,049	242,168
Rental Income	98,209	93,134
Total Other Revenue	<u>883,482</u>	<u>291,792</u>
<b>EXCESS (DEFICIT) OF REVENUE AND SUPPORT OVER EXPENSE</b>	1,029,896	(233,552)
Net Assets - Beginning of the Year	<u>3,424,412</u>	<u>3,657,964</u>
<b>NET ASSETS - END OF THE YEAR</b>	<u>\$ 4,454,308</u>	<u>\$ 3,424,412</u>

See accompanying Notes to Financial Statements.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,029,896	\$ (233,552)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Gain on Debt Forgiveness	(755,749)	-
Depreciation and Amortization	412,490	416,901
PTSO Amortized Costs	754	8,739
Realized and Unrealized Loss on Investments, Net	2,525	23,788
Bad Debt Expense	373,659	385,442
Changes in Assets and Liabilities:		
Patient Receivables	(577,113)	(283,315)
Grants Receivable	(140,894)	(134,568)
Other Receivables	(239,150)	(321,652)
Inventory	342	(9,279)
Prepaid Expenses	(166,779)	31,759
Accounts Payable	49,301	955
Accrued Wages and Related Payables	111,649	93,620
FQHC Enhancement Settlement	96,816	(318,307)
Net Cash Provided (Used) by Operating Activities	197,747	(339,469)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	779,275	443,724
Purchases of Investments	(613,331)	(336)
Purchases of Property and Equipment	(179,701)	(124,726)
Net Cash Provided (Used) by Investing Activities	(13,757)	318,662
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Repayments of Long-Term Debt	(68,419)	(66,801)
Principal Payments on Obligations Under Capital Leases	(3,109)	(12,841)
Net Cash Used by Financing Activities	(71,528)	(79,642)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	112,462	(100,449)
Cash - Beginning of Year	184,286	284,735
<b>CASH - END OF YEAR</b>	\$ 296,748	\$ 184,286

See accompanying Notes to Financial Statements.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash Payments for Interest	\$ 102,644	\$ 110,726
Cash is Comprised as Follows:		
Cash	\$ 96,748	\$ 184,286
Restricted Cash	200,000	-
Cash - End of Year	\$ 296,748	\$ 184,286
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Acquisition of Capital Assets through the Issuance of Debt	\$ -	\$ 1,096,100
Gain on Debt Forgiveness	\$ 755,749	\$ -

See accompanying Notes to Financial Statements.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Country Doctor Community Health Centers (CDCHC) is a nonprofit organization providing comprehensive primary medical care through the operation of health centers in Seattle, Washington. The mission of CDCHC is to improve the health of the community by providing high quality, caring, culturally appropriate primary health care and pharmacy services that addresses the needs of the people regardless of their ability to pay. CDCHC historically served primarily the people of the Central Area and Capitol Hill neighborhoods in Seattle, Washington. Patients now come from throughout Seattle, King County, and beyond.

**Basis of Presentation**

The financial statements are presented in accordance with generally accepted accounting and reporting standards for nonprofit organizations.

Under these standards, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of CDCHC and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to externally imposed restrictions. Amounts designated by the board of CDCHC are included in this classification.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of CDCHC and/or the passage of time.

Permanently Restricted – Net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit CDCHC to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor restriction or by law. Expirations of temporary restrictions on net assets are reported as transfers between the applicable classes of net assets. Contributions with externally imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

**Excess (Deficit) of Revenues and Support Over Expense**

The statement of activities includes excess (deficit) of revenues and support over expense. Changes in unrestricted net assets which are excluded from operations, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, restricted contributions and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purposes of acquiring such assets and the related releases).

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program and supporting services benefited, based on rationale specific and attributable to each program.

Expenses related to providing these services at December 31 were as follows:

Program Services:	2014	2013
Medical	\$ 14,380,131	\$ 10,487,883
Dental	74,395	73,816
Other	1,369,458	1,261,879
Supporting Services:		
General and Administrative	1,433,755	1,631,818
Fundraising	201,284	193,451
Total Expenses	<u>\$ 17,459,023</u>	<u>\$ 13,648,847</u>

**Fair Value of Financial Instruments**

The carrying amounts of financial instruments, including cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate fair value due to the short maturity of these instruments.

**Investments**

Investments in debt, equity, or other securities that do not meet the criteria for cash and cash equivalents are accounted for as investments. Investments with readily determinable fair values are stated at fair market values in the accompanying financial statements. Investment income, including realized and unrealized gains and losses, is included in the statements of activities and changes in nets assets.

**Credit Risk**

Financial instruments that potentially subject CDCHC to concentration of credit risk consist principally of cash, short-term investments, and receivables. CDCHC places its cash and investments only in high quality financial institutions. At December 31, 2014 and 2013, CDCHC had cash deposits and investments in excess of the federally insured limit.

**Patient Receivables**

Patient receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Over 59 percent and 54 percent of CDCHC's revenues for 2014 and 2013, respectively, were generated from government sponsored health programs. The health programs are dependent upon continued funding from these government agencies and the legislative acts that impact the programs. The fee-for-service and capitated revenues from these programs are subject to periodic audit and review by the governmental agencies.

CDCHC also grants credit without collateral to its patients, most of whom are local residents who are uninsured. The mix of receivables from patients and third-party payers at December 31 was as follows:

	2014	2013
Medicaid	5%	5%
Medicare	14	9
Other Third-Party Payers	11	11
Patients	70	75
Total	100%	100%

**Assets Restricted for Endowment**

At December 31, 2014, assets that were restricted by donors for endowments consisted of investments. See Note 14.

**Property and Equipment**

Property and equipment value at amounts greater than \$1,000 are recorded at cost or, if donated, at the fair market value at the date of donation. Repairs and maintenance are charged to expense as incurred. Leasehold improvements are amortized over the shorter of the useful life or lease term. Depreciation is provided using the straight-line method over the following estimated lives:

Building and Improvements	10 - 40 Years
Furniture and Equipment	3 - 10 Years

CDCHC reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable.

**Patient Service Revenue**

Patient service revenue is recognized at the date of service based on estimated net realizable amounts from patients and third-party payers for services rendered, or is recognized based on a specified dollar amount per month for patients enrolled in a managed care plan.

CDCHC receives reimbursements from several sources including Medicaid, Medicare, and private insurance. Payments include reimbursed costs and fees for services charged at discounted rates. Revenues from third-party payer agreements are subject to audit and retroactive adjustments. Retroactive adjustments are recorded at the time that such amounts can first be reasonably determined, which is normally upon notification by the paying entity.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Sliding Fee Discount**

CDCHC has a policy of providing care to patients who meet certain criteria under its policy, at amounts less than its established rates or without charge. However, all patients are requested to pay a minimum fee for each visit although no patient is denied services because of an inability to pay. Since management does not expect payment for this care, the services that are discounted from the established rates are excluded from revenue. During the years ended December 31, 2014 and 2013, CDCHC provided approximately \$1,621,000 and \$3,212,000, respectively, of discounted services under this policy based upon charges.

CDCHC received a grant through Health Resources Service Administration to provide care to individuals, regardless of their ability to pay. The grant revenue which is used to cover costs of CDCHC totaled approximately \$1,635,000 and \$1,545,000 for the years ended December 31, 2014 and 2013, respectively.

**Grant Revenue**

CDCHC receives support from various federal, state, and local government agencies. Grant receipts are subject to restrictions on the use of funds placed by the grantor. CDCHC administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Amounts incurred but not yet reimbursed are reported as grants receivable.

**Contributions**

Contributions are recognized as revenue in the period received. These contributions are given to support the overall mission and are not specifically set aside or earned through operations.

**In-Kind Contributions**

CDCHC receives contributed services, supplies, and debt forgiveness from various sources. Certain professional services and supplies are formally documented and charged to the relevant project and are recorded in the accompanying financial statements. These contributions are recorded at market values or the usual customary charge. Summarized below are totals for the years ended December 31.

	2014	2013
Contributed Pharmaceuticals	\$ 256,782	\$ 288,189
Contributed Goods and Services	23,362	7,504
Total In-Kind Contributions	\$ 280,144	\$ 295,693

**Inventory**

Inventory is stated at historical cost. Cost is determined by the first in first out method.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Federal Income Tax**

CDCHC's activities are generally exempt from federal incomes taxes under section 501(c)(3) of the Internal Revenue Code; however, unrelated business activities would be subject to income tax. Since CDCHC is exempt from federal income tax liability, no provision is made for current or deferred income tax expense. For the years December 31, 2014 and 2013, management evaluated CDCHC's tax positions and concluded that CDCHC had taken no uncertain tax positions that require adjustments to the financial statements. All tax-exempt entities are subject to review and audit by federal, state and other applicable state statutes. With few exceptions, CDCHC is no longer subject to federal income tax examinations for years before 2012.

**Electronic Health Record Incentive Payments**

As discussed in Note 11, CDCHC began receiving funds under the Electronic Health Records (EHR) Incentive Program in 2012. Going forward, CDCHC will recognize revenue when management is reasonably assured that they will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to Centers for Medicare and Medicaid Services (CMS) in the second and subsequent payment years.

**Reclassifications**

Certain amounts have been reclassified in the 2013 financial statements in order to be consistent with the 2014 financial statements. These reclassifications had no effect on the previously reported change in net assets.

**Subsequent Events**

Subsequent events have been evaluated through April 30, 2015, which is the date the financial statements were available to be issued.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 2 NET PATIENT SERVICE REVENUE**

CDCHC has agreements with third-party payers that provide for payments at amounts different from its established charges. A summary of the payment arrangements with major third-party payers follows:

**Medicare Fee for Service**

Outpatient services rendered to Medicare program beneficiaries are paid at established federal qualified health center (FQHC) enhancement rates, no matter the level or amount of services provided to the beneficiary. For each visit provided to a Medicare program beneficiary, CDCHC is paid 80 percent of the established FQHC rate, with the beneficiary being responsible for the remaining 20 percent as co-insurance or, alternatively, the remaining 20 percent is billed to Medicaid for qualifying patients (dual eligible). CDCHC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by CDCHC and audits thereof by the CMS Medicare fiscal intermediary. Historically, these settlement amounts have not been material.

**Medicare Advantage**

Private insurance companies administer Medicare Advantage (MA) programs. Payment rates for outpatient services provided to MA enrollees are based on contractual agreements with each MA administrator. FQHC health centers qualify for supplemental wrap-around payment, which is the difference between FQHC approved per-visit rate and the average MA per-visit rate. Wrap-around rate determination and payment is handled by the CMS Medicare fiscal intermediary.

**Medicaid**

Outpatient services rendered to Medicaid program beneficiaries were reimbursed under a prospective payment system (PPS) cost reimbursement methodology that was established in 2001 based on audited Medicaid cost reports for years 1999 and 2000. The base rate that was established in 2001 includes enhancement and has since increased every calendar year by the Medicare Inflationary Index. During 2009, the State of Washington provided an option for FQHC centers to rebase their cost or accept an Alternative Payment Methodology (APM) which has a higher payment rate than PPS. CDCHC accepted the APM reimbursement. The Medicaid APM rate is paid for each FQHC encounter regardless of the level or amount of services provided to the beneficiary.

**Apple Health**

The Medicaid managed-care program administered by private insurance companies is known as Apple Health. Outpatient services provided to Apple Health enrollees are either paid based on a capitated rate or fee-for-service, depending on the contract. FQHC clinics qualify for supplemental enhancement payment; see Note 15 for a description of enhancement payment and settlement.

Revenues from third-party payer agreements are subject to audit and retroactive adjustments. Retroactive adjustments are recorded at the time that such amounts can first be reasonably determined, which is normally upon notification by the paying entity.

CDCHC receives reimbursements from several sources, including Medicaid, Medicare, and private insurance. Payments include reimbursed costs and fees for service charges at discounted rates.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)**

A significant percentage of patient service revenue was for services provided to Medicaid and Medicare participants. Medicaid revenue represented approximately 48 percent and 44 percent of patient medical for the years ended December 31, 2014 and 2013, respectively. Medicare revenue represented approximately 11 percent and 16 percent of patient medical and pharmacy fees for the years ended December 31, 2014 and 2013, respectively.

**NOTE 3 PROPERTY AND EQUIPMENT**

The cost and accumulated depreciation of property and equipment at December 31 were as follows:

	2014	2013
Land	\$ 184,000	\$ 184,000
Buildings and Improvements	6,780,574	6,780,574
Leasehold Improvements	182,047	182,047
Furniture and Equipment	2,302,516	2,150,681
Total Depreciable Assets	<u>9,449,137</u>	<u>9,297,302</u>
Less: Accumulated Depreciation	<u>(5,806,794)</u>	<u>(5,422,170)</u>
Total Property and Equipment, Net	<u>\$ 3,642,343</u>	<u>\$ 3,875,132</u>

**NOTE 4 INVESTMENTS**

CDCHC invests funds with TIAA-CREF. These investments pay interest and dividends at variable rates and are subject to market fluctuations. The investment of these funds is controlled by the investment policies of CDCHC as approved by the board of directors.

In accordance with *Accounting Standards Codification Topic 820, Fair Value Measurements and Disclosures* (Topic 820), fair value is defined as the price that CDCHC would receive upon selling an asset in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset. The guidance established a three-tier hierarchy to maximize the use of observable measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 4 INVESTMENTS (CONTINUED)**

The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

*Level 1* – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

*Level 2* – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities. CDCHC has no Level 2 assets or liabilities.

*Level 3* – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. CDCHC has no Level 3 assets or liabilities.

The following is a summary of assets stated at fair value as of December 31:

	2014			Total
	Level 1	Level 2	Level 3	
Fixed Income Mutual Funds	\$ 846,467	\$ -	\$ -	\$ 846,467

  

	2013			Total
	Level 1	Level 2	Level 3	
Government Bonds	\$ 271,876	\$ -	\$ -	\$ 271,876
Fixed Income Mutual Funds	743,060	-	-	743,060
Total	\$ 1,014,936	\$ -	\$ -	\$ 1,014,936

Investment income consisted of the following for the years ended December 31:

	2014	2013
Interest and Dividends	\$ 10,126	\$ 20,725
Realized Loss	(9,496)	(23,788)
Unrealized Gain (Loss)	6,971	(19,722)
Total Investment Income	\$ 7,601	\$ (22,785)

**NOTE 5 CENTRAL AREA HEALTH CENTER**

The Central Area Health Center is owned by a condominium association whose equal members are CDCHC and Seattle Children's Hospital. Seattle Children's Hospital submitted the land with an existing structure to the condominium for use and ownership. CDCHC acted as the administrative and fiscal agent on the project and obtained the financing to improve and expand the existing structure renamed the Central Area Health Center. Seattle Children's Hospital deeded one half the value of the improved building to CDCHC at the completion of the project. CDCHC's portion of the building has a recorded cost of \$2,485,000. CDCHC is solely obligated on all debt related to the building, which was recorded on CDCHC's books, in full, as of December 31, 2014 and 2013. See Note 6.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 6 LONG-TERM DEBT**

Long-term debt consisted of the following at December 31:

	2014	2013
Mortgage note payable to a regional banking institution in the amount of \$761,100; principal and interest payable in monthly installments of \$5,171; remaining unpaid principal and accrued interest due 2017; the note bears interest at 5.35% per annum; note is secured by properties in Seattle, WA.	\$ 708,428	\$ 731,908
Note payable in the amount of \$335,000; principal and interest payable monthly based on a 15-year amortization schedule; \$2,711 the first year, and increased by 2% each year thereafter; the note bears interest at 5.35% per annum; note is due 2025; note is secured by properties in Seattle, WA.	298,469	315,505
Mortgage note payable to a regional banking institution, due 2016, payable \$6,475 per month, including interest; the note bears interest at 5.4% per annum; note is secured by a Deed of Trust on Country Doctor Community Clinic and the Central Area Health Center and assignment of rents and leases. The mortgage note payable contains certain financial covenants.	858,520	886,423
Noninterest bearing note payable to the city of Seattle; the note plus contingent interest may be payable if, before 20 years have passed, the property is sold or ceases to be used as a community clinic intended to serve primarily low to moderate income persons; note is secured by a Deed of Trust on the Country Doctor Community Clinic and assignment of rents and leases; loan matured in 2013 and reconveyance of the deed of trust from the city of Seattle was completed during 2014.	-	755,749
Total Long-Term Debt	1,865,417	2,689,585
Less: Current Portion	(75,869)	(71,261)
Total Long-Term Debt, Less Current Portion	\$ 1,789,548	\$ 2,618,324

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

Scheduled principal repayments of long-term debt are as follows:

Year Ending December 31,	Amount
2015	\$ 75,869
2016	869,732
2017	679,739
2018	24,149
2019	26,214
Thereafter	189,714
Total	\$ 1,865,417

**NOTE 7 LEASED FACILITIES AND EQUIPMENT**

Lease expense for operating leases totaled \$50,029 and \$4,169 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 8 MALPRACTICE INSURANCE**

CDCHC was covered under the provision of the Federal Tort Claims Act (FTCA) for malpractice. The FTCA is a government funded program which allows community health centers and other qualified providers to be covered for malpractice. CDCHC has purchased malpractice insurance for activities not covered under the FTCA and is covered on a claims-made basis.

CDCHC is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Country Doctor Community Health Centers' future financial position or results of operations.

**NOTE 9 MANAGED CARE AND SPECIALTY POOLS**

CDCHC is a member of the Community Health Network of Washington (CHNW), a managed care network formed by 21 community and migrant health centers throughout the state of Washington to participate in the managed care marketplace. CHNW is a nonprofit corporation and accepts the full insurance risk of providing health care services to enrollees in the state Medicaid programs. The individual health centers are contingently liable for their proportionate share of any claims, should CHNW be unable to meet its financial obligations. CHNW believes that its assets are sufficient to meet its financial obligation.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 9 MANAGED CARE AND SPECIALTY POOLS (CONTINUED)**

CDCHC is also a member of the Community Health Plan (CHP), an affiliate of CHNW that contracts with the state of Washington for the delivery of managed care health care through community health centers.

As a member of CHP, CDCHC has agreed to serve as a provider of primary care services for a certain dollar amount per member, per month, and to provide case management services to these same members related to specialty and hospital services. In return, CDCHC will participate in any savings realized by CHP in providing these services, based upon a formula determined by the board of directors of CHP. The plan year for determining these savings follows the calendar year. This income is accrued as it becomes known by CDCHC, generally at or near the time cash is received. The estimate is based on the preliminary settlement statement prepared by CHP for the most recently completed plan year. CDCHC receives distributions of these savings over a 15 to 18 month period following the end of a plan year. Included in other revenue on the statements of activities and changes in net assets are \$32,049 and \$242,168 of hospital and specialty pool revenues for the years ended December 31, 2014 and 2013, respectively.

**NOTE 10 PRACTICE TECHNOLOGY SERVICES ORGANIZATION**

CDCHC is a participant in the Practice Technology Services Organization (PTSO), along with other community health centers in the state of Washington. The PTSO was formed in 2004 in order to realize such benefits as group discount purchasing, shared database management and support, grant opportunities, and standardized processes and data. In order to participate in the PTSO, CDCHC invested a level of funding of costs for equipment, membership fees, software license costs, start-up and operating costs, and service fees. CDCHC will receive a future benefit from the use of the shared database management system. Accordingly, the amounts have been capitalized and will be amortized over the useful lives of the hardware and software license. For the years ended December 31, 2014 and 2013, \$754 and \$31,177 of PTSO costs were amortized, respectively.

**NOTE 11 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM**

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible facilities that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on CDCHC continuing to meet the escalating meaningful use criteria. For the first payment year, CDCHC must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the second and third payment years, CDCHC must demonstrate meaningful use for a continuous 90-day period year. The incentive payments are generally made over a six-year period.

CDCHC received incentive payments of approximately \$157,250 and \$0- for the years ended December 31, 2014 and 2013, respectively, which are included in other revenue.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 12 RETIREMENT PLAN**

CDCHC has a 401(k) defined contribution retirement plan (the Plan) available to all eligible employees. CDCHC makes contributions to the Plan for participants in accordance with requirements specified in the Plan documents. During the years ended December 31, 2014 and 2013, CDCHC's contributions to the Plan were \$289,607 and \$291,359, respectively.

**NOTE 13 NET ASSETS DESIGNATED BY THE BOARD OF DIRECTORS**

The board of directors has designated net assets to be used for the following purposes at December 31:

	2014	2013
Operating Reserves	\$ 713,412	\$ 881,881
Managed Care Loss Reserve	50,000	50,000
Total	\$ 763,412	\$ 931,881

**NOTE 14 PERMANENTLY RESTRICTED NET ASSETS**

At December 31, 2014 and 2013, CDCHC had \$83,055 of permanently restricted net assets, the income from which can be used to fund operations.

**NOTE 15 MEDICAID FUNDING**

A Centers for Medicare and Medicaid Services (CMS) audit of the state of Washington Department of Social and Health Services (the State) found that the current method of paying federally-required Prospective Payment System rates in the State's Medicaid program was inconsistent with federal requirements. The resolution and impact of this audit finding was finalized in July 2009 and retroactive to January 1, 2009. As part of the resolution, the State changed its methodology for calculating the FQHC enhancement rates paid on eligible encounters, with two methodology options available to choose from. The new rates were effective January 1, 2009; however, the new rates were being used to pay for services provided on and after July 1, 2009. The difference of payments from January 1 through June 30, 2009, were finalized in September 2011 and resulted in a settlement due that CDCHC disputed. In November 2013, CDCHC received notice that neither CDCHC nor the State would owe any additional funds to the other party in regards to the Medicaid managed care program for calendar year 2009. As a result CDCHC removed the recorded liability resulting in a change in estimate increasing net income by approximately \$255,000 for the fiscal year ended December 31, 2013. Reconciliation of payments under the State's Healthy Options Managed Care Medicaid program for calendar years 2010 through 2014 are still outstanding, however management is unable to estimate the full financial impact. The estimated accrual for amounts owed to the Medicaid program as of December 31, 2014 and 2013 were \$96,816 and \$-0-, respectively. These liabilities were determined based on correspondence received from the State. These estimates are subject to material change based on the State's final reconciliations and settlements of the activity to be performed.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**NOTE 16 COMMITMENTS AND CONTINGENCIES**

**Grants**

CDCHC has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit by the grantor may become a liability of CDCHC.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2014**  
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2013)  
(SEE INDEPENDENT AUDITORS' REPORT)

	Program Services				Supporting Services			2014 Total	2013 Total
	Medical Services	Dental Services	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Salaries and Wages	\$ 6,738,247	\$ -	\$ 873,079	\$ 7,611,326	\$ 580,807	\$ 77,527	\$ 658,334	\$ 8,269,660	\$ 7,188,520
Payroll Taxes and Fringe Benefits	1,588,121	-	214,336	1,802,457	151,478	10,985	162,463	1,964,920	1,746,416
Total Personnel	8,326,368	-	1,087,415	9,413,783	732,285	88,512	820,797	10,234,580	8,934,936
Professional Fees	150,018	-	101,492	251,510	144,482	-	144,482	395,992	396,255
Lab Fees	348	-	-	348	-	-	-	348	8,252
Purchased Services	796,365	-	431	796,796	56,272	2,031	58,303	855,099	365,013
PTSO Purchased Services	290,706	-	22,351	313,057	6,386	-	6,386	319,443	279,162
Contracted Services	-	29,500	-	29,500	-	-	-	29,500	30,000
Pharmaceuticals	3,051,219	-	93	3,051,312	-	-	-	3,051,312	1,297,657
In-Kind Pharmaceuticals	256,782	-	-	256,782	-	-	-	256,782	288,189
Other Health Care Supplies	145,321	-	680	146,001	-	-	-	146,001	150,646
Office Supplies, Postage, Delivery	64,932	-	13,379	78,311	27,482	3,541	31,023	109,334	85,320
Telephone	59,640	-	15,467	75,107	12,091	964	13,055	88,162	90,559
Occupancy	268,627	19,178	30,808	318,613	125,785	9,000	134,785	453,398	418,603
Insurance	32,645	568	114	33,327	71,967	-	71,967	105,294	102,835
Equipment Rental and Maintenance	40,709	2,287	22,525	65,521	23,462	868	24,330	89,851	62,480
Printing and Publications	69,045	-	505	69,550	3,878	15,955	19,833	89,383	38,873
Miscellaneous	119,913	-	14,845	134,758	191,806	2,250	194,056	328,814	193,391
Conference, Travel and Training	30,565	-	6,373	36,938	7,672	1,596	9,268	46,206	41,248
Fundraising	-	-	-	-	-	73,375	73,375	73,375	56,346
Bad Debt	373,659	-	-	373,659	-	-	-	373,659	383,442
Total Expenses Before Depreciation and Amortization	14,076,862	51,533	1,316,478	15,444,873	1,403,568	198,092	1,601,660	17,046,533	13,223,207
Depreciation and Amortization	303,269	22,862	52,980	379,111	30,187	3,192	33,379	412,490	425,640
Total Expenses	<u>\$ 14,380,131</u>	<u>\$ 74,395</u>	<u>\$ 1,369,458</u>	<u>\$ 15,823,984</u>	<u>\$ 1,433,755</u>	<u>\$ 201,284</u>	<u>\$ 1,635,039</u>	<u>\$ 17,459,023</u>	<u>\$ 13,648,847</u>



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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**

Board of Directors  
Country Doctor Community Health Centers  
Seattle, Washington

We have audited, 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, the financial statements of Country Doctor Community Health Centers, which comprise the statement of financial position as of December 31, 2014, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Country Doctor Community Health Centers' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Country Doctor Community Health Centers' internal control. Accordingly, we do not express an opinion on the effectiveness of Country Doctor Community Health Centers' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiency, Finding 2014-001, described in the accompanying schedule of findings and questioned costs to be a material weakness. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Country Doctor Community Health Centers' financial statements are free from 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*.

### **Country Doctor Community Health Centers' Response to Findings**

Country Doctor Community Health Centers' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Country Doctor Community Health Centers' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
April 30, 2015



**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**

Board of Directors  
Country Doctor Community Health Centers  
Seattle, Washington

**Report on Compliance for Each Major Federal Program**

We have audited Country Doctor Community Health Centers' 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 Country Doctor Community Health Centers' major federal programs for the year ended December 31, 2014. Country Doctor Community Health Centers' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Country Doctor Community Health Centers' major federal programs based on our audit of the types of compliance requirements referred to above. 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 Country Doctor Community Health Centers' 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Country Doctor Community Health Centers' compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Country Doctor Community Health Centers complied, in all material respects, with the types of 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, 2014.

### **Report on Internal Control Over Compliance**

Management of Country Doctor Community Health Centers is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Country Doctor Community Health Centers' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Country Doctor Community Health Centers' 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Bellevue, Washington  
April 30, 2015

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2014**

Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Number	Federal Expenditures
<b>Department of Health and Human Services:</b>			
Health Centers Cluster:			
Consolidated Health Centers	93.224		\$ 1,037,023
ACA Grants for New and Expanded Services Under Health Centers Program	93.527		910,008
Pass-Through Program From Public Health Seattle and King County: Healthcare for the Homeless	93.224	D40927D	<u>81,000</u>
Total for Health Centers Cluster			<u>2,028,031</u>
Grants to Provide Outpatient Early Intervention Early Intervention Services in Regard to HIV Disease	93.918		488,896
Pass-Through Program from Public Health Seattle and King County:			
Medicaid Administrative Match Program	93.778	D40769D	130,150
HIV Emergency Relief Project Grants - City of Seattle	93.914	D40040D/D40973D	195,983
ACA Centers for Disease Control and Prevention Investigations and Technical Assistance - Breast, Cervical, and Colon Health Program	93.283	D40791D	<u>13,218</u>
Total Department of Health and Human Services			<u>2,856,278</u>
<b>Department of Agriculture:</b>			
Pass-Through Program From Public Health - Seattle & King County: Special Supplemental Nutrition Program for Women, Infants and Children			
	10.557	D40938A	58,589
<b>Department of Housing and Urban Development:</b>			
Pass-Through Program From City of Seattle Department of Housing and Human Services: Community Development Block Grant (Loan)			
	14.218	ASA #3987/94	<u>755,749</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,670,616</u></u>

Note - This schedule includes the federal grant activity of CDCHC and is presented on the accrual basis of accounting. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2014**

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?     X     yes                      no

Significant deficiency(ies) identified not considered to be material weakness(es)?                      yes     X     none reported

Noncompliance material to financial statements noted?                      yes     X     no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?                      yes     X     no

Significant deficiency(ies) identified not considered to be material weakness(es)?                      yes     X     none reported

Type of auditors’ report issued on compliance for major programs? Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?                      yes     X     no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Health Centers Cluster
93.224	Consolidated Health Centers
93.527	ACA Grants for New and Expanded Services Under Health Centers Program
93.918	Grants to Provide Outpatient Early Intervention Early Intervention Services in Regard to HIV Disease

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?                      yes     X     no

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2014-001**

**Material Weakness Over Financial Management Systems**

**Criteria**

In accordance with generally accepted accounting principles (GAAP) and financial management system standards as prescribed in the Office of Management and Budget (OMB) Circular A-110, Country Doctor Community Health Centers (CDCHC) is required to maintain proper internal controls to ensure that underlying accounts are properly stated as of December 31, 2014.

**Condition Found and Context**

During our performance of audit procedures, we noted material audit adjustments that were needed in order for CDCHC's financial statements to be materially stated as of and for the year ended December 31, 2014.

**Effect**

The net effect of the audit adjustments summarized above was an understatement of total liabilities and an overstatement of net income of approximately \$225,000.

**Cause**

The CDCHC's year-end close process was not sufficient to identify the noted audit differences.

**Recommendation**

We recommend CDCHC evaluate their general ledger closing process throughout the fiscal year, as well as at the fiscal year-end. The closing process should be sufficient to identify all material differences in accounts, as well as other errors that could potentially result in material differences.

**Views of Responsible Officials and Planned Corrective Actions**

CDCHC has experienced challenges within their financial department and has already begun the process to reorganize and hire additional staff as needed. Additionally, CDCHC will review and amend current policies and procedures and job duties to maintain an adequate segregation of duties and effective internal controls.

**SECTION III – FEDERAL AWARD FINDINGS**

No matters were reported.

**COUNTRY DOCTOR COMMUNITY HEALTH CENTERS  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2014**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

There were no prior audit findings.