

**COMMUNITY HEALTH ASSOCIATION  
OF SPOKANE, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

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

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Community Health Association of Spokane, Inc.  
Spokane, Washington

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Community Health Association of Spokane, Inc., which comprise the balance sheet as of October 31, 2014, and the related statements of operations, changes in net assets, and cash flows for the year 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 audit. 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. 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 2014 financial statements referred to above present fairly, in all material respects, the financial position of Community Health Association of Spokane, Inc. as of October 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

The financial statements for the year ended October 31, 2013, of Community Health Association of Spokane, Inc. were audited by other auditors whose report dated April 4, 2014, expressed an unmodified opinion on those statements.

**Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards 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 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 information 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 23, 2015, on our consideration of Community Health Association of Spokane, Inc.'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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 Community Health Association of Spokane, Inc.'s internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Spokane, Washington  
April 23, 2015

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**BALANCE SHEETS**  
**OCTOBER 31, 2014 AND 2013**

<b>ASSETS</b>	2014	2013
<b>CURRENT ASSETS</b>		
Cash	\$ 9,633,585	\$ 3,081,037
Patient Accounts Receivable, Net of Allowance of \$456,181 and \$725,346, Respectively	2,612,654	2,329,870
Grants and Other Receivables	528,573	280,006
Estimated Amounts Due from Third-Party Payers	66,759	60,000
Cost Pool Receivable	-	305,822
Supplies	298,721	275,162
Pharmacy Inventory	497,375	472,197
Prepaid Expenses and Other	171,205	182,770
Total Current Assets	13,808,872	6,986,864
<b>ASSETS LIMITED AS TO USE</b>		
Externally Restricted by Loan Agreement	-	46,539
<b>PROPERTY AND EQUIPMENT, at Cost</b>		
Land and Land Improvements	2,008,910	2,008,910
Buildings and Leasehold Improvements	15,809,577	15,665,379
Equipment	4,866,741	3,880,812
Furniture and Fixtures	1,398,316	1,325,768
Construction in Progress	2,658,974	164,300
Total	26,742,518	23,045,169
Less: Accumulated Depreciation	9,250,845	7,726,068
Total Property and Equipment	17,491,673	15,319,101
<b>OTHER ASSETS</b>		
Deferred Financing Costs	44,476	17,855
Total Assets	\$ 31,345,021	\$ 22,370,359

See accompanying Notes to Financial Statements



**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED OCTOBER 31, 2014 AND 2013**

	2014	2013
<b>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</b>		
Patient Service Revenue (Net of Contractual Discounts and Allowances)	\$ 35,746,722	\$ 26,519,118
Provision for Uncollectible Accounts	(1,001,429)	(1,176,779)
Net Patient Service Revenue, Less Provision for Uncollectible Accounts	34,745,293	25,342,339
Premium Revenue and Cost Pool Savings	12,451,337	8,572,441
Grant Revenue	5,083,544	4,245,780
Electronic Health Record Incentive Program Revenue	340,000	454,750
Contribution Revenue	270,533	244,323
Other	360,145	244,201
Total Unrestricted Revenues, Gains and Other Support	53,250,852	39,103,834
 <b>EXPENSES</b>		
Salaries and Wages	25,555,460	21,916,630
Employee Benefits	5,551,104	4,607,695
Purchased Services and Professional Fees	2,549,183	2,141,496
Supplies and Other	11,755,516	8,476,330
Rent	722,592	706,307
Depreciation and Amortization	1,524,777	1,398,741
Interest	93,909	130,000
Total Expenses	47,752,541	39,377,199
 <b>OPERATING INCOME (LOSS) AND EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	5,498,311	(273,365)
Contributions for Acquisition of Property and Equipment	-	23,800
 <b>INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS</b>	\$ 5,498,311	\$ (249,565)

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.  
STATEMENTS OF CHANGES IN NET ASSETS  
YEARS ENDED OCTOBER 31, 2014 AND 2013**

	2014	2013
<b>UNRESTRICTED NET ASSETS</b>		
Excess (Deficiency) of Revenues over Expenses	\$ 5,498,311	\$ (273,365)
Contributions for Acquisition of Property and Equipment	-	23,800
Increase (Decrease) in Unrestricted Net Assets	5,498,311	(249,565)
<b>CHANGES IN NET ASSETS</b>	5,498,311	(249,565)
Net Assets - Beginning of Year	13,123,509	13,373,074
<b>NET ASSETS - END OF YEAR</b>	\$ 18,621,820	\$ 13,123,509

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED OCTOBER 31, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in Net Assets	\$ 5,498,311	\$ (249,565)
Items not Requiring (Providing) Operating Cash:		
Depreciation and Amortization	1,524,777	1,398,741
Contributions for Acquisition of Property and Equipment	-	(23,800)
Accrued Self-Insurance Costs	117,921	(80,000)
Changes in:		
Patient Accounts Receivable, Net	(282,784)	(517,786)
Grants and Other Receivables	(248,567)	585,802
Estimated Amounts Due from and to Third-Party Payers	932,390	551,788
Cost Pool Receivable and Liability	437,068	(149,822)
Prepaid Expenses	11,565	36,584
Pharmacy Inventory and Supplies	(48,737)	(133,140)
Externally Restricted by Loan Agreement	46,539	-
Accounts Payable, Accrued Expenses and Other	811,421	427,049
Net Cash Provided by Operating Activities	8,799,904	1,845,851
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(3,697,349)	(4,189,878)
Proceeds from Disposition of Assets Limited as to Use	-	1,538,974
Net Cash Used by Investing Activities	(3,697,349)	(2,650,904)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Contributions for Acquisition of Property and Equipment	-	23,800
Proceeds on Long-Term Debt	6,125,000	-
Principal Payments on Long-Term Debt	(4,675,007)	(410,955)
Net Cash Provided (Used) by Financing Activities	1,449,993	(387,155)
<b>INCREASE (DECREASE) IN CASH</b>	6,552,548	(1,192,208)
Cash - Beginning of Year	3,081,037	4,273,245
<b>CASH - END OF YEAR</b>	\$ 9,633,585	\$ 3,081,037
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest Paid (Net of Amount Capitalized)	\$ 93,927	\$ 130,508
Acquisition of Property and Equipment Included in Accounts Payable	\$ -	\$ 348,943

See accompanying Notes to Financial Statements

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

**NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Community Health Association of Spokane, Inc. (the Organization), is a federally qualified health center that primarily earns revenues by providing physician, pharmacy, and related health and dental care services through clinics located in Spokane County, Deer Park, and Clarkston, Washington, and Lewiston and Moscow, Idaho. The Organization's mission is to improve the overall health of the communities it serves by expanding access to quality health and wellness services.

**Use of Estimates**

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

**Cash**

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts whose use is limited by note indenture.

At October 31, 2014 and 2013, the Organization's cash accounts exceeded federally insured limits.

**Patient Accounts Receivable**

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2014 AND 2013**

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

**Patient Accounts Receivable (Continued)**

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of services on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients decreased to 54 percent from 86 percent of self-pay accounts receivable at October 31, 2014 and 2013, respectively. In addition, the Organization's write-offs decreased approximately \$176,000 from approximately \$1,177,000 for the year ended October 31, 2013, to approximately \$1,001,000 for the year ended October 31, 2014.

**Supplies and Inventories**

The Organization states pharmacy and supply inventories at the lower of cost, determined using the first-in, first-out method or market.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds. Such items may have a reversionary interest by the grantor if not used to further the grants objectives or held for a specific length of time.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Organization capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. The total interest incurred for the years ended October 31 was:

	2014	2013
Interest Costs Capitalized	\$ -	\$ 79,260
Interest Costs Charged to Expense	93,927	130,000
Total Interest Incurred	<u>\$ 93,927</u>	<u>\$ 209,260</u>

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

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

**Deferred Financing Costs**

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

**Net Patient Service Revenue**

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

**Premium Revenue and Cost Pool Savings**

The Organization has agreements with Community Health Plan of Washington (CHPW) and Molina Healthcare, Inc. to provide medical services to subscribing participants. Under these plans, the Organization receives monthly capitation payments based on the number of participants, regardless of the services actually performed by the Organization. The Organization also receives monthly capitation payments for Medicaid eligible participants from the state Medicaid program. In addition, these plans make fee-for-service payments to the Organization for certain covered services based upon discounted fee schedules. The CEO of the Organization is a board member at CHPW.

CHPW distributes any cost pool savings or charges additional costs to its member organizations based on the annual experience of the Organization and other member organizations. Cost pool savings or additional costs are estimated by the Organization using historical information and existing economic conditions. The Organization estimated cost pool charges of approximately \$131,000 for the year ended October 31, 2014. The Organization estimated cost pool savings receivable of approximately \$306,000 for the year ended October 31, 2013.

**Contributions**

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

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

**Income Taxes**

The Organization has been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

**Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible organizations that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent on the organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Organization has completed certain first and second year requirements under the Medicaid program and has recorded revenue of \$340,000 and \$454,750 in the years ended October 31, 2014 and 2013, respectively.

**Excess (Deficiency) of Revenues Over Expenses**

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions or grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction were to be used for the purpose of acquiring such assets).

**Self Insurance**

The Organization has elected to self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to income when incurred. The Organization has purchased insurance that limits its exposure for individual claims.

**Subsequent Events**

Subsequent events have been evaluated through April 23, 2015, the date the financial statements were available to be issued.

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

**NOTE 2 GRANT REVENUE**

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of the Spokane community. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. During the years ended October 31, 2014 and 2013, the Organization recognized \$5,006,694 and \$3,685,977 in CHC grant funds, respectively. Funding for the year ending October 31, 2015 is approved at \$4,455,728.

In addition to the aforementioned grants, the Organization receives additional financial support from other federal state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

**NOTE 3 NET PATIENT SERVICE REVENUE**

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statements of operations as a component of net patient service revenue.

The Organization is approved as a Federally Qualified Health Center (FQHC) for Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

*Medicare* – Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

*Medicaid* – Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided under the plan including supplemental payments for eligible encounters paid under managed care insurance arrangements. Services not covered under the FQHC benefit are paid based on established fee schedules.

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

**NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)**

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. The Organization receives enhancement funding from the state of Washington for certain Medicaid services provided to certain Medicaid eligible patients. The amounts funded under this program are required to be reconciled against the services provided. Due to rebasing of the Organization's Medicaid encounter rate during 2009, and issues surrounding the application of this rebased rate to the enhancement reconciliation calculation, the Organization is unable to determine the amount of enhancement, if any, that may be receivable or payable, pending resolution of the underlying issues. As a result, no estimate of this settlement is recorded in the financial statements. It is reasonably possible that recorded estimates will change materially in the near term.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended October 31 was as follows:

	<u>2014</u>	<u>2013</u>
Medicaid	\$ 21,707,583	\$ 8,920,987
Medicare	7,234,652	4,717,967
Other Third-Party Payers	5,707,224	8,839,336
Self-Pay	1,097,263	4,040,828
Total	<u>\$ 35,746,722</u>	<u>\$ 26,519,118</u>

**NOTE 4 CONCENTRATIONS OF CREDIT RISK**

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at October 31 was:

	<u>2014</u>	<u>2013</u>
Medicaid	61 %	25 %
Medicare	20 %	13 %
Other	19 %	62 %
	<u>100 %</u>	<u>100 %</u>

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

**NOTE 5 MEDICAL MALPRACTICE CLAIMS**

The Organization purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Organization also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Claim liabilities are determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no such accrual has been made for the Organization's medical malpractice cost for the years ended October 31, 2014 and 2013. However, because of the risk in providing health care services, it is reasonably possible that an event has occurred which will be the basis of a future material medical claim.

**NOTE 6 LINE OF CREDIT**

On June 30, 2014, the Organization opened an unsecured revolving line of credit in the amount of \$1,000,000. The line of credit has a variable interest rate based upon the one month London Interbank Offered Rate (LIBOR) plus 3 percent. At October 31, 2014, the Organization had no outstanding draws on the line of credit. The line of credit expires on September 30, 2015.

**NOTE 7 LONG-TERM DEBT**

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

	2014	2013
2013 Revolving Reducing Line of Credit (A)	\$ 4,155,556	\$ -
2014 Revolving Reducing Line of Credit (B)	1,717,812	-
Bond Payable (C)	-	78,692
Bond Payable (D)	-	945,026
Note Payable, Bank (E)	-	3,281,604
Note Payable (F)	-	13,666
Capital Lease Obligations (G)	53,519	157,906
Total	<u>5,926,887</u>	<u>4,476,894</u>
Less: Current Maturities	433,278	397,711
Total Long-Term Debt	<u>\$ 5,493,609</u>	<u>\$ 4,079,183</u>

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

- (A) On November 18, 2013, the Organization entered into a revolving reducing line of credit (2013 Reducing Revolver) in the amount of \$4,400,000. The proceeds of this note were used to pay off existing debt and to finance new equipment. Principal payments in the amount of \$24,444 are due on the 30<sup>th</sup> of each month. Additionally, the total available line of credit is reduced each month by the principal payment, \$24,444. Consecutive interest payments are due monthly on principal amounts outstanding for the first 60 months using an interest rate of 4.09 percent. The subsequent 59 months are calculated at a variable interest rate based on the five year federal home loan bank intermediate/long-term fixed rate advance, plus a margin of 2.25 percent. The 2013 Reducing Revolver carries a provision which allows the Organization's operating cash account to be used each day to reduce the outstanding debt balance. The 2013 Reducing Revolver will reach maturity on November 30, 2023 at which time all outstanding principal plus all accrued unpaid interest will be due. The loan is collateralized by real property located at 1001 W. 2<sup>nd</sup> Avenue and 3919 N. Maple Street, Spokane, Washington.
- (B) On September 17, 2014, the Organization entered into a revolving reducing line of credit (2014 Reducing Revolver) in the amount of \$1,725,000. Principal payments in the amount of \$7,188 are due on the 17<sup>th</sup> of each month. Additionally, the total available line of credit is reduced each month by the principal payment, \$7,188. Consecutive interest payments are due monthly on principal amounts outstanding for the first 60 months using an interest rate of 4.38 percent. The subsequent 59 months are calculated at a variable interest rate based on the five year federal home loan bank intermediate/long-term fixed rate advance, plus a margin of 2.25 percent. The 2014 Reducing Revolver carries a provision which allows the Organization's operating cash account to be used each day to reduce the outstanding debt balance. The 2014 Reducing Revolver will reach maturity on September 17, 2024, at which time all outstanding principal plus all accrued unpaid interest will be due.
- (C) Series 2010A Revenue Bond (the 2010A Bond) payable to Washington Health Care Facilities Authority (the Authority), due December 16, 2020; payable \$8,410 monthly, including interest of 4.42 percent; secured by real property.

The 2010A Bond, in the amount of \$1,100,503, was issued through the Authority, a quasi-governmental agency, in December 2010. As a condition of this issuance, the Organization has agreed to certain covenants for the protection of the bond owners, including covenants to maintain its status as a nonprofit organization, to use the facility in furtherance of its lawful corporate purpose, to pay the Authority annual fees not exceeding one-tenth of one percent (0.1 percent) of the principal amount of the 2010A Bond then outstanding, to pass on savings to their patients, and to limit its ability to incur additional indebtedness.

The proceeds of the 2010A Bond were used to finance construction and equipping of a health care facility to be owned and operated by the Organization and to retire other existing debt.

The 2010A Bond is subject to redemption at the option of the Organization, in whole or in part, at a price equal to 100 percent of the current outstanding principal amount of the 2010A Bond. The Organization paid off the Series 2010A Bond with proceeds from the 2013 Reducing Revolver.

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

- (D) Series 2010B Revenue Bond (the 2010B Bond) payable to the Authority, due December 16, 2020; payable \$29,204 monthly, including interest of 4.42 percent; secured by a deed of trust.

The 2010B Bond, in the amount of \$3,821,497, was issued through the Authority, a quasi-governmental agency, in December 2010. As a condition of this issuance, the Organization has agreed to certain covenants for the protection of the bond owners, including covenants to maintain its status as a nonprofit organization, to use the facility in furtherance of its lawful corporate purpose, to pay the Authority annual fees not exceeding one-tenth of one percent (0.1 percent) of the principal amount of the 2010B Bond then outstanding, to pass on savings to their patients, and to limit its ability to incur additional indebtedness.

The proceeds of the 2010B Bond were used to finance construction and equipping of a health care facility to be owned and operated by the Organization and to retire other existing debt.

The 2010B Bond is subject to redemption at the option of the Organization, in whole or in part, at a price equal to 100 percent of the current outstanding principal amount of the 2010B Bond. The Organization paid off the 2010B Bond with proceeds from the 2013 Reducing Revolver.

- (E) Equipment loan payable \$947 monthly, including interest at 4.99 percent, through January 2015; collateralized by the equipment. The Organization paid off the equipment loan with proceeds from the 2013 Reducing Revolver.
- (F) Land loan payable \$767 monthly, including interest at 6.07 percent, through December 16, 2020; collateralized by a deed of trust. The Organization paid off the land loan with proceeds from the 2013 Reducing Revolver.
- (G) Capital lease obligations for office and pharmaceutical equipment, including interest at various imputed interest rates between 1 percent and 9 percent due at various dates through May 2015; collateralized by equipment. Property and equipment includes the following equipment under capital leases:

	2014	2013
Equipment	\$ 184,401	\$ 401,748
Less: Accumulated Depreciation	89,127	269,593
Total	\$ 95,274	\$ 132,155

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

**NOTE 7 LONG-TERM DEBT (CONTINUED)**

Aggregate annual maturities of long-term debt and payments on capital lease obligations at October 31, 2014 are:

Year Ending October 31,	Long-Term Debt (Excluding Capital Lease Obligation)	Capital Lease Obligation
2015	\$ 379,584	\$ 53,694
2016	379,584	-
2017	379,584	-
2018	379,584	-
2019	379,584	-
Thereafter	3,975,448	-
Total	\$ 5,873,368	53,694
Less: Amount Representing Interest		175
Present Value of Future Minimum Lease Payments		53,519
Less: Current Maturities		53,519
Noncurrent Portion		\$ -

**NOTE 8 FUNCTIONAL EXPENSES**

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows for the years ended October 31:

	2014	2013
Health Care Services	\$ 36,231,069	\$ 26,649,196
General and Administrative	11,521,472	12,728,003
Total	\$ 47,752,541	\$ 39,377,199

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2014 AND 2013**

**NOTE 9 OPERATING LEASES**

The Organization leases two medical clinic sites, one administrative site, and various equipment under noncancelable lease agreements that expire in various years through 2019.

Future minimum lease payments at October 31, 2014 were:

Year Ending October 31,	Amount
2015	\$ 689,012
2016	444,027
2017	383,732
2018	391,856
2019	264,912
Total	\$ 2,173,539

**NOTE 10 PENSION PLAN**

The Organization has a defined contribution pension plan covering substantially all employees. Eligible employee contributions are matched up to a rate of 4 percent of employees' salaries. Pension expense was \$900,805 and \$474,655 for the years ended October 31, 2014 and 2013, respectively.

**NOTE 11 SIGNIFICANT ESTIMATES AND CONCENTRATIONS**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

**Grant Revenues**

Concentration of revenues related to grant awards and other support is described in Note 2.

**Allowance for Net Patient Service Revenue Adjustments**

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 3. Enhancement reconciliation issues with the state of Washington are described in Note 3.

**Malpractice Claims**

Estimates related to the accrual for professional liability claims are described in Note 5.

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2014 AND 2013**

**NOTE 11 SIGNIFICANT ESTIMATES AND CONCENTRATIONS (CONTINUED)**

**Self-Insurance**

Under the Organization's insurance programs, coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. The Organization retains a significant portion of certain expected losses related primarily to employee health, dental and vision, and unemployment coverage.

Provision for losses expected under these programs are recorded based upon the Organization's estimates of the aggregated liability for claims. This estimate for the years ended October 31, 2014 and 2013 was \$312,921 and \$195,000, respectively. The amount of actual losses incurred could differ materially from these estimates. The Organization does maintain stop-loss commercial coverage.

**Litigation**

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Regulatory and Reimbursement Environment**

The implementation of the Affordable Care Act, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

**NOTE 12 SUBSEQUENT EVENT**

On November 3, 2014, the Organization entered into a revolving reducing line of credit in the amount of \$2,905,000. Principal payments of \$12,104 will be due monthly with interest charges on any outstanding principal balance at an interest rate of 4.38 percent for the first 60 months adjusted to a variable interest rate based on the five-year federal home loan bank intermediate/long-term fixed rate advance, plus a margin of 2.25 percent for the next 59 months. All outstanding principal and accrued unpaid interest amounts will be due and payable in full on November 3, 2024. The proceeds were used for the purchase of a new clinical site. The Organization expects that an additional \$2,000,000 will be required for remodel and renovations of this site and an additional site which will be provided from the Organization's cash reserves.

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED OCTOBER 31, 2014**

<u>Cluster/Program</u>	<u>Federal Agency/ Pass-Through Entity</u>	<u>CFDA Number</u>	<u>Grant or Identifying Number</u>	<u>Amount Expended</u>
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS 00319-11-06	\$ 1,693,521
Affordable Care Act (ACA) Grants Under the Health Centers Program	U.S. Department of Health and Human Services	93.527	6 H80CS 00319-11-06	<u>2,911,027</u>
Total Consolidated Health Centers Cluster				4,604,548
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6 H76HA 00749-12-01	<u>378,996</u>
Total U.S. Department of Health and Human Services				4,983,544
Pass-through from City of Spokane, Washington Community Development Block Grant	U.S. Department of Housing and Urban Development	14.218		<u>20,000</u>
Total Expenditures				<u><u>\$ 5,003,544</u></u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

1. This schedule includes the federal awards activity of Community Health Association of Spokane, Inc. and is presented on the accrual basis of accounting. The information in this schedule 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.
2. Community Health Association of Spokane, Inc. did not provide a federal award to a subrecipient during the year ended October 31, 2014.



**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  
Community Health Association of Spokane, Inc.  
Spokane, 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 Community Health Association of Spokane, Inc. (the Organization), which comprise the balance sheet as of October 31, 2014, and the related statements of operations, 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 23, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization’s 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*.

**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**

Spokane, Washington  
April 23, 2015



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Community Health Association of Spokane, Inc.  
Spokane, Washington

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

We have audited Community Health Association of Spokane, Inc.'s (the Organization) 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 Organization's major federal programs for the year ended October 31, 2014. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of 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 the Organization's 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 the Organization'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Community Health Association of Spokane, Inc. 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 October 31, 2014.

**Report on Internal Control Over Compliance**

Management of the Organization 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 the Organization's 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 the Organization'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 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**

Spokane, Washington  
April 23, 2015

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED OCTOBER 31, 2014**

**Section I — Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	_____ X _____ 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?	<u>Unmodified</u>	
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:

_____ CFDA Number(s) _____	_____ Name of Federal Program or Cluster _____
93.224 and 93.527	Consolidated Health Centers Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	_____ X _____ yes _____ no

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED OCTOBER 31, 2014**

**Section II – Financial Statement Findings**

None reported.

**Section III – Federal Award Findings**

None reported.

**COMMUNITY HEALTH ASSOCIATION OF SPOKANE, INC.  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED OCTOBER 31, 2014**

No matters reportable.