COMMUNITY HEALTH CARE

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2014 AND 2013

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Health Care
Tacoma, Washington

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Community Health Care, a Washington nonprofit corporation (the Organization), which comprise the consolidated statements of financial position as of May 31, 2014 and 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community Health Care as of May 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.

Emphasis-of-Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 14 to the consolidated financial statements, the Organization has experienced continued operating losses. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 14. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

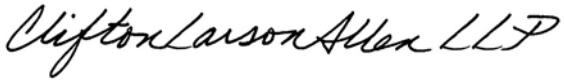
Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities and changes in net assets, and the schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 February 23, 2015, on our consideration of Community Health Care'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 Care's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Bellevue, Washington
February 23, 2015

COMMUNITY HEALTH CARE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MAY 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 333,234	$ 3,662,780
Cash and Cash Equivalents Set Aside for Medicaid Settlement	3,200,000	3,200,000
Restricted Cash	1,149,957	20,806,620
Patient Receivables, Net	2,260,552	2,215,670
Grants and Other Receivables	865,927	2,873,725
Promises to Give, Current Portion	151,506	703,511
Inventory and Other Prepaid Assets	696,833	563,339
Total Current Assets	8,658,009	34,025,645
PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS, Net	44,819,341	31,554,359
OTHER ASSETS		
Promises to Give, Net of Current Portion	4,890	49,544
Debt Issuance Costs, Net	633,234	696,055
Bond Reserve Fund	185,000	185,000
Investment Reserves	1,511,221	1,325,517
Receivable from Hilltop CHC Investment Fund, LLC	19,176,549	14,173,609
Total Other Assets	21,510,894	16,429,725
Total Assets	$ 74,988,244	$ 82,009,729

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	2014	2013
CURRENT LIABILITIES		
Accounts Payable	$ 1,154,290	$ 961,940
Accrued Wages and Related Payables	2,018,016	1,334,310
Construction Payables	110,000	2,962,544
Other Accrued Expenses	4,328,858	5,281,339
Deferred Revenue	67,097	40,381
Current Portion of Debt	1,250,318	122,954
Total Current Liabilities	8,928,579	10,703,468
LONG-TERM DEBT, Net of Current Portion	33,147,113	35,501,682
Total Liabilities	42,075,692	46,205,150
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted:		
Designated by Board of Directors	5,900,000	7,200,000
Undesignated	27,012,552	28,604,579
Total Net Assets	32,912,552	35,804,579
Total Liabilities and Net Assets	$ 74,988,244	$ 82,009,729

COMMUNITY HEALTH CARE
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED MAY 31, 2014 AND 2013

	2014	2013
OPERATING ACTIVITIES		
Revenue and Support:		
Patient Service Revenue, Net of Contractual Discounts	$ 25,556,468	$ 22,627,312
Provision for Bad Debt	(613,977)	(667,206)
Net Patient Service Revenue Less Provision for Doubtful Accounts	24,942,491	21,960,106
Grant Revenue	3,293,986	2,873,742
Contributions	30,200	93,212
Donations In-Kind	681,826	864,830
Other Revenue	382,065	319,676
Total	4,388,077	4,151,460
Total Revenue and Support	29,330,568	26,111,566
Expenses:		
Clinics and Programs	28,254,495	23,379,341
Management and General	6,654,084	5,669,907
Fundraising	1,200,518	252,241
Total Expenses	36,109,097	29,301,489
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	(6,778,529)	(3,189,923)
NONOPERATING ACTIVITIES		
Managed Care Pooled Savings	341,763	507,715
Other	212,177	90,758
Affordable Care Act Capital Development Grant Revenue	2,802,077	8,123,340
Total Nonoperating Activities	3,356,017	8,721,813
(DEFICIENCY) EXCESS OF REVENUES AND SUPPORT (UNDER) OVER EXPENSES	(3,422,512)	5,531,890
Capital Campaign Contributions	530,485	2,945,919
Release of Capital Campaign Contributions	-	406,184
CHANGES IN UNRESTRICTED NET ASSETS	(2,892,027)	8,883,993
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Release of Capital Campaign Contributions	-	(406,184)
CHANGES IN NET ASSETS	(2,892,027)	8,477,809
Net Assets - Beginning of Year	35,804,579	27,326,770
NET ASSETS - END OF THE YEAR	$ 32,912,552	$ 35,804,579

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY HEALTH CARE
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MAY 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients	$ 23,971,844	$ 23,458,366
Cash Received from Granting Agencies and Others	9,197,952	9,803,040
Cash Paid to Suppliers and Employees	(35,607,728)	(24,481,288)
Interest Paid	(558,895)	(249,403)
Other Income	553,940	598,473
Net Cash (Used) Provided by Operating Activities	(2,442,887)	9,129,188
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash and Cash Equivalents Held as Investments	(185,704)	6,574,483
Cash Paid for Capital Assets	(15,254,617)	(11,237,485)
Cash Paid to Hilltop CHC Investment Fund, LLC	(5,002,940)	(14,173,609)
Net Cash Used by Investing Activities	(20,443,261)	(18,836,611)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from Issuance of Debt	-	31,144,135
Cash Paid for Financing Costs	-	(548,591)
Principal Payments on Long-Term Debt	(1,227,205)	(115,002)
Capital Campaign Contributions	1,127,144	2,396,043
Net Cash (Used) Provided by Financing Activities	(100,061)	32,876,585
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(22,986,209)	23,169,162
Cash and Cash Equivalents - Beginning of Year	27,669,400	4,500,238
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,683,191	$ 27,669,400
RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
Changes in Net Assets	$ (2,892,027)	$ 8,477,809
Adjustments to Reconcile Changes in Net Assets to Net Cash (Used) Provided by Operating Activities:		
Depreciation and Amortization	2,052,456	1,077,310
Bad Debt Expense	613,977	667,206
Capital Campaign	(530,485)	(2,945,919)
(Increase) Decrease in Assets:		
Patient Receivables	(658,859)	(263,626)
Grants and Other Receivables	2,007,798	(2,471,760)
Inventory and Other Prepaids	(133,494)	133,380
Increase (Decrease) in Liabilities:		
Accounts Payable	(2,660,194)	3,234,282
Accrued Expenses	(242,059)	1,220,506
Net Cash (Used) Provided by Operating Activities	$ (2,442,887)	$ 9,129,188

See accompanying Notes to Consolidated Financial Statements.

COMMUNITY HEALTH CARE
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED MAY 31, 2014 AND 2013

	2014	2013
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Cash is Comprised as Follows:		
Cash and Cash Equivalents	$ 333,234	$ 3,662,780
Cash and Cash Equivalents Set Aside for Medicaid Settlement	3,200,000	3,200,000
Restricted Cash	1,149,957	20,806,620
Cash and Cash Equivalents - End of Year	$ 4,683,191	$ 27,669,400

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Community Health Care (the Organization), is a nonprofit organization that provides affordable comprehensive health care services for uninsured and underserved individuals in the Pierce County, Washington, area. The Organization meets the community's health care needs by maintaining and supporting various clinics and programs.

Hilltop Regional Health Center was incorporated in 2012 to facilitate the new Markets Tax Credit financing discussed in Note 7. Hilltop Regional Health Center is a nonprofit corporation under the same management as Community Health Care.

Principles of Consolidation

The consolidated financial statements of Community Health Care include the accounts of Community Health Care and Hilltop Regional Health Center, collectively referred to as the Organization. All intercompany transactions have been eliminated.

Use of Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

The Organization uses the allowance method of accounting for uncollectible accounts and contractual adjustments from third-party payers on accounts receivable. In estimating these allowances, management reviews the individual accounts receivable, payer type, and their collection status.

Basis of Presentation

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 the Organization 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 the Organization are included in this classification.

Temporarily Restricted – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time are included in this classification.

Permanently Restricted – Net assets subject to donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Organization to use, or expend, part or all of the income derived from the donated assets for either specified or unspecified purposes. The Organization had no permanently restricted net assets as of May 31, 2014 and 2013.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 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.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, except for funds held in the investment accounts designated for long-term purposes.

Restricted Cash

The Organization considers cash received on behalf of the capital campaign to be restricted to use.

Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist principally of cash deposits and receivables. At May 31, 2014 and 2013, the Organization had cash deposits in excess of the federally insured limit.

Accounts Receivable

Patient accounts receivable are stated at net realizable value. Third-party contractual adjustments are made based on past experience. Receivables are reduced by an allowance for estimated uncollectible amounts and accounts deemed uncollectible are charged against this allowance. The Organization provides care to patients regardless of their ability to pay. A minimum payment is requested for each medical and dental visit and collection is made at the time of the visit, but if the patient is unable to pay, they are subsequently billed. The Organization notifies patients of past-due amounts and a significant number of these accounts are ultimately determined to be uncollectible. The allowance for uncollectible accounts was approximately 56 percent and 74 percent of self-pay accounts receivable at May 31, 2014 and 2013, respectively.

Inventory

Inventory consists mainly of prescription drugs and medical supplies, and is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment, and Leasehold Improvements

Property, equipment, and leasehold improvements are recorded at cost or, if donated, at the fair market value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets ranging from two to forty years or, for leasehold improvements, the shorter of the useful life or lease term. The Organization capitalizes all computer equipment and other depreciable assets with a purchase price and/or donated fair market value greater than $2,000. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Repairs and maintenance are charged to expense as incurred.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from deficiency of revenue over (under) expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation about how long those long-lived assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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

Nonoperating Versus Operating

For the purpose of the consolidated statements of activities and changes in net assets, the Organization considers support related to the capital campaign, federal grants awarded for capital projects, managed care pooled savings, and gains or losses on the disposition of fixed assets to be nonoperating activities.

(Deficiency) Excess of Revenues and Support (Under) Over Expenses

The consolidated statements of activities and changes in net assets include (deficiency) excess of revenues and support (under) over expenses. 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, 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).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, case rates, discounted charges, per diem payments, and enhancements. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers as final settlements are determined. For uninsured patients that do not qualify for a discounted payment schedule, the Organization recognizes revenue on the basis of its standard rates for services provided. 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 bad debts related to uninsured patients in the period the services are provided.

The Organization also records provision for doubtful accounts related to third-party payers for services provided. Net patient service revenue, net of contractual allowances and discounts but before the provision for bad debts and doubtful accounts, recognized in the period from these major payer sources at May 31, 2014 and 2013 is as follows:

	2014	2013
Third-Party Payers	$ 23,882,976	$ 21,111,058
Self-Insured	1,673,492	1,516,254
Total Patient Service Revenue (Net of Contractual Allowance and Discounts)	$ 25,556,468	$ 22,627,312

Managed Care Pooled Savings

As a member of the Community Health Plan (CHP), the Organization has agreed to serve as a provider of primary care services for a certain amount per member per month and to provide case management services to these same members related to specialty and hospital services. In return, the Organization will participate in any specialty and hospital pool savings realized by CHP in providing these services, based upon the formula determined by the board of directors of CHP. The plan year for determining these savings follows the calendar year. The Organization recognizes pool savings amounts on a modified cash basis where pool savings amounts are accrued to the extent that notification of pool savings amounts are received subsequent to year-end. See further discussion at Note 11.

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues at fair value in the period received. Promises to give, receivable in more than one year, are discounted to present value at a risk-adjusted rate.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donations In-Kind

Contributed goods and services are recorded at rates that would have been paid for similar goods and services if purchased. Donations in-kind reported in the consolidated statements of activities and changes in net assets consisted of the following for the years ended May 31:

	2014	2013
Donated Pharmaceuticals and Vaccines	$ 642,191	$ 831,715
Donated Professional Services	39,635	33,115
Total Donations In-Kind	$ 681,826	$ 864,830

Discounted Services

The Organization has a policy of providing care to patients, who meet certain criteria under its policy, without charge or at amounts less than its established rates. However, all patients are requested to pay a minimum fee for each visit and no patient is denied services because of inability to pay. Since management does not expect payment for this care, the discounted services are excluded from revenue. During the years ended May 31, 2014 and 2013, the Organization provided $2,024,565 and $2,160,354, respectively, of discounted services under this policy based upon charges.

Grant Revenue

The Organization 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. The Organization 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 grant receivables. Management believes the amounts to be fully collectible.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the years ended May 31, 2014 and 2013 totaled $53,388 and $42,059, respectively.

Income Taxes

No provision for income taxes is shown in the consolidated financial statements because the Organization is a nonprofit organization, exempt from income taxes under 501(c)(3) of the Internal Revenue Code. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustments to the consolidated financial statements to comply with the provisions of Topic 740 of the *Accounting Standards Codification* (ASC). The Organization is no longer subject to U.S. federal income tax examinations by tax authorities for the years before 2011.

Fundraising

The Organization began the Tanbara Health Center capital campaign in 2007 and began the Hilltop Regional Health Center capital campaign in 2010, and has separately stated the contributions related to the capital campaign fundraising activities in the consolidated statements of activities and changes in net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collective Bargaining

For the year ended May 31, 2014, approximately 56 percent of the Organization's employees were covered under a collective bargaining agreement with the Service Employees International Union 1199NW. The contract was renegotiated and a new contract was signed effective from June 1, 2013 through November 30, 2016.

Subsequent Events

Subsequent events have been evaluated through February 23, 2015, which is the date the consolidated financial statements were available to be issued.

NOTE 2 INVESTMENT RESERVES

The Organization invests funds with various banks and investment brokers. These investments consist primarily of certificates of deposit and money market funds, pay interest and dividends at variable rates, and are subject to market fluctuations. Investment income is comprised solely of interest income for the years ended May 31, 2014 and 2013, and is included in other operating income on the consolidated statements of activities and changes in net assets. The investment of these funds is controlled by the investment policies of the Organization as approved by its board of directors.

In accordance with professional standards, fair value is defined as the price that the Organization 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 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 used in pricing the asset or liability developed based on the best information available. 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. The Organization has no Level 2 assets or liabilities.

NOTE 2 INVESTMENT RESERVES (CONTINUED)

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. The Organization has no Level 3 assets or liabilities.

As required by Financial Accounting Standards Board (FASB) ASC 820, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2014 and 2013.

Investments measured on a recurring basis at May 31, 2014 and 2013 are comprised of money market accounts and certificates of deposit that were valued using Level 1 inputs.

The following table sets forth, within the fair value hierarchy, the Organization's assets at fair value as of May 31:

	2014			
	Level 1	Level 2	Level 3	Total
Money Market Funds	$ 425,671	$ -	$ -	$ 425,671
Certificates of Deposit	2,585,550	-	-	2,585,550
Total	$ 3,011,221	$ -	$ -	$ 3,011,221

	2013			
	Level 1	Level 2	Level 3	Total
Money Market Funds	$ 770,408	$ -	$ -	$ 770,408
Certificates of Deposit	555,129	-	-	555,129
Total	$ 1,325,537	$ -	$ -	$ 1,325,537

NOTE 3 NET PATIENT SERVICE REVENUE

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. Payment arrangements include prospectively determined rates per encounter, reimbursed costs, case rates, discounted charges, and per diem payments. A summary of the payment arrangements with major third-party payers is as follows:

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Patient Service Revenue (Continued)

Medicare – 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, the Organization is paid 80 percent of the established FQHC rate, with the beneficiary being responsible for the remaining 20 percent representing a co-pay. The Organization is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary. Retroactive settlements have historically not been material for Medicare.

Medicaid – Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

Revenue from the Medicare program accounted for approximately 4 percent and 2 percent of the Organization's net patient revenue for the years ended May 31, 2014 and 2013, respectively. Revenue from the Medicaid program accounted for approximately 83 percent and 80 percent of the Organization's net patient revenue for the years ended May 31, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. As further described in Note 13, the methodology for payment of the Medicaid enhancement for managed care and fee-for-services changed effective January 1, 2009.

The Organization also has agreements with various insurance companies or insurance plans to provide primary care services to subscribing participants on a per member, per month basis, and receives monthly capitation payments based upon the number of participants, regardless of services actually performed by the Organization.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per encounter, case rates, discounted charges, and per diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payers as final settlements are determined. As of May 31, 2014 and 2013, accounts receivable was net of a provision for doubtful accounts and contractual adjustments of $3,252,860 and $2,565,084, respectively.

NOTE 4 DESIGNATED BALANCES

The composition of assets designated by the board of directors at May 31:

	2014	2013
Board Designated for Acquiring Long-Term Assets	$ 1,700,000	$ 4,000,000
Board Designated for Repayment to Medicaid	3,200,000	3,200,000
Board Designated Operating Reserves	1,000,000	-
Total	$ 5,900,000	$ 7,200,000

The designated cash balances are included in cash and cash equivalents and reserves on the consolidated statements of financial position as of May 31, 2014 and 2013.

NOTE 5 PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

Property, equipment, and leasehold improvements, at cost, consisted of the following at May 31:

	2014	2013
Land	$ 3,642,530	$ 3,642,530
Building and Building Improvements	41,422,446	16,841,286
Leasehold Improvements	2,308,465	2,308,465
Furniture and Equipment	9,720,465	7,309,157
Automobiles	122,196	106,274
Projects in Progress	61,071	11,820,178
Total	57,277,173	42,027,890
Less: Accumulated Depreciation and Amortization	(12,457,832)	(10,473,531)
Total Property, Plant, Equipment, Leasehold Improvement, Net	$ 44,819,341	$ 31,554,359

The Organization recorded $1,989,635 and $1,066,498 in depreciation expense for the years ended May 31, 2014 and 2013, respectively.

The Organization made a commitment to build Hilltop Regional Health Center, as replacement and expansion of the existing Downtown Family Organization. The majority of the balance in projects in progress as of May 31, 2013, is related to this commitment. The Organization was awarded a $12 million grant by Health Services and Human Resources Agency and $1.5 million from the state of Washington toward the project. The Organization was deemed eligible and secured financing under the New Markets Tax Credit Program. Total costs are expected to be approximately $26 million. Hilltop Regional Health Center was completed and opened during the year ended May 31, 2014. The balance in projects in progress as of May 31, 2014 relates to various minor capital projects.

NOTE 6 PROMISES TO GIVE

Unconditional promises to give consisted of the following at May 31:

	2014	2013
Receivable in Less than One Year	$ 151,506	$ 703,511
Receivable in One to Five Years	63,490	81,045
Total Unconditional Promises to Give	214,996	784,556
Less: Discounts to Net Present Value	(58,600)	(31,501)
Net Unconditional Promises to Give	$ 156,396	$ 753,055

Promises to give that are receivable in more than one year are discounted at a risk-adjusted rate of 4 percent for each additional year through the term of the pledge.

NOTE 7 LONG-TERM DEBT

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

	2014	2013
Series 2003 Washington Health Care Facilities Authority Revenue Bonds	$ 1,260,000	$ 1,330,000
Tanbara Health Center	3,097,679	3,150,501
Community Health Center Bridge Loans	3,359,752	4,464,135
New Markets Tax Credit Financing	26,680,000	26,680,000
Total Debt	34,397,431	35,624,636
Less: Current Portion	(1,250,318)	(122,954)
Long-Term Debt, Net of Current Portion	$ 33,147,113	$ 35,501,682

Series 2003 Washington Health Care Facilities Authority Revenue Bonds

On January 23, 2003, the Organization received $3,320,000 from the proceeds of the sale of weekly rate demand revenue bonds by the Washington Health Care Facilities Authority passed through the Washington Association of Community and Migrant Health Centers. The bonds bear interest at a variable rate determined on a weekly basis by a remarketing agent based upon a weekly rate index of the average seven-day yield evaluation at par of securities which have been issued. Interest was approximately 0.27 percent during May 31, 2014 and 2013. The bonds are payable in annual principal payments that vary from year to year and monthly interest payments through December 1, 2029. Principal payments were $70,000 and $65,000 in 2014 and 2013, respectively. The bond indenture requires the Organization to make deposits to restricted accounts for the periodic payment of bond interest and retirement of bond principal. As of May 31, 2014 and 2013, $23,370 and $65,000, respectively, is held for future bond redemption requirements in cash and cash equivalents in the consolidated statements of financial position. The bonds are secured by land, building, equipment, and certain revenues. The bonds are secured by a reducing letter of credit. Bond issuance costs of $224,971 are being amortized over the life of the bonds on a straight-line basis. The indenture also requires the Organization to maintain a reserve account amounting to $224,844, which is also reported in the consolidated statements of financial position.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Tanbara Health Center – As part of the financing to construct the Tanbara Health Center, the Organization borrowed $3,229,580 in 2011 under a bank loan. The promissory note signed has a maturity date of March 2020, and has an interest rate of 5.5 percent. The loan is secured by a deed of trust on the Tanbara Health Center building and land and had an outstanding balance at May 31, 2014 and 2013 of $3,097,679 and $3,150,501, respectively.

Community Health Center Bridge Loans – During the year ended May 31, 2013, the Organization borrowed a total of $4,464,135 under two loans as part of the financing to construct a new facility. The first loan for $803,802 requires payments under the note of interest only calculated at the interest rate of 2 percent per annum on the outstanding principal balance of the loan, and shall be paid in the monthly amount of approximately $1,340 on the first day of each and every calendar month. The entire loan, together with all interest accrued and unpaid is due in full on the maturity date of September 25, 2019. The second loan for $3,660,333 originally called for a payment equal to all remaining outstanding principal on December 1, 2014. The agreement was modified subsequent to May 31, 2014; see Note 15 regarding the subsequent event. The modification terms required a balloon payment at December 1, 2014 in the amount of $1,000,000 and for the Organization to make consecutive monthly payments of $31,250 which includes principal and interest at 6.5 percent on the first of each month thereafter beginning January 1, 2015. Additionally, the lender shall sweep the Organization's capital campaign pledge account and apply all deposits therein to the outstanding principal balance. All principal amounts are due September 25, 2019. These loans were obtained to assist and facilitate the Organization's New Markets Tax Credit financing. The Organization made principal debt payments to the second loan in the amount of $1,104,383 during the year ended May 31, 2014.

New Markets Tax Credit – In December 2012, the Organization entered into a New Markets Tax Credit transaction as part of the financing of the construction for its new Hilltop Regional Health Center. The New Markets Tax Credit Program was designed to stimulate investment and economic growth in low-income communities by offering a seven-year, 38 percent federal tax credit for Qualified Equity Investments (QEI) made through investment vehicles known as Community Development Entities (CDE). CDE uses capital derived from tax credits to make loans to, or investments in, businesses and projects in low-income areas.

As a part of the transaction, Hilltop CHC Investment Fund, LLC committed to lend $26,680,000 to Hilltop Regional Health Center, the QEI. In turn, Hilltop CHC Investment Fund, LLC signed a promissory note with interest accruing at 1 percent per annum, interest payments due semiannually beginning June 30, 2013. The note matures on December 31, 2044, at which time any outstanding principal and interest are due.

Hilltop Regional Health Center signed seven promissory notes payable dated September 25, 2012, to borrow $26,680,000 from USBCDE Sub-CDE LXIV, LLC, LIIF Sub-CDE XVIII, LLC, and NDC New Markets Investments LXXI, LLC, the CDEs, secured by the related real property. Interest accrues at 1.189 percent and is due semiannually with the majority beginning December 1, 2012. The notes mature on December 1, 2047, with no prepayment allowed.

NOTE 7 LONG-TERM DEBT (CONTINUED)

New Markets Tax Credit (Continued)

The Organization does not control or have an economic interest in the assets of either the CDE or the QEI. The QEI is controlled and partially financed by U.S. Bancorp Community Development Corporation and the QEI controls and funds the CDE.

To earn the tax credit the QEI must remain invested in the CDE for a seven-year period. The Organization, the QEI, and U.S. Bancorp Community Development Corporation have entered into a put/call option agreement to take place at the end of the seven-year period. Under the agreement, the QEI and U.S. Bancorp Community Development Corporation can grant a put option to sell all interest in the QEI for $1,000 to Hilltop Regional Health Center. If the parties do not grant the put option within 90 days of the end of the seven year period, Hilltop Regional Health Center can grant a call option to purchase the interest at an appraised fair market value.

At May 31, 2014 and 2013, Hilltop Regional Health Center had approximately $-0- and $16,492,000 of funds restricted from the Lender, which represented funds not yet drawn from the CDE (new markets tax credit financing). At May 31, 2014 and 2013, there was an additional $1,150,000 and $4,315,000, respectively, that was restricted for reserves or for future use in the project.

Principal maturities of long-term debt for future years are as follows:

Year Ending May 31,	Amount
2015	$ 1,250,318
2016	132,961
2017	141,307
2018	144,845
2019	148,588
Thereafter	32,579,412
Total	$ 34,397,431

Interest expense recorded for the years ended May 31, 2014 and 2013 was $558,895 and $249,403, respectively.

Covenants

The bond and mortgage agreements contain various covenants which, among other things, place restrictions on the Organization's ability to incur additional indebtedness and require the Organization to maintain certain financial ratios. The Organization is required to maintain a debt service coverage ratio of not less than 1.20 to 1.00 as of the end of each fiscal year. For the year ended May 31, 2014, the Organization was not in compliance with the covenant, which is a breach of the mortgage agreement. The financial institution has provided a forbearance notice for noncompliance with loan covenants. As part of the notice the Organization is required to place an additional 12 months of payments or approximately $225,000 in a reserve fund at the financial institution. The additional amount will be used to service the current year debt.

NOTE 8 PENSION PLAN

The Organization has a 403(b) Thrift Pension Plan (the Pension Plan) available to all eligible employees. The Pension Plan permits employees to defer a portion of their salary until future years. The Pension Plan also allows for a discretionary match up to one percent and a base contribution of four percent from the employer on the participant's compensation received during the plan year after the participant meets the minimum service requirement. The Pension Plan contains a vesting provision based upon a participant's years of vesting service. During fiscal years 2014 and 2013, the Organization's combined matching and base contributions to the Pension Plan were $636,230 and $547,991, respectively.

NOTE 9 SELF INSURANCE

The Organization is a member of 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the reimbursement financing method of meeting obligations under state unemployment insurance statutes. As of May 31, 2014 and 2013, the Organization had deposits on hand with the Trust of $256,855 and $229,427, respectively, which is included in prepaid assets in the consolidated statements of financial position. Any potential claims that may exist cannot be estimated at May 31, 2014; therefore, no accrual has been made.

NOTE 10 MALPRACTICE INSURANCE

Effective January 1, 2004, the Organization 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. The Organization has purchased malpractice insurance, through One Beacon Insurance Company, for activities not covered under the FTCA and is covered on a claims-made basis.

NOTE 11 MANAGED CARE

The Organization is a member of the Community Health Network of Washington (the Plan), a managed care plan network formed by 21 community and migrant health centers throughout the state of Washington to participate in the managed care marketplace. The Plan is a not-for-profit corporation and accepts the full insurance risk of providing health care services to enrollees in the State Medicaid and Basic Health Plan programs. The individual health centers are contingently liable for their proportionate share of any claims should the Plan be unable to meet its financial obligations. The Plan believes that its assets are sufficient to meet its financial obligation.

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

NOTE 11 MANAGED CARE (CONTINUED)

As a member of CHP, the Organization has agreed to serve as a provider of primary care services for a certain amount per member per month and to provide case management services to these same members related to specialty and hospital services. In return, the Organization will participate in any specialty and hospital pool savings realized by CHP in providing these services, based upon a formula determined by the board of directors of CHP. Included on the consolidated statements of activities and changes in net assets for the years ended May 31, 2014 and 2013 was $341,763 and $507,715, respectively, of Hospital and Specialty Pool Revenues.

NOTE 12 ELECTRONIC HEALTH RECORD

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 the Organization continuing to meet the escalating meaningful use criteria. For the first payment year, the Organization must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Organization must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four-year period.

The Organization recorded incentive payments for the years ended May 31, 2014 and 2013, of $357,000 and $304,229, respectively, which are included in other income from operating activities.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization is party to a number of operating lease agreements involving buildings and office space. The leases extend for varying periods and generally provide for the payment of taxes, insurance, and maintenance by the Organization. Several of these leases are on a month-to-month basis, and can be terminated by giving the lessor written notice within a specified period, such as 30 to 90 days. Total rental expense for the years ended May 31, 2014 and 2013 was $285,250 and $309,202, respectively.

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Future minimum payments required under noncancellable operating leases are as follows:

Year Ending May 31,	Amount
2015	$ 314,558
2016	325,257
2017	337,054
2018	349,129
2019	353,475
Total	$ 1,679,473

Grants

The Organization receives 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 may become a liability of the Organization.

Litigation

The Organization is also involved in litigation in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect to the Organization's future financial position or results from operations.

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 Healthy Options Managed 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 that a group of FQHCs disputed. In November 2013, the FQHCs received notice that neither the FQHCs nor the State would owe any additional funds to the other party in regards to calendar year 2009. The Organization removed approximately $1,500,000 of accrued expenses related to the settlement. Reconciliation of payments under the State's Healthy Options Managed Care Medicaid program for calendar years 2010 through 2013, are still outstanding and is included in other accrued expenses on the consolidated statements of financial position.

NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Medicaid Funding (Continued)

During 2011, the State informed the Organization of various rate changes that would potentially result in additional amounts owed to the Medicaid program. Management has estimated the impact and included that estimate in other accrued expenses in the accompanying consolidated financial statements. For the period of January 1, 2010 through May 31, 2014, the Organization has recorded a payable of approximately $4,300,000. These liabilities were determined based on correspondence received from the State as well as management's estimate based on the number of encounters and the applicable encounter rate. These liabilities and the reduction to revenues are reflected in the accompanying consolidated financial statements. These estimates are subject to material change based on the State's final reconciliations and settlements of the activity to be performed.

NOTE 14 GOING CONCERN

The Organization reported a negative change in net assets from operating activities of $6,778,529 and $3,189,923 for the years ended May 31, 2014 and 2013, respectively. During the year ended May 31, 2014, the Organization was in the midst of an expansion project, Hilltop Regional Health Care Center. The increase in operational expenses associated with the new service location has resulted in continued operational losses subsequent to May 31, 2014, resulting in a decrease in the Organization's cash and investments and reducing the ability to meet future debt covenant requirements.

The Organization's board of directors and management are implementing efforts to improve the Organization's financial stability. This includes multiple internal initiatives, including improvement of operational efficiencies, improvements in the billing and collection of accounts receivable, increased efforts to enroll and provide care to newly insured Medicaid patients, leaving nonessential positions vacant, reevaluating previously approved capital expenditures, and reducing general expenses throughout the Organization.

The ability of the Organization to continue as a going concern is dependent on the success of these actions. The consolidated financial statements do not include any adjustments relating to the recoverability of recorded asset amounts or the amounts of liabilities that might be necessary should the Organization be unable to continue as a going concern.

NOTE 15 SUBSEQUENT EVENT

Subsequent to year-end and effective February 23, 2015, the Organization signed an amended agreement to restructure the second Community Health Center Bridge Loan. Terms of the new agreement are stated in Note 7.

COMMUNITY HEALTH CARE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
MAY 31, 2014
(WITH COMPARATIVE TOTALS FOR MAY 31, 2013)
(SEE INDEPENDENT AUDITORS' REPORT)

	Community Health Care 2014	Hilltop Regional Health Center 2014	Consolidated Total 2014	Consolidated Total 2013
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 333,234	$ -	$ 333,234	$ 3,662,780
Cash and Cash Equivalents Set Aside for Medicaid Settlement	3,200,000	-	3,200,000	3,200,000
Restricted Cash	156,930	993,027	1,149,957	20,806,620
Patient Receivables, Net	2,260,552	-	2,260,552	2,215,670
Grants and Other Receivables	865,927	-	865,927	2,873,725
Promises to Give, Current Portion	151,506	-	151,506	703,511
Inventory and Other Prepaid Assets	696,833	-	696,833	563,339
Total Current Assets	7,664,982	993,027	8,658,009	34,025,645
PROPERTY, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS, Net	18,741,777	26,077,564	44,819,341	31,554,359
OTHER ASSETS				
Promises to Give, Net of Current Portion	4,890	-	4,890	49,544
Debt Issuance Costs, Net	179,778	453,456	633,234	696,055
Bond Reserve Fund	185,000	-	185,000	185,000
Investment Reserves	1,511,221	-	1,511,221	1,325,517
Receivable from Hilltop CHC Investment Fund, LLC	19,176,549	-	19,176,549	14,173,609
Total Other Assets	21,057,438	453,456	21,510,894	16,429,725
Total Assets	$ 47,464,197	$ 27,524,047	$ 74,988,244	$ 82,009,729

COMMUNITY HEALTH CARE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION (CONTINUED)
MAY 31, 2014
(WITH COMPARATIVE TOTALS FOR MAY 31, 2013)
(SEE INDEPENDENT AUDITORS' REPORT)

	Community Health Care 2014	Hilltop Regional Health Center 2014	Consolidated Total 2014	Consolidated Total 2013
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	$ 1,048,548	$ 105,742	$ 1,154,290	$ 961,940
Accrued Wages and Related Payables	2,018,016	-	2,018,016	1,334,310
Construction Payables	110,000	-	110,000	2,962,544
Other Accrued Expenses	4,328,858	-	4,328,858	5,281,339
Deferred Revenue	47,847	19,250	67,097	40,381
Current Portion of Debt	1,250,318	-	1,250,318	122,954
Total Current Liabilities	8,803,587	124,992	8,928,579	10,703,468
LONG-TERM DEBT, Net of Current Portion	6,467,113	26,680,000	33,147,113	35,501,682
Total Liabilities	15,270,700	26,804,992	42,075,692	46,205,150
COMMITMENTS AND CONTINGENCIES				
NET ASSETS				
Unrestricted:				
Designated by Board of Directors	5,900,000	-	5,900,000	7,200,000
Undesignated	26,293,497	719,055	27,012,552	28,604,579
Total Net Assets	32,193,497	719,055	32,912,552	35,804,579
Total Liabilities and Net Assets	$ 47,464,197	$ 27,524,047	$ 74,988,244	$ 82,009,729

COMMUNITY HEALTH CARE
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSET
YEAR ENDED MAY 31, 2014
(WITH COMPARATIVE TOTALS FOR MAY 31, 2013)
(SEE INDEPENDENT AUDITORS' REPORT)

	Community Health Care 2014	Hilltop Regional Health Center 2014	Consolidated Total 2014	Consolidated Total 2013
OPERATING ACTIVITIES				
Revenue and Support:				
Patient Service Revenue, Net of Contractual Discounts	$ 25,556,468	$ -	$ 25,556,468	$ 22,627,312
Provision for Bad Debt	(613,977)	-	(613,977)	(667,206)
Net Patient Service Revenue Less Provision for Bad Debt	24,942,491		24,942,491	21,960,106
Grant Revenue	3,293,986	-	3,293,986	2,873,742
Contributions	30,200	-	30,200	93,212
Donations In-Kind	681,826	-	681,826	864,830
Other Income	228,064	154,001	382,065	319,676
Total Revenue and Support	29,176,567	154,001	29,330,568	26,111,566
Expenses:				
Clinics and Programs	28,254,495	-	28,254,495	23,379,341
Management and General	5,689,087	964,997	6,654,084	5,669,907
Fundraising	1,200,518	-	1,200,518	252,241
Total Expenses	35,144,100	964,997	36,109,097	29,301,489
CHANGES IN NET ASSETS FROM OPERATING ACTIVITIES	(5,967,533)	(810,996)	(6,778,529)	(3,189,923)
NONOPERATING ACTIVITIES				
Managed Care Pooled Savings	341,763	-	341,763	507,715
Other	212,177	-	212,177	90,758
Affordable Care Act Capital Development Grant Revenue	2,802,077	-	2,802,077	8,123,340
Total Nonoperating Activities	3,356,017	-	3,356,017	8,721,813

COMMUNITY HEALTH CARE
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
YEAR ENDED MAY 31, 2014
(WITH COMPARATIVETOTALS FOR MAY 31, 2013)
(SEE INDEPENDENT AUDITORS' REPORT)

	Community Health Care 2014	Hilltop Regional Health Center 2014	Consolidated Total 2014	Consolidated Total 2013
EXCESS (DEFICIENCY) OF REVENUES AND SUPPORT UNDER EXPENSES	$ (2,611,516)	$ (810,996)	$ (3,422,512)	$ 5,531,890
Capital Campaign Contributions	530,485	-	530,485	2,945,919
Release of Capital Campaign Contributions	-	-	-	406,184
CHANGES IN UNRESTRICTED NET ASSETS	(2,081,031)	(810,996)	(2,892,027)	8,883,993
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS				
Release of Capital Campaign Contributions	-	-	-	(406,184)
CHANGES IN NET ASSETS	(2,081,031)	(810,996)	(2,892,027)	8,477,809
Net Assets - Beginning of Year	34,274,528	1,530,051	35,804,579	27,326,770
NET ASSETS - END OF THE YEAR	$ 32,193,497	$ 719,055	$ 32,912,552	$ 35,804,579

COMMUNITY HEALTH CARE
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2014
(SEE INDEPENDENT AUDITORS' REPORT)

	Medical Clinics	Dental Clinics	Pharmacies	Other Programs	Total Clinics and Programs	Management and General	Fundraising	Total Supporting Services	Total Clinics and Programs and Supporting Services
Salaries	$ 10,432,763	$ 3,623,854	$ 1,253,446	$ 625,230	$ 15,935,293	$ 3,427,597	$ 114,066	$ 3,541,663	$ 19,476,956
Payroll Taxes and Employee Benefits	2,890,744	1,065,153	334,220	155,890	4,446,007	1,060,418	19,153	1,079,571	5,525,578
Total Operational Salaries and Benefits	13,323,507	4,689,007	1,587,666	781,120	20,381,300	4,488,015	133,219	4,621,234	25,002,534
Contract Providers	109,523	12,773	12,212	262	134,770	285,076	60,530	345,606	480,376
Contract Services	1,115,596	167,256	88,280	13,453	1,384,585	142,196	173	142,369	1,526,954
Lab Fees	340,019	-	-	-	340,019	-	-	-	340,019
X-Ray Fees	44,876	-	-	-	44,876	-	-	-	44,876
Pharmacy Supplies	241,016	648	1,560,023	-	1,801,687	-	-	-	1,801,687
Medical and Dental Supplies	719,875	391,292	771	1,115	1,113,053	2,121	-	2,121	1,115,174
Linen Supplies	-	50,287	-	-	50,287	-	-	-	50,287
Translation	36,235	1,937	19	1,200	39,391	846	-	846	40,237
Insurance	60,827	20,378	2,913	1,942	86,060	48,090	-	48,090	134,150
Occupancy	328,476	55,506	16,800	7,204	407,986	207,275	2,365	209,640	617,626
Telephone	157,392	30,868	14,434	19,652	222,346	151,185	-	151,185	373,531
Travel and Training	90,631	26,959	4,604	13,164	135,358	107,015	4,189	111,204	246,562
Advertising and Recruiting	34,747	15,592	104	284	50,727	236,928	7,268	244,196	294,923
Office Supplies	163,337	66,659	24,826	3,219	258,041	146,894	10,948	157,842	415,883
Legal and Accounting	20,012	5,592	1,096	735	27,435	193,956	9,098	203,054	230,489
Repairs and Maintenance	106,891	71,082	10,911	3,660	192,544	21,723	2	21,725	214,269
Printing and Postage	39,838	13,246	5,768	2,338	61,190	42,667	15,029	57,696	118,886
Association Dues	111,198	30,375	14,911	944	157,428	45,065	136	45,201	202,629
Miscellaneous	53,147	25,688	13,843	955	93,633	132,427	2,569	134,996	228,629
Interest and Bank Charges	128,385	37,919	8,716	8,875	183,895	234,416	158,609	393,025	576,920
Depreciation and Amortization	596,858	345,685	92,106	53,235	1,087,884	168,189	796,383	964,572	2,052,456
Total Expenses	$ 17,822,386	$ 6,058,749	$ 3,460,003	$ 913,357	$ 28,254,495	$ 6,654,084	$ 1,200,518	$ 7,854,602	$ 36,109,097

COMMUNITY HEALTH CARE
CONSOLIDATING SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED MAY 31, 2013
(SEE INDEPENDENT AUDITORS' REPORT)

	Medical Clinics	Dental Clinics	Pharmacies	Other Programs	Total Clinics and Programs	Management and General	Fundraising	Total Supporting Services	Total Clinics and Programs and Supporting Services
Salaries	$ 8,578,978	$ 2,813,314	$ 1,131,601	$ 515,520	$ 13,039,413	$ 3,061,353	$ 133,440	$ 3,194,793	$ 16,234,206
Payroll Taxes and Employee Benefits	2,447,768	808,821	332,646	123,371	3,712,606	959,677	25,222	984,899	4,697,505
Total Operational Salaries and Benefits	11,026,746	3,622,135	1,464,247	638,891	16,752,019	4,021,030	158,662	4,179,692	20,931,711
Contract Providers	453,243	167,507	1,941	1,040	623,731	11,381	-	11,381	635,112
Contract Services	476,567	114,502	45,418	12,116	648,603	284,597	80,682	365,279	1,013,882
Lab Fees	322,408	-	-	-	322,408	-	-	-	322,408
X-Ray Fees	54,231	895	-	-	55,126	-	-	-	55,126
Pharmacy Supplies	266,754	543	1,000,599	-	1,267,896	492	-	492	1,268,388
Medical and Dental Supplies	675,992	260,388	-	723	937,103	1,602	-	1,602	938,705
Linen Supplies	-	37,313	-	-	37,313	-	-	-	37,313
Translation	16,512	1,517	47	553	18,629	226	-	226	18,855
Insurance	56,373	15,812	2,299	1,897	76,381	33,950	-	33,950	110,331
Occupancy	260,705	35,762	22,863	9,508	328,838	160,440	20	160,460	489,298
Telephone	141,010	21,053	13,706	19,707	195,476	121,331	-	121,331	316,807
Travel and Training	90,523	31,133	5,154	14,822	141,632	120,364	541	120,905	262,537
Advertising and Recruiting	8,652	20,209	835	202	29,898	128,503	1,368	129,871	159,769
Office Supplies	47,349	13,113	5,099	1,126	66,687	34,644	730	35,374	102,061
Legal and Accounting	48,268	14,680	8,054	1,232	72,234	159,977	-	159,977	232,211
Repairs and Maintenance	108,539	57,145	24,021	3,993	193,698	29,602	143	29,745	223,443
Printing and Postage	28,778	13,591	3,105	3,511	48,985	29,870	5,447	35,317	84,302
Association Dues	69,594	23,470	6,878	569	100,511	53,030	-	53,030	153,541
Miscellaneous	215,298	77,604	35,196	3,680	331,778	260,311	4,548	264,859	596,637
Interest and Bank Charges	135,788	38,867	9,420	9,201	193,276	78,468	-	78,468	271,744
Depreciation and Amortization	541,781	271,042	73,008	51,288	937,119	140,089	100	140,189	1,077,308
Total Expenses	$ 15,045,111	$ 4,838,281	$ 2,721,890	$ 774,059	$ 23,379,341	$ 5,669,907	$ 252,241	$ 5,922,148	$ 29,301,489

COMMUNITY HEALTH CARE

SINGLE AUDIT REPORTS

MAY 31, 2014

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SINGLE AUDIT REPORTS

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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
Community Health Care
Tacoma, 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 consolidated financial statements of Community Health Care, which comprise the consolidated statement of financial position as of May 31, 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Community Health Care'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Health Care's internal control. Accordingly, we do not express an opinion on the effectiveness of Community Health Care'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.

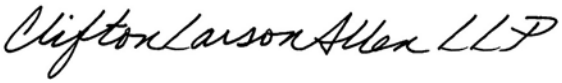
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Community Health Care's consolidated 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 consolidated 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

Bellevue, Washington
February 23, 2015

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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 Care
Tacoma, Washington

Report on Compliance for Each Major Federal Program

We have audited Community Health Care's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Community Health Care's major federal programs for the year ended May 31, 2014. Community Health Care'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 Community Health Care'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 Community Health Care'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 Community Health Care's compliance.

Opinion on Each Major Federal Program

In our opinion, Community Health Care 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 May 31, 2014.

Report on Internal Control Over Compliance

Management of Community Health Care 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 Community Health Care'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 Community Health Care'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.

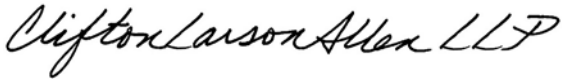
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of Community Health Care as of and for the year ended May 31, 2014, and have issued our report thereon dated February 23, 2015, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required

by OMB Circular A-133 and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



CliftonLarsonAllen LLP

Bellevue, Washington
February 23, 2015

COMMUNITY HEALTH CARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED MAY 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? _____ 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: *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:

CFDA Number(s)	Name of Federal Program or Cluster
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program
93.526	Affordable Care Act (ACA) Grants for Capital Development in Health Centers
93.918	Grants to Provide Outpatient Early Intervention Services with Respect 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

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported**.**

SECTION III – FEDERAL AWARD FINDINGS

No matters were reported.

COMMUNITY HEALTH CARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MAY 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency/Pass-Through Identifying Number	Disbursements/ Expenditures
Department of Health and Human Services			
Community Health Centers Section 330	93.224	H8OCS00481	$ 1,022,487
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	H8OCS00481	1,552,060
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	C8ACS21298	2,802,077
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA24727	352,485
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	H12HA24794	271,327
Total Federal Expenditures			**$ 6,000,436**

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

This schedule includes the federal grant activity of Community Health Care 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.

COMMUNITY HEALTH CARE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED MAY 31, 2014

No findings reported for the year ended May 31, 2013.