

## AUDIT COMMUNICATION LETTER

May 24, 2019

To the Board of Trustees  
Southwest Washington Regional Health Alliance DBA  
Southwest Washington Accountable Community of Health

We have audited the financial statements of Southwest Washington Regional Health Alliance DBA Southwest Washington Accountable Community of Health (the Organization) as of and for the year ended June 30, 2018, and have issued our report thereon dated May 24, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 26, 2019. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The Organization implemented the Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 modified net asset classification and enhances disclosures regarding liquidity and availability of resources and functional expense reporting. The significant accounting policies used by the Organization are described in Note 2 to the financial statements. No other new accounting policies were adopted and the application of existing policies was not changed during 2018. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Accounts and pledges receivable: Management believes accounts and pledges receivable are fully collectible and therefore, has not established an allowance for uncollectible accounts.

Allocation of expenses: Management's estimate of the functional allocation of expenses is based on the Organization's cost allocation methodology which is based on estimated usage and allocation of employee time.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. See attached schedule of audit adjustments for misstatements detected as a result of audit procedures and corrected by management.

#### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 24, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Trustees and management of Southwest Washington Accountable Community of Health and is not intended to be and should not be used by anyone other than these specified parties.

*McDonald Jacobz, P.C.*

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
SCHEDULE OF AUDIT ADJUSTMENTS  
For the year ended June 30, 2018

	Increase (Decrease)					Beginning Net Assets
	Total Assets	Total Liabilities	Ending Net Assets	Total Revenues	Total Expenses	
To correct accounts receivable	\$ 12,150	\$ -	\$ 12,150	\$ -	\$ (12,150)	\$ -
To correct prepaid expenses	8,100	-	8,100	-	(8,100)	-
To record assessments	-	-	-	460,000	460,000	-
To recognize revenue on indirect rate	-	(46,000)	46,000	46,000	-	-
To correct DESIGN revenue	-	(3,734,593)	3,734,593	3,734,593	-	-
<u>Beginning Balance Adjustments:</u>						
To correct DESIGN revenue	-	-	-	(750,000)	-	750,000
To correct accounts payable	-	-	-	-	(31,948)	(31,948)
Impact of adjustments on:	<u>\$ 20,250</u>	<u>\$ (3,780,593)</u>	<u>\$ 3,800,843</u>	<u>\$ 3,490,593</u>	<u>\$ 407,802</u>	<u>\$ 718,052</u>

SOUTHWEST WASHINGTON ACCOUNTABLE  
COMMUNITY OF HEALTH

Audited Financial Statements

For the Year Ended June 30, 2018



MCDONALD JACOBS

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Southwest Washington Regional Health Alliance DBA  
Southwest Washington Accountable Community of Health

We have audited the accompanying financial statements of Southwest Washington Regional Health Alliance DBA Southwest Washington Accountable Community of Health (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, 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.

### *Auditor's 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. 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 auditor's 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 organization'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 organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Washington Accountable Community of Health as of June 30, 2018, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*McDonald Jacobson, P.C.*

Portland, Oregon  
May 24, 2019

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
STATEMENT OF FINANCIAL POSITION  
June 30, 2018

ASSETS

Cash and cash equivalents	\$ 4,049,786
Cash restricted by contract	15,887,845
Accounts and grants receivable	7,892,941
Prepaid expenses	<u>22,437</u>
 TOTAL ASSETS	 <u><u>\$ 27,853,009</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 160,040
Accrued expenses	<u>521,869</u>
Total liabilities	<u>681,909</u>
 Net assets:	
Without donor restrictions	27,052,418
With donor restrictions	<u>118,682</u>
Total net assets	<u>27,171,100</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 27,853,009</u></u>

See notes to financial statements.

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2018

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
<b>Support and revenue:</b>			
Government contracts	\$ 31,464,698	\$ 7,500	\$ 31,472,198
Private and government grants	-	637,870	637,870
Interest income	29,168	-	29,168
Other income	4,083	-	4,083
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>526,688</u>	<u>(526,688)</u>	<u>-</u>
Total support and revenue	<u>32,024,637</u>	<u>118,682</u>	<u>32,143,319</u>
<b>Expenses:</b>			
Program	4,942,709	-	4,942,709
Management and general	<u>1,356,703</u>	<u>-</u>	<u>1,356,703</u>
Total expenses	<u>6,299,412</u>	<u>-</u>	<u>6,299,412</u>
Change in net assets	25,725,225	118,682	25,843,907
<b>Net assets:</b>			
Beginning of year	<u>1,327,193</u>	<u>-</u>	<u>1,327,193</u>
End of year	<u>\$ 27,052,418</u>	<u>\$ 118,682</u>	<u>\$ 27,171,100</u>

See notes to financial statements.

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2018

	<u>Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries and related expenses	\$ 724,104	\$ 908,916	\$ 1,633,020
Professional fees	851,815	257,371	1,109,186
Partner investments	3,327,263	-	3,327,263
Insurance	-	2,892	2,892
Communication and public relations	9,236	2,084	11,320
Information technology	194	26,962	27,156
Facilities and equipment	3,944	48,397	52,341
Printing, postage and other supplies	1,180	8,451	9,631
Travel and meetings	24,973	21,246	46,219
Licenses and fees	-	60,361	60,361
Other operating costs	-	20,023	20,023
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total expenses	<u>\$ 4,942,709</u>	<u>\$ 1,356,703</u>	<u>\$ 6,299,412</u>

See notes to financial statements.

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
STATEMENT OF CASH FLOWS  
For the year ended June 30, 2018

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 25,843,907
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
(Increase) decrease in:	
Accounts and grants receivable	(7,707,279)
Prepaid expenses	(16,975)
Increase (decrease) in:	
Accounts payable	95,194
Accrued expenses	458,456
Net cash flows from operating activities	<u>18,673,303</u>
 Net change in cash and cash equivalents	 18,673,303
 Cash and cash equivalents - beginning of year	 <u>1,264,328</u>
 Cash and cash equivalents - end of year	 <u><u>\$ 19,937,631</u></u>
 <b>Reconciliation to statement of financial position:</b>	
Cash and cash equivalents	\$ 4,049,786
Cash restricted under contract	15,887,845
	<u><u>\$ 19,937,631</u></u>

See notes to financial statements.

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2018

1. DESCRIPTION OF ORGANIZATION

Southwest Washington Regional Health Alliance DBA Southwest Washington Accountable Community of Health, (the Organization or SWACH), which includes the Healthy Living Collaborative, is a local nonprofit working to improve health in Southwest Washington. The Organization brings together community members and other experts to address the region's major health challenges through innovative partnerships and local resources creating lasting changes and a healthier future for everyone.

The Organization is one of nine organizations leading the state's Healthier Washington Initiative in their regions. These Accountable Communities of Health (ACHs) are building a healthier Washington that meets each communities' unique needs. The Organization's region includes Clark, Klickitat and Skamania Counties. In collaboration with another ACH, Cascade Pacific Action Alliance, SWACH also supports Cowlitz and Wahkiakum counties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Cash Restricted Under Contract

Funds received based on earned incentives under contracts are held in a separate bank account. While the funds have been earned and included in revenue, the funds are anticipated to be distributed to partner organizations for continued work in health care transformation.

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

Grants Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received. At June 30, 2018, the Organization does not have property and equipment that meet the capitalization policy.

Income Tax Status

Southwest Washington Regional Health Alliance DBA Southwest Washington Accountable Community of Health is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code and applicable state law. Based on certain tax law changes, the Organization may be subject to unrelated business income tax. Any provision for income taxes associated with these changes is estimated to be immaterial. The Organization has no other activities subject to unrelated business income tax. The Organization is not a private foundation.

The Organization follows the provisions of FASB ASC Topic 740 *Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills.

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenue Recognition

Contract revenues are recognized at the time the services are provided and the revenues are earned. Funds received in advance of contractual obligations are recorded as deferred revenue in the accompanying statement of financial position until the Organization meets the obligations.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include salaries and related costs, professional services, communication and public relations, information technology, facilities and equipment, and other expenses, which are allocated on the basis of estimated of time and effort.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Early Adoption of Accounting Principle

The Organization has implemented Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The Update modified net asset classification and enhances disclosures regarding liquidity and availability of resources and functional expense reporting. The required implementation date is for years beginning after December 31, 2017, but has been adopted by the Organization for the year beginning July 1, 2017, as allowed by the standard.

Subsequent Events

The Organization has evaluated all subsequent events through May 24, 2019, the date the financial statements were available to be issued.

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2018

3. AVAILABLE RESOURCES AND LIQUIDITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its primary operations to be general expenditures. It excludes financial assets with donor or other restrictions limiting their use. The Organization has primarily cash and cash equivalents and accounts and grants receivable available for general expenditure.

Financial assets of the Organization consist of the following at June 30, 2018:

	Available for General Expenditure	Contract Restrictions	With Donor Restrictions	Total Financial Assets
Cash and cash equivalents	\$ 3,931,104	\$ -	\$ 118,682	\$ 4,049,786
Cash restricted by contract	-	15,887,845	-	15,887,845
Accounts and grants receivable	<u>183,351</u>	<u>7,709,590</u>	<u>-</u>	<u>7,892,941</u>
Total financial assets	<u>\$ 4,114,455</u>	<u>\$23,597,435</u>	<u>\$ 118,682</u>	<u>\$27,830,572</u>

The Organization has restricted cash under its contract with the State of Washington Health Care Authority (HCA). As of June 30, 2018, the Organization has received but not distributed \$15,887,845 of HCA contract funds that are reported as restricted cash in the accompanying statement of financial position. These funds will be used for specific operating expenditures related to healthcare transformation projects, but the Organization does not consider the funds available for general expenditure.

4. CONTINGENCIES

Amounts received or receivable from various contracting agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of the Organization if so determined in the future. It is management's belief that no significant amounts received or receivable will be required to be returned in the future.

SOUTHWEST WASHINGTON REGIONAL HEALTH ALLIANCE DBA  
SOUTHWEST WASHINGTON ACCOUNTABLE COMMUNITY OF HEALTH  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
June 30, 2018

5. LEASE COMMITMENT

The Organization leases administrative offices under an operating lease agreement expiring June 2020. Current monthly rent is \$2,919. Rent expense paid for the above leases totaled approximately \$32,000 for the year ended June 30, 2018. Beginning July 1, 2018, the lease was amended and monthly rent will be \$2,093.

Future minimum lease commitments are as follows:

Year ending June 30, 2019	\$ 25,100
2020	25,100
Total	<u>\$ 50,200</u>

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of expiring donor restriction for the Health Living Collaborative project.

8. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in one financial institution. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits were approximately \$3.8 million as of June 30, 2018.

The Organization's revenues are concentrated with 93% of total revenues coming from one state agency for the year ended June 30, 2018. Approximately 92% of accounts and grants receivable at June 30, 2018 are due from the same state agency.

9. RETIREMENT PLAN

The Organization has a 401(k) deferred compensation plan covering substantially all employees meeting certain eligibility requirement. The Organization matches 100% of employee's elective deferrals up to 3% of eligible compensation. Employer contributions to the plan totaled \$31,440 for the year ended June 30, 2018.