



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

**CENTRAL WASHINGTON HEALTH SERVICES ASSOCIATION
dba CENTRAL WASHINGTON HOSPITAL**

December 31, 2019 and 2018



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Report of Independent Auditors

The Board of Directors
Central Washington Health Services Association
dba Central Washington Hospital

Report on the Financial Statements

We have audited the accompanying financial statements of Central Washington Health Services Association, dba Central Washington Hospital (the Association), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association, as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Aras Odeno LLP

Everett, Washington
June 4, 2020

**Central Washington Health Services Association
dba Central Washington Hospital
Balance Sheets**

ASSETS

	December 31,	
	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,925,240	\$ 52,909,579
Receivables		
Patient accounts, net of estimated price concessions	66,024,787	61,657,248
Other	9,125,242	5,768,532
Medical supplies	7,702,583	5,324,278
Prepaid expenses	1,855,826	1,183,139
Assets limited as to use that are required for current liabilities	<u>3,276,800</u>	<u>4,163,094</u>
Total current assets	<u>140,910,478</u>	<u>131,005,870</u>
ASSETS LIMITED AS TO USE		
By Board for malpractice costs	2,315,000	2,315,000
By Board for workers' compensation deposit	1,628,175	1,545,175
By Board for capital improvements and other purposes	143,106,621	123,807,815
Held by trustee under Series 2009 and 2015 Revenue Bond financing indenture agreements, net of amounts required for current liabilities	<u>46,816</u>	<u>2,990,949</u>
	<u>147,096,612</u>	<u>130,658,939</u>
WITH DONOR RESTRICTIONS RECEIVABLE	<u>1,932,042</u>	<u>630,664</u>
PROPERTY AND EQUIPMENT, net	<u>147,630,409</u>	<u>138,713,806</u>
OTHER ASSETS		
Note receivable from affiliate	18,871,682	17,552,810
Other	<u>115,230</u>	<u>400,500</u>
	<u>18,986,912</u>	<u>17,953,310</u>
Total assets	<u>\$ 456,556,453</u>	<u>\$ 418,962,589</u>

**Central Washington Health Services Association
dba Central Washington Hospital
Balance Sheets**

LIABILITIES AND NET ASSETS

	December 31,	
	2019	2018
CURRENT LIABILITIES		
Accounts payable	\$ 5,140,530	\$ 5,888,999
Accrued liabilities		
Payroll and related liabilities	8,994,364	8,132,520
Paid leave	5,667,304	5,716,870
Interest	2,344,300	2,623,094
Other	358,561	307,120
Estimated third-party payor settlements	810,000	1,010,000
Due to affiliate	8,054,420	2,892,177
Current portion of long-term debt	1,879,516	3,094,516
Total current liabilities	33,248,995	29,665,296
ESTIMATED MEDICAL MALPRACTICE COSTS	5,818,810	4,463,493
LONG-TERM DEBT, net of current portion	104,391,899	111,346,100
Total liabilities	143,459,704	145,474,889
NET ASSETS		
Without donor restrictions	311,164,707	272,857,036
With donor restrictions	1,932,042	630,664
Total net assets	313,096,749	273,487,700
Total liabilities and net assets	\$ 456,556,453	\$ 418,962,589

**Central Washington Health Services Association
dba Central Washington Hospital
Statements of Operations**

	Years Ended December 31,	
	2019	2018
REVENUE WITHOUT DONOR RESTRICTIONS AND OTHER SUPPORT		
Net patient service revenue	\$ 436,868,856	\$ 365,813,877
Other revenue	9,403,670	13,021,192
Total revenue and other support	<u>446,272,526</u>	<u>378,835,069</u>
EXPENSES		
Salaries and wages	115,674,819	103,256,902
Employee benefits	34,399,270	31,070,523
Professional fees	137,222,714	97,401,758
Supplies	92,274,041	89,063,241
Purchased services	13,319,926	14,725,382
Insurance	3,689,252	2,394,818
Rent	2,142,692	1,476,698
Other	11,934,463	10,294,572
Depreciation and amortization	12,121,555	11,177,142
Interest	4,932,404	5,127,845
Total expenses	<u>427,711,136</u>	<u>365,988,881</u>
INCOME FROM OPERATIONS	<u>18,561,390</u>	<u>12,846,188</u>
OTHER INCOME		
Investment income	6,006,390	3,966,765
Net unrealized gain from equity securities	8,970,955	-
Other	1,661,614	1,769,991
	<u>16,638,959</u>	<u>5,736,756</u>
EXCESS OF REVENUE OVER EXPENSES	35,200,349	18,582,944
NET UNREALIZED GAIN (LOSS) ON DEBT SECURITIES	<u>3,107,322</u>	<u>(8,869,887)</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 38,307,671</u>	<u>\$ 9,713,057</u>

**Central Washington Health Services Association
dba Central Washington Hospital
Statements of Changes in Net Assets**

	Without Donor Restrictions	With Donor Restrictions	Total
BALANCE, December 31, 2017	\$ 263,143,979	\$ 248,624	\$ 263,392,603
Excess of revenues over expenses	18,582,944	-	18,582,944
Contributions	-	382,040	382,040
Change in unrealized gains and losses on investments, net	(8,869,887)	-	(8,869,887)
Change in net assets	9,713,057	382,040	10,095,097
BALANCE, December 31, 2018	272,857,036	630,664	273,487,700
Excess of revenues over expenses	35,200,349	-	35,200,349
Contributions	-	1,301,378	1,301,378
Net unrealized gain on debt securities	3,107,322	-	3,107,322
Change in net assets	38,307,671	1,301,378	39,609,049
BALANCE, December 31, 2019	\$ 311,164,707	\$ 1,932,042	\$ 313,096,749

**Central Washington Health Services Association
dba Central Washington Hospital
Statements of Cash Flows**

	Years Ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 39,609,049	\$ 10,095,097
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	12,379,961	11,498,921
Amortization	50,664	60,797
Amortization of bond premium	(246,988)	(246,987)
Gain on sale of property and equipment	(91,050)	(366,202)
Change in estimated medical malpractice costs	1,355,317	1,224,716
Net unrealized (gain) loss on investments	(3,107,322)	8,869,887
Restricted contribution	(1,301,378)	(382,040)
Increase (decrease) in cash due to changes in assets and liabilities		
Patient accounts receivable	(4,367,539)	(11,517,445)
Estimated third-party payor settlements	(200,000)	500,000
Other receivables	(3,356,710)	2,286,184
Medical supplies	(2,378,305)	290,949
Prepaid expenses	(672,687)	(16,924)
Other assets	285,270	321,568
Accounts payable and due to affiliates	1,008,213	(368,082)
Accrued liabilities	584,925	1,523,759
Net cash from operating activities	<u>39,551,420</u>	<u>23,774,198</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	95,059	565,712
Purchase of property and equipment	(17,895,012)	(10,851,611)
Proceeds from sale of assets limited as to use	94,425,219	76,583,473
Purchase of assets limited as to use	(107,780,762)	(92,277,365)
Note receivable from affiliate	(1,318,872)	(1,159,696)
Net cash from investing activities	<u>(32,474,368)</u>	<u>(27,139,487)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(7,972,877)	(2,929,516)
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	(895,825)	(6,294,805)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, beginning of year	57,144,681	63,439,486
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH, end of year	\$ 56,248,856	\$ 57,144,681

Supplemental Schedule of Investing and Financing Activities

The Association paid interest of \$4,653,610 and \$5,045,083 during the years ended December 31, 2019 and 2018, respectively.

Supplemental Disclosure of Noncash Investing Activities

During 2019 and 2018, the Association transferred approximately \$3,406,000 and \$12,000, respectively, in fixed assets to an affiliate in exchange for a reduction in due to affiliate.

Central Washington Health Services Association dba Central Washington Hospital

Notes to Financial Statements

Note 1 – Organization

Central Washington Health Services Association, dba Central Washington Hospital (the Association), is accredited by DNV GL Healthcare and operates a licensed 198-bed acute care hospital delivering a full range of health care services in Wenatchee, Washington, and the North Central Washington area. The Association is a not-for-profit institution governed by a Board of Directors, providing general inpatient services including medical, surgical, home infusion services, intensive care and coronary care, neonatal intensive care, pediatrics, obstetrics, gynecology, and oncology. The Association is a Federal Regional Referral center, and is designated by the State as a Level III General Trauma center and Level III Pediatric Trauma center, supported by a comprehensive range of surgical procedures in orthopedic, neurosurgery, vascular surgery, interventional cardiac catheterization, and open-heart surgery.

The Association is a not-for-profit integrated health care delivery system with a skilled nursing facility, orthopedic clinic, home health services, hospice services, and participation in a physician-hospital-community health organization. The skilled nursing facility was closed November 1, 2018.

Confluence Health was formed in 2012 as a health system that represents an affiliation between Central Washington Hospital (a not-for-profit organization) and Wenatchee Valley Medical Group (WVMG) (a for-profit organization). Effective January 1, 2013, the Association affiliated with Confluence Health, and Confluence Health became the sole member of the Association. The Board of Directors of Confluence Health consists of 9 community members and 6 physicians of Wenatchee Valley Medical Group.

Confluence Health, a separate 501(c)(3) organization, provides the administrative and shared functions for the health system. Confluence Health began operations on January 1, 2013.

The mission statement of Confluence Health is:

We are dedicated to improving our patients' health by providing safe, high-quality care in a compassionate and cost-effective manner.

The affiliation was completed in 2013, at which time WVMG transferred its remaining nonphysician employees and its operations to Wenatchee Valley Hospital (a not-for-profit organization). Confluence Health is the sole member of Wenatchee Valley Hospital. The three affiliated entities, the Association, Wenatchee Valley Hospital, and Confluence Health, are referred to collectively as Confluence Health. The three entities have contracted with WVMG for physician services.

Note 2 – Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) 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.

Central Washington Health Services Association dba Central Washington Hospital

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Cash and cash equivalents – Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Patient accounts receivable – Patient receivables are uncollateralized patient, resident, customer, and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. The carrying amount of patient receivables is reduced by implicit and explicit price concessions that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors.

Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to implicit price concessions. Management considers historical write-off and recovery information in determining the estimated implicit price concession.

Receivables are reduced by an estimated implicit price concession. In evaluating the collectability of receivables, the Association analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate estimated implicit price concession. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the estimated implicit price concession. For receivables associated with services provided to patients who have third-party coverage, the Association analyzes contractually due amounts and provides an estimated implicit price concession, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Association records a significant implicit price concession in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the estimated implicit price concession.

The Association's implicit price concessions associated with self-pay patients were \$7,998,000 and \$18,449,000 for the years ended December 31, 2019 and 2018, respectively.

Medical supplies – Medical supplies, composed primarily of medical and surgical inventories, are stated at the lower of replacement or market.

Assets limited as to use – Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the board of trustees for future capital improvements, over which the board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Association have been reclassified from assets limited as to use to current liabilities in the balance sheets at December 31, 2019 and 2018.

**Central Washington Health Services Association
dba Central Washington Hospital
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies (continued)

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses on equity securities are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on debt securities are excluded from the excess of revenue over expenses unless the investments are trading securities.

Property and equipment – Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset, which ranges from 3 to 40 years, and is computed on the straight-line method. 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.

Gifts of long-lived assets such as property and equipment are reported as donations without donor restrictions, 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 donations with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Basis of presentation – The Association’s financial statements are presented in accordance with GAAP, as codified by the Financial Accounting Standards Board (FASB). The Association has implemented Accounting Standards Codification (ASC) 958, *Not-for-Profit-Entities*, and has adjusted the presentation in these financial statements accordingly, including changes to the presentation of net asset classification on the financial statements, inclusion of information about liquidity and availability of resources (Note 18), and inclusion of information provided about expenses (Note 17). Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-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 restrictions.
- *Net assets with donor restrictions* – Net assets subject to donor-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. Net assets with donor restrictions include assets restricted for a completed construction project and a current Confluence Health Foundation fundraising campaign. The associated receivable due from Confluence Health Foundation was \$1,932,000 and \$631,000 for the years ended December 31, 2019 and 2018, respectively, and is expected to be received within approximately five years.

Central Washington Health Services Association dba Central Washington Hospital

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Estimated malpractice costs – The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Federal income tax – The Association is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Association is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code except to the extent of unrelated business taxable income as defined under IRC Sections 511 through 515. Any unrelated business income generated is not significant; therefore, no provision for income taxes has been recorded. The Association adopted accounting for uncertain tax positions. The accounting standard prescribes a recognition threshold and measurement process for uncertain tax positions. As of December 31, 2019 and 2018, the Association had no uncertain tax positions requiring accrual.

Net patient service revenue – Patient care service revenue is reported at the amount that reflects the consideration to which the Association expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Association bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Association. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Association believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospitals receiving inpatient acute care services or patients receiving services in the outpatient centers or in their homes (home care). The Association measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to the patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Association does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Association has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

**Central Washington Health Services Association
dba Central Washington Hospital
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies (continued)

The Association determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Association's policy, and implicit price concessions provided to uninsured patients. The Association determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Association determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Association's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Association. In addition, the contracts the Association has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Association's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 or 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Association also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Association estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, no additional revenue was recognized due to changes in the Association's estimates of price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Central Washington Health Services Association dba Central Washington Hospital

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Consistent with the Association's mission, care is provided to patients regardless of their ability to pay. Therefore, the Association has determined that it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Association expects to collect based on its collection history with those patients.

The Association has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Association's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Association does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Contributions received – Contributions received, including property or investments, are recorded as net assets with and without donor restrictions depending on the existence and/or nature of any donor restrictions.

Charity care – Patients who meet the Association's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue (Note 4).

Donor-restricted gifts – Unconditional promises to give cash and other assets to the Association are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations and changes in net assets as assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Excess of revenue over expenses – The statements of operations include excess of revenue over expenses. Changes in net assets without donor restrictions that are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than equity securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purpose of acquiring such assets), management services, and other similar items.

Donated services – A substantial number of volunteers donate significant amounts of their time for the Association's program activities. These donated hours are a necessary part of the Association's activities because its services could not be sustained without such support and because these activities enhance the financial assets of the Association. No dollar amounts have been reflected in the accompanying statements for these services because the services do not require specialized skills.

**Central Washington Health Services Association
dba Central Washington Hospital
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies (continued)

New accounting pronouncements – In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, *Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Association has implemented this ASU for the year beginning January 1, 2019, with retrospective application.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU, among other things, requires equity securities classified as other than trading to be measured at fair value with changes in fair value recognized in excess of revenues over expenses and updates certain disclosure requirements related to financial instruments. The Association has implemented this ASU for the year beginning January 1, 2019.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are issued.

The Association has evaluated subsequent events through June 4, 2020, which is the date the financial statements are issued, and concluded that there were no events or transactions that need to be disclosed with exception to Note 19.

Note 3 – Net Patient Service Revenue

The Association has agreements with third-party payors that provide for payments to the Association at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Association qualifies for disproportionate share (DSH) payments from Medicare. The DSH payment rate is added to the prospective rate for each inpatient discharge. The Association is eligible for a higher disproportionate share payment rate estimated at 15.47% in 2019 and 14.86% in 2018. The Association met the criteria for this additional payment as a result of the high number of low-income patients served exceeding the eligibility threshold of qualified patient days as a percentage of total patient days. Section 3133 of the Affordable Care Act amended DSH payments effective October 1, 2013. With this change, the Association receives 25 percent of the previous payment method along with payments for uncompensated care based on changes in the percentage of individuals that are uninsured. The uncompensated care payments are set annually by Medicare. Each hospital eligible for DSH will receive uncompensated care payments. The majority of outpatient services are reimbursed on a prospective payment system or fee schedule. The Association's Medicare cost reports have been audited by the Medicare Administrative Contractor fiscal intermediary through 2015. Net revenue billed under the Medicare program totaled approximately \$184,272,000 and \$156,215,000 for 2019 and 2018, respectively.

**Central Washington Health Services Association
dba Central Washington Hospital
Notes to Financial Statements**

Note 3 – Net Patient Service Revenue (continued)

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid on a prospective payment system similar to Medicare. Outpatient services to Medicaid beneficiaries are paid prospectively based on ambulatory payment classifications. Net revenue billed under the Medicaid program totaled approximately \$49,042,000 and \$46,994,322 for 2019 and 2018, respectively.

Other – Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge and discounts from established charges.

The Association recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Association recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Association’s uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Association records a significant price concession related to uninsured patients in the period the services are provided. Patient service revenue, net of implicit and explicit price concessions, recognized in the period from these major payor sources, is as follows:

	<u>Third-Party Payors</u>	<u>Self-Pay (Uninsured Only)</u>	<u>Total All Payors</u>
Patient service revenue (net of price concessions) for the year ended December 31, 2019	<u>\$ 429,609,233</u>	<u>\$ 7,259,623</u>	<u>\$ 436,868,856</u>
Patient service revenue (net of price concessions) for the year ended December 31, 2018	<u>\$ 360,044,307</u>	<u>\$ 5,769,570</u>	<u>\$ 365,813,877</u>

**Central Washington Health Services Association
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Note 3 – Net Patient Service Revenue (continued)

The composition of gross patient service revenue by primary payor for the years ended December 31 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 553,217,931	\$ 464,902,179
Medicaid	184,793,060	167,252,957
Commercial	94,525,581	73,691,590
Premera	126,556,787	102,990,829
Self-pay	18,008,014	14,050,255
Other	<u>57,542,559</u>	<u>52,868,785</u>
Total gross patient revenue	1,034,643,932	875,756,595
Price concessions	<u>(597,775,076)</u>	<u>(509,942,718)</u>
Net patient revenue	<u>\$ 436,868,856</u>	<u>\$ 365,813,877</u>

The composition of net patient service revenue based on its lines of business for the years ended December 31, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Inpatient	\$ 453,753,789	\$ 454,058,552
Outpatient	269,904,389	234,839,292
Physician Services	76,285,740	21,541,727
Technical Facility	<u>234,700,014</u>	<u>165,314,024</u>
Total gross patient revenue	1,034,643,932	875,753,595
Price concessions	<u>(597,775,076)</u>	<u>(509,939,718)</u>
Net patient revenue	<u>\$ 436,868,856</u>	<u>\$ 365,813,877</u>

Note 4 – Charity Care

The Association maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, and the estimated cost of those services and supplies. The following information measures the level of charity care provided for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Charges forgone, based on established rates	<u>\$ 9,925,634</u>	<u>\$ 7,039,240</u>

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 4 – Charity Care (continued)

Management estimates charity care costs by calculating a ratio of cost to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients. Charity care costs were \$9,926,000 and \$2,788,000 for the years ended December 31, 2019 and 2018, respectively.

Note 5 – Assets Limited as to Use

The composition of assets limited as to use at December 31 is set forth in the following table. Investments are stated at fair value.

	<u>2019</u>	<u>2018</u>
By board designated for malpractice costs		
Pooled funds and mutual funds	<u>\$ 2,315,000</u>	<u>\$ 2,315,000</u>
By board for workers' compensation deposit		
Money market accounts and treasury bills	<u>\$ 1,628,175</u>	<u>\$ 1,545,175</u>
By board for capital improvements and other purposes, net of amounts required for current liabilities		
Money market accounts and treasury bills	\$ 8,498,506	\$ 9,350,920
Pooled funds and mutual funds	<u>134,608,115</u>	<u>114,456,895</u>
	<u>\$ 143,106,621</u>	<u>\$ 123,807,815</u>
Under indenture agreement held by trustee		
Cash and cash equivalents	\$ 3,323,616	\$ 4,235,102
Guaranteed investment contracts	<u>-</u>	<u>2,918,941</u>
	3,323,616	7,154,043
Less current portion of indenture agreement held by trustee required for current liabilities	<u>3,276,800</u>	<u>4,163,094</u>
Noncurrent portion	<u>\$ 46,816</u>	<u>\$ 2,990,949</u>

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 5 – Assets Limited as to Use (continued)

Investment income and gains for assets limited as to use, cash equivalents, and other investments are composed of the following for the years ending December 31:

	2019	2018
Investment income		
Interest and dividend income	\$ 4,657,878	\$ 3,838,575
Investment fees	(281,267)	(247,357)
Realized net gain on sales of securities	1,629,779	375,547
	\$ 6,006,390	\$ 3,966,765

Note 6 – Property and Equipment

A summary of property and equipment at December 31 follows:

	2019	2018
Land and land improvements	\$ 13,645,233	\$ 13,405,911
Buildings and building improvements	136,358,267	123,578,108
Fixed equipment	78,547,030	78,070,125
Major movable and minor equipment	115,435,712	109,541,795
	343,986,242	324,595,939
Less accumulated depreciation and amortization	202,588,166	189,276,582
	141,398,076	135,319,357
Construction in progress	6,232,333	3,394,449
	\$ 147,630,409	\$ 138,713,806

As of December 31, 2019, the Association had remaining commitments in the amount of approximately \$8,189,000 related to construction in progress.

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Notes to Financial Statements**

Note 7 – Long-Term Debt

A summary of long-term debt at December 31 follows:

	<u>2019</u>	<u>2018</u>
Series 2015 - Washington Health Care Facilities Authority Revenue Bonds, net of unamortized premium of \$5,310,227, due through July 1, 2039, in principal payments ranging from \$1,865,000 to \$7,930,000 annually and interest ranging from 4% to 5%.	\$ 106,126,252	\$ 107,063,240
Utility Local Improvement District No. 2 - loan payable due in 2028, payable in annual installments of principal with interest. The interest rate is fixed at 2.9%.	145,163	159,679
Series 2009 - Washington Health Care Facilities Authority Revenue Bonds, paid in full in 2019.	<u>-</u>	<u>8,465,000</u>
Long-term debt	106,271,415	115,687,919
Less current portion	(1,879,516)	(3,094,516)
Less net unamortized issuance costs	<u>-</u>	<u>(1,247,303)</u>
	<u>\$ 104,391,899</u>	<u>\$ 111,346,100</u>

The Washington Health Care Facilities Authority (the Authority) issued special-obligation \$103,895,000 par value Series 2015 Revenue Bonds for the advanced refunding. The Series 2015 Revenue Bonds are payable solely from payments made by the Association and are collateralized by an interest in the Association's gross receivables, gross receipts, equipment, a deed of trust in certain property, and funds held by the trustee under the bond indenture agreement (Note 5).

The Bond Loan and Security Agreement and the Trust Indenture contain restrictive covenants that require, among other matters, that the Association maintain minimum debt service coverage, excess margin, and cushion ratios. The Association is in compliance with these financial covenants at December 31, 2019 and 2018.

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 7 – Long-Term Debt (continued)

Principal maturities of long-term debt are as follows:

2020	\$ 1,879,516
2021	1,979,516
2022	2,079,516
2023	2,189,516
2024	4,054,516
Thereafter	<u>89,272,583</u>
	101,455,163
Net unamortized premiums	<u>4,816,252</u>
	<u>\$ 106,271,415</u>

Note 8 – Estimated Medical Malpractice Costs

The Association is insured as a part of Confluence Health through a contract with an insurance company that provides coverage on a claims-made basis. There is a self-insured retention limit of \$2,000,000 per incident with \$4,000,000 in aggregate for hospital and insured physician claims combined for Confluence Health. In addition, as a part of Confluence Health, the Association maintains excess malpractice insurance coverage on a claims-made basis up to \$50,000,000 per incident and in aggregate on both hospital and insured physician claims.

The Association recognizes expenses associated with unasserted medical malpractice claims in the period in which the incidents are expected to have occurred rather than when a claim is asserted. Expenses associated with these incidents are estimated and based on actuarial assumptions of current settlement costs. In calculating the 2019 estimated malpractice liability, the Association's actuaries used an undiscounted 70% confidence level for determining the present value of future claims.

Central Washington Health Services Association dba Central Washington Hospital

Notes to Financial Statements

Note 9 – Retirement Plan

The Association has two defined contribution retirement plans for qualified employees. The Association contributes an amount equal to a specified percentage of the employees' effective compensation as defined by the plans. One plan is a 403(b) plan for employees of the Association who are part of a collective bargaining unit. These employees are qualified to participate in the plan after two years of continuous service. Plan benefits are fully vested to the employee upon entry into the plan. In 2013, the Association's defined contribution retirement plan for qualified employees changed, for those employees not part of a collective bargaining unit, to a 401(k) plan under Confluence Health. The plan is a safe harbor plan in which the Association contributes a specified percentage of the employees' effective contribution based on the contribution made by the employee. Employees are eligible to participate in the plan after one year of continuous service. Plan benefits are fully vested to employees upon entry into the plan. The Association, as part of Confluence Health, may also make a discretionary contribution to the plan. There is a six-year vesting schedule for the discretionary contributions to the plan. The Association made a discretionary contribution in 2019 and 2018. Retirement plan costs charged to operations were approximately \$5,569,000 and \$5,106,000 in 2019 and 2018, respectively. It is the Association's policy to fund retirement plan costs accrued.

Note 10 – Self-Insured Plans

Liabilities related to self-insured plans in the amount of \$481,000 and \$510,000 at December 31, 2019 and 2018, respectively, were included in the accrued liabilities on the balance sheets.

Health – The Association has self-funded employee health care plans. The plans are funded from the Association's cash and cash equivalents without donor restrictions. The Association has stop-loss coverage through an insurance company that provides coverage for employee claims in excess of \$400,000 for individual claims. Payments by the Association for health insurance expense were approximately \$17,746,000 and \$15,493,000 in 2019 and 2018, respectively.

Workers' compensation – The Association has a self-insured workers' compensation plan for its employees. The Association pays its share of actual injury claims, maintenance of reserves, administrative expenses, and reimbursement premiums. Costs of the Association for workers' compensation expenses were approximately \$784,000 and \$869,000 in 2019 and 2018, respectively.

Unemployment – The Association has a self-insured unemployment plan for its employees. The Association pays its share of actual unemployment claims and administrative expenses. Payments by the Association for unemployment expense were approximately \$71,000 and \$97,000 in 2019 and 2018, respectively.

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 11 – Concentrations of Credit Risk

The Association grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31 was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	29%	36%
Medicaid	18%	21%
Commercial	12%	16%
Premera	11%	15%
Other payors	23%	7%
Patient self-pay	7%	5%
	<u>100%</u>	<u>100%</u>

Note 12 – Commitments and Contingencies

Operating leases – The Association leases various equipment and facilities under operating leases. These operating leases are not long-term commitments. Total rental expense in 2019 and 2018 for all operating leases was \$2,142,692 and \$1,476,698, respectively.

Regulation and litigation – The Association is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Association’s future financial position or results from operations.

The health care industry is subject to numerous laws and regulations from federal, state, and local governments. Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Association's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Association. In addition, the contracts the Association has with commercial payors also provide for retroactive audit and review of claims. Management believes that the Association is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations.

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 13 – Confluence Health Foundation

Confluence Health Foundation (the Foundation) is a separate not-for-profit corporation whose articles of incorporation identified the Association as the Foundation’s primary beneficiary. Effective September 2014, the articles of incorporation were amended to identify not only the Association, but also Confluence Health and Wenatchee Valley Hospital as the Foundation’s primary beneficiaries.

The Foundation is authorized by the primary beneficiaries to solicit contributions on their behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts, timing, and use of its distributions.

Summarized financial information as of and for the years ended December 31, relating to the Foundation, is as follows:

	<u>2019</u>	<u>2018</u>
Assets, primarily cash and investments	<u>\$ 17,053,000</u>	<u>\$ 13,773,000</u>
Payable to Central Washington Hospital	\$ 2,182,000	\$ 631,000
Other liabilities	<u>882,000</u>	<u>1,361,000</u>
	<u>3,064,000</u>	<u>1,992,000</u>
Net assets	<u>13,989,000</u>	<u>11,781,000</u>
	<u>\$ 17,053,000</u>	<u>\$ 13,773,000</u>
Increase (decrease) in net assets	<u>\$ 2,208,000</u>	<u>\$ (560,000)</u>

Note 14 – Fair Value of Assets

The Association adopted fair value accounting, which establishes a framework for measuring fair value and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value accounting also establishes a hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.

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Notes to Financial Statements**

Note 14 – Fair Value of Assets (continued)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Certificates of deposit – Certificates of deposit are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Guaranteed investment contract – The guaranteed investment contract (GIC) is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Bonds – Valued using pricing models maximizing the use of observable inputs for similar securities, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

Available-for-sale securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, the fair values are estimated by using pricing models, quoted prices of securities with identical characteristics, or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Cash and cash equivalents	\$ 3,323,616	\$ 3,323,616	\$ -	\$ -
Money market accounts	6,385,911	6,385,911	-	-
Treasury bills	3,740,770	3,740,770	-	-
Fixed income				
Corporate bonds	50,393,812	-	50,393,812	-
U.S. governmental bonds	27,098,951	-	27,098,951	-
Treasury notes and CDs	1,628,175		1,628,175	
Mutual funds	57,207,197	57,207,197	-	-
Preferred stock	594,980	594,980	-	-
	<u>\$ 150,373,412</u>	<u>\$ 71,252,474</u>	<u>\$ 79,120,938</u>	<u>\$ -</u>

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 14 – Fair Value of Assets (continued)

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Cash and cash equivalents	\$ 4,235,102	\$ 4,235,102	\$ -	\$ -
Money market accounts	6,181,355	6,181,355	-	-
Treasury bills	4,714,740	4,714,740	-	-
Fixed income				
Corporate bonds	48,631,015	-	48,631,015	-
U.S. governmental bonds	19,702,537	-	19,702,537	-
Agency bonds	1,087,130	-	1,087,130	-
Mutual funds	45,352,618	45,352,618	-	-
Certificates of deposit	1,545,175	-	1,545,175	-
Preferred stock	453,420	453,420	-	-
Guaranteed investment contracts	2,918,941	-	2,918,941	-
	<u>\$ 134,822,033</u>	<u>\$ 60,937,235</u>	<u>\$ 73,884,798</u>	<u>\$ -</u>

Total gains and losses are included in the statements of operations in investment income and unrealized loss on investments.

Note 15 – Fair Value of Financial Instruments

The following methods and assumptions were used by the Association in estimating the fair value of its financial instruments.

Cash and cash equivalents – The Association maintains its cash and cash equivalent accounts, which at times may exceed federally insured limits, at financial institutions. The carrying amount reported in the balance sheets for cash and cash equivalents approximates its fair value.

Assets limited as to use – These assets consist primarily of cash and short-term investments and interest receivable. The carrying amount reported in the balance sheets is fair value.

Accounts payable and accrued expenses – The carrying amount reported in the balance sheets for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements – The carrying amount reported in the balance sheets for estimated third-party payor settlements approximates its fair value.

Long-term debt – Fair values of the Association’s revenue bonds are based on current traded value. The fair value of the Association’s remaining long-term debt is estimated using discounted cash flow analyses, based on the Association’s current incremental borrowing rates for similar types of borrowing arrangements.

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 16 – Affiliation Transactions

Professional services – As part of the affiliation described in Note 1 between Confluence Health, Wenatchee Valley Medical Group, and the Association, the Association reimburses Wenatchee Valley Medical Group for professional services rendered. Expenses incurred under this arrangement totaled \$27,141,846 and \$3,504,594 for the years ended December 31, 2019 and 2018, respectively. There was an amount payable of \$7,999,179 and \$2,837,411 at December 31, 2019 and 2018, respectively.

Note receivable from affiliate – The Association and Confluence Health entered into a note in 2013 for a maximum amount of \$30,000,000. The note bears interest at prime plus 2% (6.75% at December 31, 2019). The terms of the note payable provide for quarterly principal payments due in 20 installments with 19 installments of \$500,000 commencing in September 2021 and the remaining unpaid aggregate balance paid in July 2026. Interest is accrued on the note quarterly and principal and interest payments have been deferred. The amount outstanding as due, including accrued interest to the Association under this agreement, is \$18,871,682 and \$17,552,810 at December 31, 2019 and 2018, respectively.

Management services – The employees of Confluence Health provide administrative services to the Association beginning in 2013. In connection with services provided, the Association reimbursed Confluence Health in the amount of \$87,812,646 and \$71,968,497 for the years ended December 31, 2019 and 2018, respectively.

Note 17 – Functional Expenses

The Association provides health care, education, and social services to patients and residents within its geographic location. Expenses related to providing these services by functional class for the years ended December 31 are as follows:

	Patient Health Care and Program	General and Administrative	Total
2019			
Salaries and wages	\$ 97,708,299	\$ 17,966,520	\$ 115,674,819
Employee benefits	27,107,934	7,291,336	34,399,270
Professional fees	45,007,932	92,214,782	137,222,714
Supplies	89,820,775	2,453,266	92,274,041
Purchased services	9,021,670	4,298,256	13,319,926
Depreciation and amortization	4,463,467	7,658,088	12,121,555
Interest	-	4,932,404	4,932,404
Other expenses	4,611,023	13,155,384	17,766,407
	<u>\$ 277,741,100</u>	<u>\$ 149,970,036</u>	<u>\$ 427,711,136</u>

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 17 – Functional Expenses (continued)

	<u>Patient Health Care and Program</u>	<u>General and Administrative</u>	<u>Total</u>
2018			
Salaries and wages	\$ 85,714,847	\$ 17,542,055	\$ 103,256,902
Employee benefits	23,598,221	7,472,302	31,070,523
Professional fees	24,498,632	72,903,126	97,401,758
Supplies	86,053,155	3,010,086	89,063,241
Purchased services	11,478,844	3,246,538	14,725,382
Depreciation and amortization	4,001,725	7,175,417	11,177,142
Interest	-	5,127,845	5,127,845
Other expenses	2,373,877	11,792,211	14,166,088
	<u>\$ 237,719,301</u>	<u>\$ 128,269,580</u>	<u>\$ 365,988,881</u>

No significant allocations of expenses are made from general and administrative expenses to program services.

Note 18 – Liquidity and Availability

Financial assets available for general expenditure that are without donor or other restrictions limiting their use within one year of December 31, 2019, comprise the following:

Cash and cash equivalents	\$ 52,925,240
Current portion of assets limited as to use, net of restricted	3,276,800
Assets limited as to use, by board	<u>147,049,796</u>
	<u>\$ 203,251,836</u>

The Association has \$203,251,836 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash of \$52,925,240 and investments of \$150,326,596. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. In the calculation of financial assets, The Association includes board-designated investments that are available for expenditure per the Association investment policy.

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 18 – Liquidity and Availability (continued)

The Association maintains financial assets, which consist of cash and short-term investments, on hand to meet at least 85 days of normal operating expenses, which are, on average, approximately \$1,000,000 per day. There are certain debt covenant compliances that the Association must adhere to per its debt agreements, and as of December 31, 2019, the Association is in compliance with its debt covenants.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows:

	2019	2018
Cash and cash equivalents	\$ 52,925,240	\$ 52,909,579
Assets restricted as to use	3,323,616	4,235,102
Total cash, cash equivalents, and restricted cash	\$ 56,248,856	\$ 57,144,681

Note 19 – Subsequent Events

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. In March of 2020 the Association was mandated to delay elective procedures by the State of Washington. In addition, as a result of the “stay-at-home” order, the Association’s facilities have heavily reduced or are not currently performing other non-essential services. The total financial impact cannot be reasonably estimated at this time but is expected to have a negative impact on the Association’s financial performance.

In April 2020, the Association received funds under the Provider Relief Fund, administered by the U.S. Department of Health & Human Services (HHS), under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of \$9,700,000. The Association has signed or will be required to sign attestations agreeing to the terms and conditions of payment. Those terms and conditions include measures to help prevent fraud and misuse. The funds are to be used for healthcare-related expenses or lost revenue attributable to coronavirus, there are limitations on accepting out-of-pocket payments from certain patients, and there are several other reporting and compliance requirements. Also anti-fraud monitoring and auditing will be done by HHS and the Office of the Inspector General. Management is still determining their ability to comply with these terms and conditions.

In April 2020, the Association received approval for advanced funding of approximately \$1,900,000 under the Centers for Medicare and Medicaid Services (CMS) Accelerated and Advance Payment Program. Due to the significant amount of additional funding, CMS now appears to be reevaluating and suspending the Accelerated and Advance Payment Program funding respectively. All pending and new applications for the Accelerated Payment Program will be reevaluated. Controversy remains over the repayment plan CMS outlined; there are still plans to impose interest on unpaid balances after a designated timeline depending on provider or supplier type.

**Central Washington Health Services Association
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Notes to Financial Statements**

Note 19 – Subsequent Events (continued)

Subsequent to year-end, the Washington Health Care Facilities Authority issued a special-obligation Series 2020 Revenue Bond to the Health System in the amount of \$40,000,000. The Series 2020 Revenue Bonds are payable solely from payments made by the Association and are collateralized by an interest in the Association's gross receivables, gross receipts, equipment, and deed of trust in certain property, and funds held by the trustee under the bond indenture agreement. The obligated group was expanded to now include Confluence Health, Wenatchee Valley Hospital and Central Washington Hospital.

