



Report of Independent Auditors
in accordance with OMB Circular A-133 and
Consolidated Financial Statements
with Supplementary Information for

**Cascadia Behavioral
Healthcare, Inc. and Affiliates**

June 30, 2015 and 2014

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Cascadia Behavioral Healthcare, Inc. and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cascadia Behavioral Healthcare, Inc. and Affiliates (an Oregon non-profit corporation), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated income statements, statements of changes in net assets, statements of functional expenses, and statements of 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 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.

Auditor's 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 audits 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 auditor's 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 Cascadia Behavioral Healthcare, Inc. and Affiliates' (the Organization) 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 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 consolidated financial statements.

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

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cascadia Behavioral Healthcare, Inc. and Affiliates as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating balance sheets, consolidating income statements and schedule of expenditures of federal awards as required by Office of Management Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for the purpose 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. 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 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 January 31, 2016 on our consideration of Cascadia Behavioral Healthcare, Inc. and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cascadia Behavioral Healthcare, Inc. and Affiliates' internal control over financial reporting and compliance.

Moss Adams LLP

Portland, Oregon
January 31, 2016

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CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS

ASSETS

	June 30,	
	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash available for operations	\$ 9,273,871	\$ 6,027,400
Cash available for operations – management reserves	684,779	734,678
Restricted cash (Note 2)	2,087,332	1,987,764
Cash held on behalf of others (Note 2)	203,281	256,762
Investments (Note 4)	2,579,619	1,046,590
Accounts receivable, net of allowance (Note 5)	4,443,689	5,011,561
Prepaid expenses and other	375,247	371,867
	<u>19,647,818</u>	<u>15,436,622</u>
LAND, BUILDINGS, EQUIPMENT, CONSTRUCTION IN PROGRESS, AND INTANGIBLE ASSETS, NET (Note 7)	<u>27,497,922</u>	<u>27,631,636</u>
OTHER ASSETS		
Pledges receivable, net of current portion and discount (Note 6)	<u>-</u>	<u>574,683</u>
Total assets	<u><u>\$ 47,145,740</u></u>	<u><u>\$ 43,642,941</u></u>

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND NET ASSETS

	June 30,	
	2015	2014
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 902,888	\$ 634,597
Accrued payroll and related expenses	1,643,692	1,569,179
Accrued paid time off	1,131,374	1,013,996
Funds held on behalf of others (Note 2)	203,281	256,762
Interest payable	363,307	444,348
Deferred revenue	3,395,675	1,776,543
Current portion of long-term debt (Note 9)	308,041	735,718
	<u>7,948,258</u>	<u>6,431,143</u>
LONG-TERM LIABILITIES		
Long-term debt, net of current portion (Note 9)	7,723,944	9,864,027
Equity gap financing (Note 8)	5,153,195	5,157,479
Deferred rent (Note 2)	308,297	209,854
Other long term liabilities	300,000	300,000
	<u>13,485,436</u>	<u>15,531,360</u>
	<u>21,433,694</u>	<u>21,962,503</u>
COMMITMENTS AND CONTINGENCIES (Note 11, Note 14)		
NET ASSETS		
Unrestricted (Note 2)		
Cascadia Behavioral Healthcare, Inc. and Affiliates	16,330,221	12,232,726
Noncontrolling interest	3,124,786	3,810,424
Temporarily restricted (Note 2 and Note 10)	6,257,039	5,637,288
	<u>25,712,046</u>	<u>21,680,438</u>
	<u>\$ 47,145,740</u>	<u>\$ 43,642,941</u>

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATED INCOME STATEMENTS

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUES, GAINS, AND OTHER SUPPORT						
Mental health service fees	\$ 33,964,709	\$ -	\$ 33,964,709	\$ 29,801,066	\$ -	\$ 29,801,066
Mental health contract revenue	16,152,107	-	16,152,107	14,373,835	-	14,373,835
Grants and contributions	2,805,451	1,305,655	4,111,106	1,556,283	10,560	1,566,843
Net rental income	4,083,300	-	4,083,300	3,860,851	-	3,860,851
Other rental income	372,628	-	372,628	365,786	-	365,786
Other income	558,372	-	558,372	714,993	-	714,993
Income from properties	30,977	-	30,977	99,459	-	99,459
Interest and investment income	54,011	-	54,011	47,893	-	47,893
Total operating revenues, gains, and other support	58,021,555	1,305,655	59,327,210	50,820,166	10,560	50,830,726
Net assets released from restrictions	685,904	(685,904)	-	267,202	(267,202)	-
Total revenues, gains, and other support	58,707,459	619,751	59,327,210	51,087,368	(256,642)	50,830,726
EXPENSES						
Program services	48,338,250	-	48,338,250	44,223,881	-	44,223,881
Administrative services	6,785,451	-	6,785,451	5,650,544	-	5,650,544
Fundraising	171,901	-	171,901	100,759	-	100,759
Total expenses	55,295,602	-	55,295,602	49,975,184	-	49,975,184
CHANGE IN NET ASSETS	\$ 3,411,857	\$ 619,751	\$ 4,031,608	\$ 1,112,184	\$ (256,642)	\$ 855,542

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
NET ASSETS AT BEGINNING OF YEAR	\$ 16,043,150	\$ 5,637,288	\$ 21,680,438	\$ 14,930,966	\$ 5,893,930	\$ 20,824,896
Change in net assets	3,411,857	619,751	4,031,608	1,112,184	(256,642)	855,542
NET ASSETS AT END OF YEAR	<u>\$ 19,455,007</u>	<u>\$ 6,257,039</u>	<u>\$ 25,712,046</u>	<u>\$ 16,043,150</u>	<u>\$ 5,637,288</u>	<u>\$ 21,680,438</u>

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services										Support Services				
	Crisis Services	Outpatient and Addiction Services	Health and Criminal Justice Interface	Residential and Supported Housing	Homeless and Independent Housing	Property Management and Development	Special Programs	Clinical Billing Costs	Program Eliminations	Intercompany Program Eliminations	Total	Fundraising Activities	Administrative Services	Total	Grand Total
Payroll and related costs	\$ 4,419,148	\$ 7,654,800	\$ 5,143,392	\$ 10,881,833	\$ 2,646,621	\$ 1,270,572	\$ 3,672,622	\$ 814,433	\$ -	\$ (170,751)	\$ 36,332,670	\$ 92,822	\$ 3,917,324	\$ 4,010,146	\$ 40,342,816
Professional fees	235,813	82,963	6,735	19,932	17,254	860,835	385,853	172,329	(445,956)	(200,681)	1,135,077	63,798	1,038,466	1,102,264	2,237,341
Subcontract costs	-	54,656	14,070	290,398	-	-	103,862	-	-	-	462,986	-	-	-	462,986
Office supplies	4,985	52,372	25,650	35,852	8,946	30,302	8,783	569	-	-	167,459	500	57,963	58,463	225,922
Program supplies	31,166	110,580	264,338	451,743	884,793	578	85,284	445	(174,263)	-	1,654,664	-	7,707	7,707	1,662,371
Medical supplies and equipment	2,246	62,106	35,539	46,954	3,815	686	1,237	-	(18,000)	-	134,583	-	-	-	134,583
Repairs and maintenance	13,898	209,972	54,967	190,726	77,154	1,147,083	4,074	-	(120,748)	(80,907)	1,496,219	-	2,072	2,072	1,498,291
Equipment leases	3,475	48,206	21,984	30,996	5,031	-	6,321	3,302	-	-	119,315	-	35,674	35,674	154,989
Food and related expenses	40,080	33	112,295	453,679	9,610	-	179	-	-	-	615,876	-	-	-	615,876
Printing and postage	84	16,579	611	1,118	1,419	155	4,324	139	-	-	24,429	382	14,266	14,648	39,077
Telephone and utilities	60,022	237,406	84,118	133,686	51,303	788,414	46,321	1,646	-	-	1,402,916	-	95,899	95,899	1,498,815
Rent	99,428	913,153	231,756	585,921	97,856	220,491	53,049	-	(774,538)	-	1,427,116	-	559,749	559,749	1,986,865
Insurance and property tax	26,483	61,964	23,057	59,120	14,901	168,645	23,505	203	-	-	377,878	-	294,447	294,447	672,325
Dues and subscriptions	715	8,402	19,526	8,406	262	2,808	319	616	-	-	41,054	656	28,720	29,376	70,430
Training	12,751	11,337	12,325	22,396	14,228	6,847	31,517	2,627	-	-	114,028	25	338,036	338,061	452,089
Travel	46,694	77,210	78,748	160,086	37,217	54,881	84,800	699	-	(13,624)	526,711	7	9,893	9,900	536,611
Interest	-	117,386	-	-	-	576,631	-	-	-	(146,632)	547,385	-	78,808	78,808	626,193
Other	3,314	27,787	4,743	14,379	5,311	242,949	23,090	32,236	-	(66,345)	287,464	13,711	234,700	248,411	535,875
Allocated clinical billing costs	134,463	549,654	204,572	289,430	108,209	-	52,686	(1,339,014)	-	-	-	-	-	-	-
Total expenses before depreciation and amortization	5,134,765	10,296,566	6,338,426	13,676,655	3,983,930	5,371,877	4,587,826	(309,770)	(1,533,505)	(678,940)	46,867,830	171,901	6,713,724	6,885,625	53,753,455
Depreciation and amortization	49,985	174,364	43,687	4,247	-	1,185,027	-	10,140	2,970	-	1,470,420	-	71,727	71,727	1,542,147
Total expenses	\$ 5,184,750	\$ 10,470,930	\$ 6,382,113	\$ 13,680,902	\$ 3,983,930	\$ 6,556,904	\$ 4,587,826	\$ (299,630)	\$ (1,530,535)	\$ (678,940)	\$ 48,338,250	\$ 171,901	\$ 6,785,451	\$ 6,957,352	\$ 55,295,602

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services										Support Services			Grand Total	
	Crisis Services	Outpatient and Addiction Services	Health and Criminal Justice Interface	Residential and Supported Housing	Homeless and Independent Housing	Property Management and Development	Special Programs	Clinical Billing Costs	Program Eliminations	Intercompany Program Eliminations	Total	Fundraising Activities	Administrative Services		Total
Payroll and related costs	\$ 4,229,880	\$ 7,029,783	\$ 3,659,201	\$ 10,391,743	\$ 2,386,321	1,176,248	\$ 3,312,101	\$ 786,604	\$ -	\$ (150,435)	\$ 32,821,446	\$ 56,500	\$ 3,512,997	\$ 3,569,497	\$ 36,390,943
Professional fees	273,526	82,869	6,243	75,599	4,358	779,645	379,820	156,539	(397,891)	(194,695)	1,166,013	28,500	820,562	849,062	2,015,075
Subcontract costs	-	34,510	-	116,227	-	-	103,911	-	-	-	254,648	-	-	-	254,648
Office supplies	7,379	51,570	19,087	41,064	11,007	42,420	9,331	479	-	-	182,337	53	43,486	43,539	225,876
Program supplies	46,637	66,338	245,877	355,380	659,927	927	76,576	634	(204,234)	-	1,248,062	-	2,176	2,176	1,250,238
Medical supplies and equipment	5,444	52,977	32,888	43,518	3,143	1,077	1,451	-	(18,000)	-	122,498	-	-	-	122,498
Repairs and maintenance	24,315	212,936	55,008	200,625	63,800	1,308,308	3,803	-	(103,434)	(64,707)	1,700,654	-	8,545	8,545	1,709,199
Equipment leases	4,471	58,807	13,776	32,515	5,995	-	7,078	2,059	-	-	124,701	-	39,968	39,968	164,669
Food and related expenses	57,667	459	89,872	422,818	17,723	-	1,929	-	-	-	590,468	-	-	-	590,468
Printing and postage	258	9,866	704	671	657	151	2,938	190	-	-	15,435	479	18,938	19,417	34,852
Telephone and utilities	66,998	222,997	58,184	131,319	49,656	754,782	37,716	1,504	-	-	1,323,156	-	65,902	65,902	1,389,058
Rent	100,834	916,581	170,505	558,006	90,060	184,308	52,594	-	(686,736)	-	1,386,152	-	372,708	372,708	1,758,860
Insurance and property tax	27,306	64,018	20,153	49,667	10,876	158,252	17,133	435	-	-	347,840	-	280,727	280,727	628,567
Dues and subscriptions	1,020	6,526	17,375	13,046	656	776	1,286	1,010	-	-	41,695	1,290	17,777	19,067	60,762
Training	11,711	9,784	12,150	17,180	2,576	5,159	12,499	5,105	-	-	76,164	830	164,674	165,504	241,668
Travel	45,055	75,775	59,111	177,389	33,944	45,403	94,930	305	-	(6,172)	525,740	-	9,919	9,919	535,659
Interest	-	135,633	-	-	-	582,060	-	-	-	(142,831)	574,862	-	55,066	55,066	629,928
Other	1,324	28,268	3,310	13,890	4,752	217,845	11,954	26,045	-	(67,956)	239,432	13,107	168,851	181,958	421,390
Allocated clinical billing costs	135,748	508,931	175,774	282,988	98,989	-	42,278	(1,244,708)	-	-	-	-	-	-	-
Total expenses before depreciation and amortization	5,039,573	9,568,628	4,639,218	12,923,645	3,444,440	5,257,361	4,169,328	(263,799)	(1,410,295)	(626,796)	42,741,303	100,759	5,582,296	5,683,055	48,424,358
Depreciation and amortization	49,985	172,304	47,021	8,123	-	1,161,390	-	35,720	8,035	-	1,482,578	-	68,248	68,248	1,550,826
Total expenses	\$ 5,089,558	\$ 9,740,932	\$ 4,686,239	\$ 12,931,768	\$ 3,444,440	\$ 6,418,751	\$ 4,169,328	\$ (228,079)	\$ (1,402,260)	\$ (626,796)	\$ 44,223,881	\$ 100,759	\$ 5,650,544	\$ 5,751,303	\$ 49,975,184

See accompanying notes.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 4,031,608	\$ 855,542
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	1,542,147	1,550,826
Gain on sale of equipment	(3,312)	(2,775)
Unrealized (gain) loss on investments	(33,029)	-
Changes in assets and liabilities:		
Cash held on behalf of others	53,481	(43,769)
Accounts receivable, net of allowance	567,872	130,699
Prepaid expenses and deposits	(3,380)	(68,384)
Pledges receivable	574,683	39,440
Related party receivable	-	-
Accounts payable and accrued expenses	268,291	(277)
Accrued payroll and related expenses	74,513	(195,626)
Accrued paid time off	117,378	73,162
Funds held on behalf of others	(53,481)	43,769
Interest payable	(81,041)	(2,269)
Advances payable	1,619,132	1,651,619
Deferred rent	98,443	41,154
Other long term liabilities	-	300,000
Net cash from operating activities	<u>8,773,305</u>	<u>4,373,111</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, and equipment	(1,408,433)	(756,313)
Proceeds received on sale of equipment	3,312	2,775
Purchase of investments	(1,500,000)	(247,614)
Proceeds from sale of investments	-	213,488
Changes in restricted cash	(99,568)	169,324
Net cash from investing activities	<u>(3,004,689)</u>	<u>(618,340)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on equity gap financing	(528)	(3,757)
Payments on long-term debt	(2,571,516)	(2,471,035)
Proceeds from long-term debt	-	1,400,000
Payments on capital leases	-	-
Net cash from financing activities	<u>(2,572,044)</u>	<u>(1,074,792)</u>
NET CHANGE IN CASH	3,196,572	2,679,979
CASH AVAILABLE FOR OPERATIONS, at beginning of year	<u>6,762,078</u>	<u>4,082,099</u>
CASH AVAILABLE FOR OPERATIONS, at end of year	<u>\$ 9,958,650</u>	<u>\$ 6,762,078</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 707,234</u>	<u>\$ 632,197</u>

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization

Cascadia Behavioral Healthcare, Inc. (“Cascadia”) and Affiliates (collectively, the “Organization”) is incorporated in the state of Oregon as a not-for-profit organization to provide services for charitable and educational purposes. Its purpose is to provide comprehensive, integrated behavioral health care services which yield positive health outcomes, consumer satisfaction, and cost containment in Multnomah, Clackamas, and Lane Counties in Oregon.

The mission of Cascadia Behavioral Healthcare, Inc. and Affiliates is to create hope and opportunity for low income people with mental illnesses and addictions through blending innovation and determination with competence, inclusion, and compassion. The Organization provides a continuum of services for more than 14,000 low income community members annually, who struggle with serious mental health and addiction challenges, poor health, homelessness, poverty, trauma, and other issues.

As part of Cascadia Behavioral Healthcare, Inc. and Affiliates’ mission, the Organization operates 6 affordable housing projects, which are regulated by Oregon Housing and Community Services (the Department) as to rent charges and operating methods. The Regulatory Agreement between the Organization and the Department also limits annual distributions of net operating receipts to ‘surplus cash’ by project available at the end of each year.

During the years ended June 30, 2015 and 2014, the Organization incurred program service expenses in the following major categories:

Crisis services – The Organization provides crisis services for Multnomah County and the City of Portland through an array of programs, affecting more than 5,000 people each year. Project Respond is a 24/7 mobile crisis response team that works closely with individuals who are experiencing an emotional crisis. This program often works in conjunction with Multnomah County’s Crisis Line, 911, and Portland Police.

The urgent walk-in clinic is a seven-day per week clinic that serves anyone who enters to help resolve urgent needs. This clinic is staffed with master’s level counselors, psychiatrists, psychiatric nurse practitioners, and registered nurses.

The Organization also has two Crisis Respite facilities that provide an alternative to, or step-down from, hospitalization in a home-like setting. Access to these facilities is through Multnomah and Clackamas Counties, as well as through local hospitals.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

Outpatient mental health and addiction services – The Organization serves more than 8,000 adults and children annually through outpatient mental health and addiction programs located in Multnomah and Clackamas counties. These programs are offered to individuals and families throughout the age spectrum, from childhood to older adults. The Organization’s treatment approach is based on the Behavioral Health Recovery Management (BHRM) model for addictive and mental health disorders that emphasizes consumer driven, strengths-based recovery services with a focus on long-term wellness. The Organization’s programs assist individuals to increase independence and self-efficacy by utilizing evidence-based practices in individual, group, and family therapy, including Trauma Informed Care, Peer Wellness Services, Dialectical Behavioral Therapy, Cognitive Behavioral Therapy, Motivational Interviewing, Relapse Prevention, Post-Hospital Re-entry, and a variety of skills-building and wellness curricula offered in group and individual settings.

Outpatient services include a broad array of specialized programs including mental health, substance abuse, integrated mental health and addictions, and gambling treatment. Intensive Case Management is available in both Clackamas and Multnomah counties, and Assertive Community Treatment (ACT) is provided to Clackamas county residents.

Behavioral health and criminal justice interface – The Organization provides several services at the interface of behavioral health and criminal justice, with the goals of symptom reduction, prevention of re-offending, and successful community integration. The Organization offers three in-prison substance abuse treatment programs at Columbia River Correctional Institution, Coffee Creek Correctional Facility, and Santiam Correctional Institution. These programs serve approximately 129 individuals at any one time. Additionally, the Case Coordination program assists individuals coming out of jail and prison, by working closely with the person’s parole and probation staff and programs to ensure successful and safe re-integration into the community. The Organization also serves people found ‘Guilty Except for Insanity’ and placed under the jurisdiction of the Psychiatric Security Review Board (PSRB) through outpatient treatment, day treatment, supported employment, residential, and independent housing programs. More than 70 PSRB clients are enrolled in the Organization’s services in Multnomah and Lane counties. Additionally, Cascadia operates a Forensic Assertive Community Treatment (FACT) program, providing high-intensity services to 45 individuals in the community who have significant contact with the criminal justice system, and a program that seeks to divert individuals with behavioral health needs from the jail system. Finally, Cascadia offers outpatient drug and alcohol treatment for individuals under the jurisdiction of Multnomah’s Department of Community Justice.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

Residential and supported housing services – The Organization has been providing residential services and supported housing services to individuals with serious mental illness and co-occurring substance abuse disorders since its inception. Currently, the Organization provides residential and supported housing to more than 300 individuals in both secure and non-secure facilities, in single room occupancy facilities, and in apartments. An example is Raingarden, a state-of-the-art complex at Villebois in Wilsonville. Raingarden is a ‘green’, open-design building for persons who have been chronically institutionalized and are now able to hold their own leases.

During their stay in residential and supported housing, people participate in skills-building and education for eventual successful independent living, such as symptom management, community participation, relationship building, medication education and self-administration, and wellness skills including nutrition, basic cooking, physical exercise, tobacco cessation, and meditation. Evidence based practices are used, such as Seeking Safety, Sanctuary (SELF), Trauma-Informed Care, Peer Wellness Services, Cognitive Behavioral Therapy, Motivational Interviewing, and specific resources for people with schizophrenia, depression, bipolar disorder, and other symptom complexes.

All of these programs serve persons with complicated treatment issues such as chronic mental illness, histories of institutionalization or homelessness, criminal history, severe medical conditions, and alcohol and drug abuse. These individuals are served with the goal of moving to greater independence and integration within the community. For those with co-existing serious physical medical conditions, physician and nursing staff are regularly available to all programs.

Homeless services and independent housing – Homeless Services Division operates as a fully mobile outpatient mental health clinic, with an emphasis on Supported and Supportive Housing programming. This division is focused on the unique therapeutic and support needs of individuals and families who are impacted by acute mental health disabilities and the experience of homelessness. Most clients also are impacted by one or more of the following; Addictions/problematic substance abuse; cognitive impairments; chronic health issues, or physical disabilities. Division services include Street Outreach (clinical team who connect people sleeping outside with housing, mental health services, and other health and support needs); Transitional and Permanent Supportive Housing Facilities w/site based mental health services in 24/7 model; Supportive Housing Complexes with intensive mobile mental health services; Supported Housing – scattered permanent housing units served by a fully mobile clinical team; and a clinical team located at a 130 unit permanent supportive housing complex owned by our local housing authority. The division serves approximately 600 households at any given time, with the majority of households being single adults. However, couples, multi-person adult households, unaccompanied youth, transition age youth, older adults and families with children are also served via this division.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

During their stay in supported/supportive housing, participants are engaged to benefit from a range of individual and group services, including therapy, service coordination, skills training, medication education and self-administration, wellness and development of formal and informal support systems. Evidence based practices are used, such as Housing First, Harm-Reduction, Seeking Safety, Trauma-Informed Care, Peer Wellness Services, Cognitive Behavioral Therapy, and Motivational Interviewing. Our programs provide engagement, treatment and housing supports to promote each individual and household in of moving to independence, improved health, and re- integration within their community.

Property management and development – For over 25 years, the Organization has been a leader in the State of Oregon in the development and management of affordable housing for people with mental illness and addictions. The Organization’s developers arrange financing, perform feasibility analysis, engage design professionals, and manage construction. The Organization’s goals continue to focus on knitting together Housing and Clinical Services to support clients in their housing with a continuum of clinical programs and housing support programs that are designed to assist in successful housing experiences. Residential options include staffed residential care facilities, shared housing, and traditional apartment communities. The Organization’s asset management staff manages over 40 properties that are owned by the Organization or are single asset entities for which the Organization is the property manager. The properties are located throughout the Portland metropolitan area, intentionally sited near transit for ease of access.

Special programs – The Organization has an array of unique, specialized programs in addition to the core services described above. Among these programs are:

- Safer PDX – a national pilot project supported by the Bazelon Center for Mental Health Law, exploring instances of emotional crisis that require the attention of Portland Police in order to determine gaps in mental health services
- The Sexual Minority Youth Resource Center – serving LGBTQ youth (many of whom are homeless)
- In-home Safety and Reunification Services – a joint program with the Department of Human Services seeking to ensure that families of color are kept intact and prevent children from requiring foster care
- Mobile Crisis Unit – a joint project with Portland Police that pairs an officer with a crisis worker
- VIEWS (Volunteers Involved in the Emotional Wellness of Seniors) – an older adult volunteer program where peers offer support to each other
- Enhanced Care Facility – mental health programs within nursing facilities, mostly serving older adults who also require intensive or frequent nursing care
- Peer Wellness Program – a training program for consumers interested in becoming certified as Peer Wellness Specialists

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business and Organization (continued)

- Mobile Medical Van – a collaboration with Outside In, using their mobile medical clinic and medical staff and a Cascadia Behavioral Healthcare, Inc. peer navigator to encourage Cascadia Behavioral Healthcare, Inc. enrollees at key sites to obtain primary care
- Hotspotting – a collaboration with Care Oregon, Inc. and Oregon Health and Science University's Richmond Clinic in an effort to better engage and serve people who rely on hospital emergency departments for care
- Investing in Our Future – The Organization is an important training site for medical students, psychiatry residents, nursing students, social work students, and other healthcare professionals
- Healing Hurt People – A program for young males of color between the ages of 10-25 who come to Legacy Emanuel Medical Center with injuries caused by violence such as gun shot and stab wounds
- Youth in Transition – A residential treatment program for young adults between the ages of 17-25 who are transitioning from State Hospitals

Clinical Billing Costs – Cascadia uses an Electronic Medical Records (EMR) system to track services provided to the persons we serve and to bill the appropriate payers for those services. The costs associated with both the maintenance of the EMR system and the cost of billing for services is considered by Cascadia to be a program expense. These expenses are allocated to programs depending on usage of the services.

The costs associated with the maintenance of the EMR system is allocated to programs based on the program's FTE (number of employee full-time equivalents). Billing costs are allocated to programs based on the number of invoices the department generates.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting.

Principles of consolidation – The accompanying consolidated financial statements include all accounts and activities of the Organization, including all partnerships and LLCs, and all nonprofit organizations in which the Organization has a controlling and financial interest.

Cascadia Behavioral Healthcare, Inc. is the organizing sponsor for five properties funded by HUD and operated under the provisions of Section 811. These properties are organized as single entity nonprofit corporations for the purpose of providing persons who suffer from chronic mental illness with housing facilities and services specifically designed to meet their needs. Cascadia Behavioral Healthcare, Inc. receives a management fee for operating the properties.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

Alpine East Inc. (Lone Pine Apartments)	18 Units	Portland, OR
Coburn Woods, Inc.	10 Units	Portland, OR
Ecunet Housing, Inc. (Hopewell Apartments)	12 Units	Portland, OR
Mt. Hood Special Housing, Inc.	15 Units	Portland, OR
Three West Housing, Inc. (Fanno Creek Apartments)	24 Units	Portland, OR

There are five properties that are funded by HUD and by Low Income Housing Tax Credits. These properties are all limited liability companies whose sole member is Urban Housing Options Limited Partnership. Urban Housing Options Limited Partnership (UHO) was formed in 2006 for the primary purpose of owning and operating affordable rental housing developments for low-income persons. UHO is consolidated on the Organization's financial statements. Cascadia Behavioral Healthcare, Inc. receives a management fee for operating the properties.

MLK Manor, LLC	16 Units	Portland, OR
Nawikka Court, LLC	16 Units	Portland, OR
Tillicum Court, LLC	16 Units	Portland, OR
Tryon Mews, LLC	21 Units	Portland, OR
Vermont Springs, LLC	15 Units	Portland, OR

Cascadia Housing, Inc. (CHI) a supporting organization formed under IRS section 501(c)(3) and operated solely to support Cascadia Behavioral Health Care, Inc. is the general partner for three limited partnerships which were formed to develop, own and operate low-income housing projects in the Portland metropolitan area. CHI is consolidated on the Organization's financial statements. Cascadia Behavioral Healthcare, Inc. receives a management fee for operating the properties.

Clinton Ridge LP	29 Units	Portland, OR
Mid-Co Apartments LP	46 Units	Portland, OR
West Gresham LP	27 Units	Gresham, OR

Cascadia Housing, Inc. usually creates a limited partnership for tax credit properties where it is the general partner or wholly owns the general partner, and receives tax credits, which it in turn sells to an investor or to a limited partner. Overall, the Organization's ownership percentage of the limited partnerships is generally less than one percent.

Assets and liabilities of the limited partnerships consist principally of buildings, construction-in-progress and long-term debt. Non-controlled interests in the limited partnerships of \$3,124,786 at June 30, 2015 represents the ownership by the limited partners and not that of the general partners that is required under generally accepted accounting principles in the United States of America to be included in the consolidated financial statements.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

All significant inter-company investments, accounts, and transactions have been eliminated.

For additional information regarding the above entities and their relationship to Cascadia Behavioral Healthcare, Inc. please see Note 13.

Financial statement presentation – Financial accounting standards for not-for-profit organizations requires the organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets (Cascadia Behavioral Healthcare, Inc. and Affiliates) – Net assets not subject to donor-imposed stipulations.

Unrestricted net assets (noncontrolling interest) – Net assets not subject to donor-imposed stipulations, representing the aggregate balances of limited partner equity interests from Cascadia Housing, Inc.'s (General Partner) interest in the Low Income Housing Tax Credit properties. CHI's interest is .01% of profit, loss, and capital in the non-wholly owned limited partnerships that are included in the consolidated financial statements. The change in the unrestricted net assets (noncontrolling interest) is due to the net loss attributable to the noncontrolling interest.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the income statement as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations, which must be maintained permanently by the Organization. The Organization has no permanently restricted net assets as of June 30, 2015 and 2014.

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 stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Material estimates that are particularly susceptible to significant change relate to the determination of uncollectible accounts receivable and contractual adjustments and the discount for present value on long-term pledges receivable.

Deferred rent – Certain operating lease agreements include scheduled rent escalations during the initial lease term and/or during succeeding optional renewal periods. The scheduled increases in rent expense are recognized on a straight-line basis over the initial lease term and those renewal periods that are reasonably assured. The difference between rent expense and rent paid is recorded as deferred rent and is included in other liabilities in the accompanying consolidated balance sheet.

Revenue recognition – Net client service revenue is reported at the estimated net realizable amount from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors. Adjustments are accrued in the period final settlements are determined. The Organization recognizes the majority of its revenue when services are provided. All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized at the time services are provided and the revenues are earned. Rental income is recognized as the rent becomes due and the rent is received. Grant revenue is recognized in the period in which the services are provided.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the commitment is received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of long-lived assets – Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets for acquisition of land, buildings, or equipment, or to rehabilitate existing properties, with specific donor-imposed restrictions concerning the use of such long-lived assets, are reported as revenues of the temporarily restricted net asset class. The restrictions are released as the stipulated time period has elapsed or when the legal limitations related to the use of the asset are no longer in force.

In-kind contributions – The Organization reports the fair value of contributed services received as revenue when the services require specialized skills, are provided by individuals possessing those skills, and represent services that would have been purchased had they not been donated. No contributed services were recorded during the years ended June 30, 2015 and 2014.

In addition, the Organization regularly receives contributed services from a large number of volunteers who assist in program activities, fund-raising, and other efforts through their participation in a range of events and by working with members of the Organization's staff in a variety of capacities. No amounts have been reflected in the consolidated financial statements for these services since they do not meet the criteria for recognition under generally accepted accounting principles.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

In-kind contributions of equipment and other materials are recorded where there is an objective basis upon which to value these contributions and where the contributions are an integral part of the Organization's activities. There were no in-kind contributions of equipment and other materials during the years ended June 30, 2015 and 2014.

Functional expenses – The costs of providing the various programs and activities of the Organization have been summarized on a functional basis in the consolidated income statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses by natural classification are presented in the consolidated statement of functional expenses.

Cash and Funds held on behalf of others – Cash and funds held on behalf of residents is recorded as an asset with a corresponding liability shown separately on the balance sheet. Total funds held on behalf of residents were \$203,281 and \$256,762 as of June 30, 2015 and 2014, respectively.

Restricted cash – Restricted cash is comprised of security and escrow deposits as well as replacement reserve funds maintained in separate accounts to comply with various regulatory agreements and donor restrictions.

Investments – The Organization has trading securities, consisting of corporate bonds, mutual funds, and state and municipal bonds, which are carried at fair value on the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in investment income.

Fair value measurements – the Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) ASC 820, *Fair Value Measurements*, for all applicable financial assets and liabilities. This accounting guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies only when other guidance requires or permits assets or liabilities to be measured at fair value; it does not expand the use of fair value to any new circumstances.

As defined in ASC 820, fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Organization's assets and liabilities using valuation models or third-party pricing services, both of which rely on market-based parameters, when available, such as interest rate yield curves, option volatilities, and credit spreads. The valuation techniques used are based on observable and unobservable inputs.

ASC 820 establishes a three-level valuation hierarchy for determining fair value that is based on the transparency of the inputs used in the valuation process. The inputs used in determining fair value in each of the three levels of the hierarchy are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology are 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.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The hierarchy gives the highest ranking to Level 1 inputs and the lowest ranking to Level 3 inputs. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the overall fair value measurement.

The following methods and assumptions were used by the Organization in estimating fair values of each class of financial instruments for which it is practicable to estimate that value:

Corporate bonds – Investments are valued at fair value by discounting the expected cash flows based on current yields.

State and municipal bonds – Valued at the closing price reported in active markets in which the underlying securities are traded.

Mutual funds – Shares of mutual funds are valued at the closing price reported on the active market on which the individual securities are traded.

Money market funds – Money market funds are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

The following table discloses by level, the fair value hierarchy, of the Organization’s assets at fair value as of June 30, 2015 and 2014:

	Fair Value Measurements at June 30, 2015			
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 1,795,779	\$ -	\$ 1,795,779
Mutual funds	749,342	-	-	749,342
Money market funds	34,498	-	-	34,498
	\$ 783,840	\$ 1,795,779	\$ -	\$ 2,579,619

	Fair Value Measurements at June 30, 2014			
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 815,678	\$ -	\$ 815,678
Mutual funds	230,912	-	-	230,912
	\$ 230,912	\$ 815,678	\$ -	\$ 1,046,590

Land, buildings, and equipment – Land, buildings, and equipment are carried at cost and at market value when acquired by gift. Major renewals or improvements over \$5,000 and with a useful life of two years or greater are capitalized, whereas ordinary maintenance and repairs are expensed as incurred.

Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the respective assets, which are generally 15 to 40 years for buildings, 5 to 10 years for leasehold improvements, and 5 to 10 years for furniture and equipment.

The Organization leases equipment under capital leases. Total assets under capital lease were not significant to the consolidated financial statements as of June 30, 2015 and 2014.

Amortization expense of equipment under capital lease is included in depreciation and amortization expense.

Accrued paid time off – The Organization accrues paid time off as it is earned.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred revenue – Beginning January 1, 2015, Health Share of Oregon (a state designated Coordinated Care Organization representing the Portland tri-county area) began paying annual case rates for its members. Case rates are an average payment for all of the clients served at a given level of care. By definition, some individuals will require more care and some will require less care in order to achieve the intended outcomes. Case rates are not a fixed budget for an individual client. A key element of health care transformation is moving away from paying for volume to paying for value. The fee-for-service payment model creates an incentive to provide as many services as possible, while case rates will support a shift in focus to achieving outcomes. Case rates are meant to provide flexibility to the provider and client, to ensure that mutually established treatment outcomes are met. Ultimately, case rates will contribute to achieving the Triple Aim of better care, better health and lower costs.

During the period between January 1 and June 30, 2015, the Organization received \$3,743,377 in total case rate payments, recognizing these as revenues on a monthly prorated basis over the year. As of June 30, 2015, the amount of case rate payments being deferred was \$2,831,169.

During the year ending June 30, 2015, the Organization also received approximately \$1,200,000 from the State of Oregon, Clackamas County and Multnomah County for various programs. The Organization recognizes the revenue and reduces the liability once expenses associated with the specific program are incurred.

Income taxes – The Organization is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income, in accordance with Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualified for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. Unrelated business income tax, if any, is insignificant and no tax provision has been made in the accompanying consolidated financial statements.

The Organization's subsidiary, Cascadia Ventures, Inc., is a taxable corporation; however the corporation has been inactive for several years. The Organization's HUD property affiliates are limited liability companies and are not subject to federal income tax. Each partner separately accounts for their pro-rata share of each LLC's income, deductions, losses and credits. CHI is a tax-exempt organization and is not subject to federal or state income taxes, except for unrelated business income. Therefore, no provision for income taxes is made in the accompanying consolidated financial statements for these entities.

The Organization and its affiliates do not have any uncertain tax positions. The Organization and its affiliates each file income tax returns or information returns in the U.S. federal and various state jurisdictions.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the consolidated financial statements are issued. The Organization recognizes, in the consolidated 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 consolidated financial statements. The Organization’s consolidated 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 consolidated financial statements are issued.

The Organization has evaluated subsequent events through January 31, 2016, which is the date the consolidated financial statements are issued.

Reclassifications – Certain reclassifications have been made to the 2014 consolidated financial statements to conform to current year presentations. These reclassifications did not affect previously reported changes in net assets.

Note 3 – Concentrations

Credit risk – Financial instruments that potentially subject the Organization to concentrations of credit risk consist of contract receivables which are limited through credit approvals, credit limits, and various monitoring procedures. The majority of the Organization’s receivables is with the State of Oregon and other governmental institutions and is considered to be low in risk.

Revenue – The majority of the Organization’s revenues are earned under contracts with the Department of Community and Family Services of Multnomah County, Oregon and the State of Oregon to provide mental health program services (representing approximately 48% of total consolidated revenues for the years ended June 30, 2015 and 2014). As a part of these contracts, revenues are also received through services provided under the federally funded and state managed Title XIX of the Social Security Act Medicaid program, and the Title XVIII Medicare program (representing approximately 30% of total consolidated revenues for the years ended June 30, 2015 and 2014). A significant reduction in the level of this funding could adversely affect the Organization’s ability to provide programs and services. Additional funding for the Organization’s programs is received through third-party reimbursements, program service fees, and grants and contributions.

Note 4 – Investments

As funds are available, the Organization invests surplus cash in investments with a goal to preserve principal, meet liquidity needs, deliver returns superior to 3-month and 6-month Treasury bill yields, avoid inappropriate concentrations of investments, and provide direct fiduciary control of all investments and cash.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Investments (continued)

At June 30, 2015, investments include \$1,795,779, \$749,342, and \$34,498 in corporate bonds, mutual funds, and money market funds, respectively. Investment income at June 30, 2015 includes \$33,029 in unrealized gains on investments and \$44,945 in interest and dividends.

At June 30, 2014, investments include \$815,678, and \$230,912 in corporate bonds and mutual funds, respectively. Investment income at June 30, 2014 includes \$18,483 in unrealized gains on investments and \$24,866 in interest and dividends.

Note 5 - Accounts Receivable

Accounts receivable are reported net of estimated uncollectible accounts and contractual adjustments. Management periodically evaluates accounts receivable and establishes an allowance for contractual adjustments and uncollectible accounts, based on a history of past write-offs and collections. Due to the nature of medical-related receivables, some balances extend over 90 days. Interest is generally not charged on outstanding balances. Credit is generally extended to customers without collateral requirements.

The following accounts receivable were outstanding as of June 30:

	2015	2014
Medicare and Medicaid	\$ 1,245,507	\$ 1,620,412
Multnomah County	1,129,245	1,081,981
State of Oregon	445,019	598,860
Clackamas County	280,457	230,151
Housing and Urban Development (HUD)	131,747	226,013
Medicaid intermediary	97,258	195,988
City of Portland	265,824	182,944
Lane Care	1,223	162,931
Other	893,609	758,481
	4,489,889	5,057,761
Less allowance for doubtful accounts	(46,200)	(46,200)
Total accounts receivable, net of estimated uncollectible accounts and contractual adjustments	\$ 4,443,689	\$ 5,011,561

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Pledges Receivable

On September 25, 2014, Cascadia Behavioral Healthcare, Inc. received a Community Housing Development award from the Addictions and Mental Health Division of the State of Oregon in the amount of \$1,255,654 for the Garlington Center Housing project. This award was offset with the pledges receivable balance of \$580,200 to pay off the outstanding balance of the Howard L. and Jane B. Glazer on June 1, 2015 (See Note 9).

Pledges receivable were comprised of unconditional promises to give, which have been discounted to present value, and consisted of the following at June 30:

	2014
Less than one year	\$ -
Discount for present value	-
	-
One year to five years	-
Discount for present value	-
	-
More than five years	580,200
Discount for present value	(5,517)
	574,683
Total pledges receivable	\$ 574,683

Discount rate used was 0.19% as of June 30, 2014.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Land, Buildings, Furniture and Equipment, Construction in Progress, and Intangible Assets

A summary of land, buildings, and equipment at June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 4,105,496	\$ 4,105,496
Buildings and leasehold improvements	37,849,335	36,861,294
Furniture and equipment	3,543,067	3,305,622
Construction in progress	414,392	248,387
Intangible assets	<u>104,130</u>	<u>117,867</u>
	46,016,420	44,638,666
Less accumulated depreciation and amortization	<u>(18,518,498)</u>	<u>(17,007,030)</u>
Total land, buildings, equipment and intangible assets net of accumulated depreciation and amortization	<u>\$ 27,497,922</u>	<u>\$ 27,631,636</u>

Depreciation and amortization expense was \$1,542,147 and \$1,550,826 for the years ended June 30, 2015 and 2014, respectively.

Included in the above table are land, buildings, furniture, and equipment representing projects funded by restricted financing and grants. According to applicable grant stipulations, if these properties are used for any purpose other than to house low-income individuals with chronic mental illness and coexisting substance abuse problems, or if the properties are sold or transferred, Cascadia Behavioral Healthcare, Inc. will be contingently liable for the repayment of all grant proceeds received. Since inception through June 30, 2015, Cascadia Behavioral Healthcare, Inc. has received \$2,090,362 in grant funds and \$5,157,479 in equity gap financing to fund these projects. The grant funds are recorded in temporarily restricted net assets and the revenue is recognized over the stipulation period, which ranges from fifteen to thirty years. The equity gap financing agreements are recorded as long-term liabilities on the balance sheet (see Note 8).

Construction in progress includes costs related to the renovation and remodel of Garlington Plaza into a combination of affordable housing and a community wellness center as well as behavioral and primary healthcare services. While funding for this project is expected to come from public and private sources, financing is not yet secured and estimated costs of this project for the Organization is estimated to be approximately \$4,400,000.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Equity Gap Financing

The Organization has multiple equity gap financing agreements with the Portland Housing Bureau (PHB). Under these agreements, the Organization is restricted to use a certain percentage of the property funded for low income persons and must comply with other restrictions on the use of the property. The financing arrangements do not require set principal payments and do not charge any interest. However, if any project under the equity gap financing agreements demonstrates program revenue in excess of a 1.15 debt service coverage ratio in any single year of its operation, the excess must be shared equally between the Organization and PHB. The unpaid principal balance is due to PHB upon any default under the agreement or if the property is sold, transferred, further pledged, or if there is a change in the use which results in a default. Total equity gap financing through PHB was \$5,008,591 and \$5,012,875 as of June 30, 2015 and 2014, respectively.

The Organization also has one equity gap financing agreement with the State of Oregon. The agreement has similar terms and requirements as the agreements with PHB. Total equity gap financing through the State of Oregon was \$144,604 as of June 30, 2015 and 2014.

As of June 30, 2015, the Organization had complied with all asset restrictions referred to above and also has the intention and ability to continue to comply with those restrictions. Accordingly, no portion of the liability has been recorded as a current liability at June 30, 2015.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 - Long-Term Debt

The following obligations were outstanding at June 30:

	2015	2014
Howard L. and Jane B. Glazer, 6.75%, due in monthly payments of \$17,000, including interest, payments increase by \$1,000 annually until March 9, 2016 when the entire unpaid principal and interest balance becomes due and payable. Secured by land and building.	\$ -	\$ 1,942,359
Pacific Continental Bank, 5.75%, monthly payments of \$15,426, due December 2023; Secured by land and building.	1,238,329	1,347,757
State of Oregon Housing and Community Services Department, interest ranges from 2.22% to 7.40%, due in monthly payments of \$13,305, including interest. Due 2024 through 2058. Secured by land and buildings.	4,004,522	4,119,867
City of Portland, note at 3.00%, due in monthly payments of \$1,626. Notes mature between March 2031 and May 2033. Secured by land and buildings.	265,007	276,448
State of Oregon Department of Human Services settlement, paid in June 2015	-	240,000
Bank of the West, interest ranges 7.00% to 7.50%, due in monthly payments of \$2,823, including interest. Due 2032 through 2035. Secured by land and building.	336,030	344,924
OCWEN, 6.50%, due in monthly payments of \$727 through December 2028. Secured by land and building.	77,434	81,750
Bank of America, 0%, due November 2034. Direct subsidy by The Federal Home Loan Bank of Seattle (Seattle Bank). The note is non interest bearing unless there is a default under the terms of the note or the Affordable Housing Program Regulatory Agreement with the Seattle Bank.	181,974	181,974
Network for Oregon Affordable Housing (NOAH), interest ranges from 2.93% - 6.87%, due in monthly payments of \$10,240, due June 2035 to May 2036. Secured by land and building.	1,313,489	1,350,346
Banner Bank Mortgage, secured by property and equipment, insured by the Department of Housing and Urban Development (HUD) under Section 232 of the National Housing Act, due March 2048, payable in monthly installments of \$3,570, including interest at 5.97%.	615,200	621,119
US Bank Equipment Finance, secured by equipment, paid in June 2015.	-	93,201
	8,031,985	10,599,745
Less current portion	(308,041)	(735,718)
	\$ 7,723,944	\$ 9,864,027

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 - Long-Term Debt (continued)

On December 19, 2013, Cascadia Behavioral Healthcare, Inc. entered into an agreement with Multnomah County who agreed to accept \$1,500,000 to satisfy the outstanding balance of \$1,817,709 for the Multnomah County Credit Agreement. This resulted in the Organization recording a gain of \$317,709 for the extinguishment of debt which is included in other income on the income statement for the year ending June 30, 2014.

Cascadia Behavioral Healthcare, Inc. entered into a loan agreement with Capital Pacific Bank on December 19, 2013 to borrow \$1,400,000 with a line of credit amount of \$2,000,000. The loan amount plus \$100,000 funded from Cascadia Behavioral Healthcare, Inc.'s cash reserves were used to pay the outstanding debt to Multnomah County for the Multnomah County Credit Agreement.

On September 25, 2014, Cascadia Behavioral Healthcare, Inc. received a Community Housing Development award from the Addictions and Mental Health Division of the State of Oregon in the amount of \$1,255,654 for the Garlington Center Housing project. This award was offset with the pledges receivable balance of \$580,200 to pay off the outstanding balance of the Howard L. and Jane B. Glazer on June 1, 2015.

Aggregate maturities of note principal for the five years subsequent to June 30, 2015 are as follows:

Year ending June 30,	2016	\$	308,041
	2017		325,083
	2018		343,148
	2019		362,302
	2020		382,684
	Thereafter		<u>6,310,727</u>
		\$	<u><u>8,031,985</u></u>

The Prime rate was 3.25% as of June 30, 2015 and 2014.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of funds received and expended in the construction of various housing projects. The use of the various properties is restricted over the life of the programs or the expected life of the asset and is comprised of the following at June 30:

	<u>2015</u>	<u>2014</u>
Prescott Terrace	\$ 378,333	\$ 454,000
Emerson Corner	104,168	109,376
Pisgah	116,000	124,000
Firefly	206,250	213,750
Funds required to be used for low income housing	85,683	95,011
Mental health services	-	574,685
Garlington Center housing project	1,300,139	-
Coburn Woods Inc.	748,500	748,500
Alpine East Inc.	937,700	937,700
Ecunet Housing Inc.	937,101	937,101
Three West Housing Inc.	1,416,200	1,416,200
Other capital advances from Oregon Housing Community Services	<u>26,965</u>	<u>26,965</u>
	<u>\$ 6,257,039</u>	<u>\$ 5,637,288</u>

The Organization received \$1,305,654 and \$10,560 during the years ended June 30, 2015 and 2014, respectively in temporarily restricted contributions, and incurred \$685,904 and \$267,202 during the years ended June 30, 2015 and 2014, respectively in expenses in satisfaction of the restricted purposes specified by donors, or by the occurrence of other events specified by donors.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 - Commitments

Certain program facilities, administrative offices, and equipment are leased under operating leases. The leases expire in periods ranging from 4 months to 10 years. Leases which expire are generally renewed or replaced with similar leases.

At June 30, 2015, the Organization's aggregate annual lease commitments, excluding operating costs, under non-cancelable leases with terms of one year or more are payable as follows:

Year ending June 30, 2016	\$ 2,445,187
2017	2,329,458
2018	2,246,523
2019	2,224,290
2020	1,672,928
Thereafter	<u>2,545,154</u>
	<u><u>\$ 13,463,540</u></u>

Rent expense was \$1,986,865 and \$1,758,860 for the years ended June 30, 2015 and 2014, respectively.

Note 12 - Retirement Plan

The Organization provides substantially all full-time and certain part-time employees with a tax-sheltered annuity plan as described under Section 403(b) of the Internal Revenue Code. The Organization will match up to 3.00% of the annual compensation of each eligible employee. Only employees who have completed at least one year of employment at the Organization and provided at least 1,000 hours of services are eligible to participate in the employer matching aspect of the plan. Employees select from among several investment options. The Organization's contributions to the plan vest after five years of service to the Organization. The Organization's contribution to the plan was \$386,263 and \$342,295 for the years ended June 30, 2015 and 2014, respectively.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - Related Parties

Guarantor agreements – Cascadia Behavioral Healthcare, Inc. has entered into guaranty agreements with Cascadia Options, LLC (Cascadia Options), a holding company of Cascadia Housing, Inc., and the following limited liability companies (the LLC Companies) formed under the laws of the State of Oregon:

- MLK Manor, LLC
- Nawikka Court, LLC
- Tillicum Court, LLC
- Tryon Mews Apartments, LLC
- Vermont Springs Apartments, LLC

Under certain conditions, Cascadia Options is obligated to purchase the members' interests in the LLC Companies. Cascadia has agreed to advance the funds necessary to purchase the members' interests should Cascadia Options require such advance. As of June 30, 2015, Cascadia has not been required to advance any funds to Cascadia Options.

Cascadia Behavioral Healthcare, Inc. has also entered into guaranty agreements with Cascadia Housing, Inc., Banc of America Housing Fund IV, A Limited Partnership, LLP, and the following limited partnerships:

- Midland Commons Apartments Limited Partnership
- West Gresham Apartments Limited Partnership

Cascadia has agreed to advance funds to Cascadia Housing, Inc. in the amount necessary for Cascadia Housing, Inc. to make required operating deficit contributions if an operating deficit exists and Cascadia Housing, Inc. does not make an operating deficit contribution when required. As of June 30, 2015, there were no operating deficit contributions required of Cascadia.

Cascadia has also agreed to advance funds to Cascadia Housing, Inc. in the amount necessary for Cascadia Housing, Inc. to make the required credit adjuster advance or additional advances should Cascadia Housing, Inc. not be able to make payments per the partnership agreements. As of June 30, 2015, Cascadia has not been required to advance any funds to Cascadia Housing, Inc.

Cascadia has also agreed to purchase the interests of the Limited Partner if Cascadia Housing, Inc. lacks sufficient funds to purchase such interest per terms outlined in the partnership agreements. As of June 30, 2015, Cascadia has not been requested to purchase any interests.

In the event that West Gresham Apartments Limited Partnership shall not receive full property tax abatement during the first ten years following the completion date, so that the partnership owes any property taxes, Cascadia shall advance sufficient funds to Cascadia Housing, Inc. so that the partnership may pay such taxes in a timely manner. West Gresham Apartments Limited Partnership did not receive a full property tax abatement during the year ended June 30, 2015. However, as of June 30, 2015, Cascadia has not been required to advance any funds.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - Related Party (continued)

Cascadia guarantees certain operational results of these properties. To date, Cascadia has not been required to cover any guarantees as the situations that would trigger the guarantee have not occurred. Due to the nature of these guarantees, Cascadia is unable to quantify the potential guarantee exposure from these contracts.

The maximum potential amount of future payments and the term of the guarantor agreements is not determinable, as this is not specified in the agreements.

Developer agreements - Cascadia Behavioral Healthcare, Inc. has performed services for Cascadia Housing, Inc. to assist them with their development of certain housing partnerships, which are owned by Cascadia Housing, Inc. Cascadia Housing, Inc. has ownership in four housing partnerships to provide development and asset management services, which include obtaining construction financing, preparing construction budgets, supervising construction, and ultimately overseeing partnership activities. The payment of development and management fees related to these services are based upon the timing of capital contribution installments received by the partnerships and available cash flow from the partnerships. As of June 30, 2015 and 2014, Cascadia Housing, Inc. owed Cascadia Behavioral Healthcare, Inc. \$1,197,110 and \$1,130,766, respectively.

Debt agreements - On February 8, 2013, Cascadia Behavioral Healthcare, Inc. entered into two debt agreements with Cascadia Housing, Inc. to borrow \$125,000 and \$80,000. These debt agreements bear a 3.15% and 0% interest rate and are due in monthly installments of \$873 and \$3,333, respectively. Balances outstanding as of June 30, 2015 were \$109,217 and \$0 and \$116,123 and \$26,667 as of June 30, 2014. The outstanding balance is due in full on February 5, 2028 and March 5, 2015, respectively. On December 18, 2014, Cascadia Behavioral Healthcare, Inc. entered into a debt agreement with Cascadia Housing, Inc. to borrow \$100,000. This debt agreement bears a 1.0% interest rate and is due in monthly installments of \$2,126. The outstanding balance as of June 30, 2015 was \$87,718.

Note 14 - Contingencies and Litigation

Amounts received or receivable under Cascadia's contract with Multnomah County and the City of Portland are subject to an audit and adjustment by the County, City, and by the Mental Health Division of the State of Oregon. Any expenditures or claims disallowed as a result of such audits would become a liability of Cascadia's general operating funds. In the opinion of Cascadia's management, any adjustments that might result from such audits would not be material to Cascadia's overall consolidated financial statements.

Medicare and Medicaid laws and regulations - Cascadia services include Medicare and Medicaid patients. Billings for these clients have an inherent risk as they are subject to Medicare and Medicaid regulations, including anti-kickback and fraud and abuse statutes.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Contingencies and Litigation (continued)

Medical malpractice – Accounting guidance states the liability for unpaid professional liability claims is to be recorded in the consolidated financial statements and disclosed in the consolidated financial statements at the gross estimated liability and not net of anticipated insurance recoveries.

Cascadia and clinicians employed by Cascadia are insured by Diamond State Insurance. Cascadia's financial obligation is limited to its premiums for malpractice insurance coverage. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. Management does not believe there are any material malpractice costs at June 30, 2015.

Litigation – In the ordinary course of business, Cascadia is a party to claims and legal actions by consumers, providers, and others. After consulting with legal counsel, Cascadia's management is of the opinion that any liability that may ultimately be incurred as a result of claims or legal actions will not have a material effect on the financial position or results of operations of Cascadia.

Health care reform – In March 2010, President Obama signed the Health Care Reform Legislation (the "Affordable Care Act") into law. The new law resulted in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health care coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. The Organization saw a significant increase in its Medicaid population during the current year. The Affordable Care Act also includes incentives for medical research and the use of electronic health records, changes designed to curb fraud, waste and abuse, and creates new agencies and demonstration projects to promote the innovation and efficiency in the healthcare delivery system.

Some provisions of the healthcare reform legislation have impacted the Organization as of June 30, 2015, such as the expansion of the Medicaid program. Further legislative policies are required for several provisions that will be effective in future years. The effects of the changes that will be required in future years are not determinable at this time.

SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENTS

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CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEETS
JUNE 30, 2015

	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
ASSETS									
Current assets									
Checking/savings									
Cash available for operations	\$ 8,680,763	\$ 295,427	\$ 8,976,190	\$ 142,073	\$ 118,880	\$ 260,953	\$ 36,728	\$ -	\$ 9,273,871
Cash available for operations - management reserves	130,599	293,641	424,240	260,539	-	260,539	-	-	684,779
Restricted cash	-	743,032	743,032	-	983,275	983,275	361,025	-	2,087,332
Cash held on behalf of others	203,281	-	203,281	-	-	-	-	-	203,281
Investments	2,579,619	-	2,579,619	-	-	-	-	-	2,579,619
Total checking/savings	11,594,262	1,332,100	12,926,362	402,612	1,102,155	1,504,767	397,753	-	14,828,882
Other current assets									
Accounts receivable, net of allowance	4,359,898	69,275	4,429,173	20,000	10,507	30,507	4,009	(20,000)	4,443,689
Related party receivable, current portion	26,783	-	26,783	196,934	-	196,934	-	(223,717)	-
Prepaid expenses and other	254,295	32,518	286,813	-	36,965	36,965	51,469	-	375,247
Total other current assets	4,640,976	101,793	4,742,769	216,934	47,472	264,406	55,478	(243,717)	4,818,936
Total current assets	16,235,238	1,433,893	17,669,131	619,546	1,149,627	1,769,173	453,231	(243,717)	19,647,818
Land, buildings, equipment construction in progress, and intangible assets									
Land, buildings, equipment, and construction in progress	8,203,880	13,913,649	22,117,529	11,230	18,438,377	18,449,607	5,334,520	-	45,901,656
Accumulated depreciation	(3,332,663)	(6,923,691)	(10,256,354)	-	(5,810,234)	(5,810,234)	(2,451,910)	-	(18,518,498)
Intangible assets, net of amortization	-	-	-	-	104,130	104,130	10,634	-	114,764
Total land, buildings, equipment and intangible assets, net	4,871,217	6,989,958	11,861,175	11,230	12,732,273	12,743,503	2,893,244	-	27,497,922
Other assets									
Pledges receivable, net of current portion	-	-	-	-	-	-	-	-	-
Related party receivable, net of current portion	836,721	-	836,721	6,139,962	-	6,139,962	-	(6,976,683)	-
Total other assets	836,721	-	836,721	6,139,962	-	6,139,962	-	(6,976,683)	-
Total assets	\$ 21,943,176	\$ 8,423,851	\$ 30,367,027	\$ 6,770,738	\$ 13,881,900	\$ 20,652,638	\$ 3,346,475	\$ (7,220,400)	\$ 47,145,740

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEETS
JUNE 30, 2015

	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
LIABILITIES AND NET ASSETS									
Liabilities									
Current liabilities									
Accounts payable and accrued expenses	\$ 628,838	\$ 184,269	\$ 813,107	\$ -	73,963	\$ 73,963	15,818	\$ -	\$ 902,888
Accounts payable to related parties	-	-	-	604,940	578,164	1,183,104	-	(1,183,104)	-
Accrued payroll and related expenses	1,643,692	-	1,643,692	-	-	-	-	-	1,643,692
Accrued paid time off	1,131,374	-	1,131,374	-	-	-	-	-	1,131,374
Funds held on behalf of others	203,281	-	203,281	-	-	-	-	-	203,281
Interest payable	23,935	5,358	29,293	456,337	1,071,262	1,527,599	41,780	(1,235,365)	363,307
Deferred revenue	3,268,269	59,960	3,328,229	-	48,050	48,050	19,396	-	3,395,675
Current portion of long-term debt	119,727	104,917	224,644	-	77,114	77,114	6,283	-	308,041
Total current liabilities	7,019,116	354,504	7,373,620	1,061,277	1,848,553	2,909,830	83,277	(2,418,469)	7,948,258
Long-term liabilities									
Long-term debt, net of current portion	1,118,602	1,613,841	2,732,443	-	4,382,584	4,382,584	608,917	-	7,723,944
Notes payable - related party	-	206,135	206,135	592,170	3,933,442	4,525,612	-	(4,731,747)	-
Equity gap financing	-	3,152,483	3,152,483	1,650,093	280,619	1,930,712	70,000	-	5,153,195
Deferred rent	308,297	-	308,297	-	-	-	-	-	308,297
Other long term liabilities	300,000	-	300,000	-	-	-	-	-	300,000
Total long-term liabilities	1,726,899	4,972,459	6,699,358	2,242,263	8,596,645	10,838,908	678,917	(4,731,747)	13,485,436
Total liabilities	8,746,015	5,326,963	14,072,978	3,303,540	10,445,198	13,748,738	762,194	(7,150,216)	21,433,694
Net assets									
Unrestricted									
Cascadia Behavioral Healthcare, Inc. and Affiliates	11,897,022	2,206,454	14,103,476	3,467,198	311,916	3,779,114	(1,482,185)	(70,184)	16,330,221
Noncontrolling interest	-	-	-	-	3,124,786	3,124,786	-	-	3,124,786
Temporarily restricted	1,300,139	890,434	2,190,573	-	-	-	4,066,466	-	6,257,039
Total net assets	13,197,161	3,096,888	16,294,049	3,467,198	3,436,702	6,903,900	2,584,281	(70,184)	25,712,046
Total liabilities and net assets	\$ 21,943,176	\$ 8,423,851	\$ 30,367,027	\$ 6,770,738	\$ 13,881,900	\$ 20,652,638	\$ 3,346,475	\$ (7,220,400)	\$ 47,145,740

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEETS
JUNE 30, 2014

	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
ASSETS									
Current assets									
Checking/savings									
Cash available for operations	\$ 5,669,049	\$ 151,960	\$ 5,821,009	\$ 99,561	\$ 88,130	\$ 187,691	\$ 18,700	\$ -	\$ 6,027,400
Cash available for operations - management reserves	130,599	252,792	383,391	351,287	-	351,287	-	-	734,678
Restricted cash	-	702,611	702,611	-	976,737	976,737	308,416	-	1,987,764
Cash held on behalf of others	256,762	-	256,762	-	-	-	-	-	256,762
Investments	1,046,590	-	1,046,590	-	-	-	-	-	1,046,590
Total checking/savings	7,103,000	1,107,363	8,210,363	450,848	1,064,867	1,515,715	327,116	-	10,053,194
Other current assets									
Accounts receivable, net of allowance	4,939,461	43,095	4,982,556	189,837	27,910	217,747	1,095	(189,837)	5,011,561
Related party receivable, current portion	120,564	-	120,564	142,790	-	142,790	-	(263,354)	-
Prepaid expenses and other	254,514	26,934	281,448	-	38,793	38,793	51,626	-	371,867
Total other current assets	5,314,539	70,029	5,384,568	332,627	66,703	399,330	52,721	(453,191)	5,383,428
Total current assets	12,417,539	1,177,392	13,594,931	783,475	1,131,570	1,915,045	379,837	(453,191)	15,436,622
Land, buildings, equipment construction in progress, and intangible assets									
Land, buildings, equipment, and construction in progress	7,555,458	13,163,761	20,719,219	8,594	18,454,296	18,462,890	5,334,520	-	44,516,629
Accumulated depreciation	(2,984,928)	(6,454,344)	(9,439,272)	-	(5,250,951)	(5,250,951)	(2,316,807)	-	(17,007,030)
Intangible assets, net of amortization	-	-	-	-	111,077	111,077	10,960	-	122,037
Total land, buildings, equipment and intangible assets, net	4,570,530	6,709,417	11,279,947	8,594	13,314,422	13,323,016	3,028,673	-	27,631,636
Other assets									
Pledges receivable, net of current portion	574,683	-	574,683	-	-	-	-	-	574,683
Related party receivable, net of current portion	770,372	-	770,372	5,799,501	-	5,799,501	-	(6,569,873)	-
Total other assets	1,345,055	-	1,345,055	5,799,501	-	5,799,501	-	(6,569,873)	574,683
Total assets	\$ 18,333,124	\$ 7,886,809	\$ 26,219,933	\$ 6,591,570	\$ 14,445,992	\$ 21,037,562	\$ 3,408,510	\$ (7,023,064)	\$ 43,642,941

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATING BALANCE SHEETS
JUNE 30, 2014

	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
LIABILITIES AND NET ASSETS									
Liabilities									
Current liabilities									
Accounts payable and accrued expenses	\$ 426,862	\$ 85,970	\$ 512,832	\$ 26,152	\$ 64,115	\$ 90,267	31,498	\$ -	\$ 634,597
Accounts payable to related parties	-	67,016	67,016	538,596	702,430	1,241,026	-	(1,308,042)	-
Accrued payroll and related expenses	1,569,179	-	1,569,179	-	-	-	-	-	1,569,179
Accrued paid time off	1,013,996	-	1,013,996	-	-	-	-	-	1,013,996
Funds held on behalf of others	256,762	-	256,762	-	-	-	-	-	256,762
Interest payable	23,935	5,590	29,525	406,316	937,173	1,343,489	39,695	(968,361)	444,348
Deferred revenue	1,656,296	53,425	1,709,721	-	49,261	49,261	17,561	-	1,776,543
Current portion of long-term debt	557,400	99,634	657,034	-	72,765	72,765	5,919	-	735,718
Total current liabilities	5,504,430	311,635	5,816,065	971,064	1,825,744	2,796,808	94,673	(2,276,403)	6,431,143
Long-term liabilities									
Long-term debt, net of current portion	3,065,917	1,723,074	4,788,991	-	4,459,836	4,459,836	615,200	-	9,864,027
Notes payable - related party	26,667	116,123	142,790	592,170	3,941,514	4,533,684	-	(4,676,474)	-
Equity gap financing	-	3,153,010	3,153,010	1,653,850	280,619	1,934,469	70,000	-	5,157,479
Deferred rent	209,854	-	209,854	-	-	-	-	-	209,854
Other long-term liabilities	300,000	-	300,000	-	-	-	-	-	300,000
Total long-term liabilities	3,602,438	4,992,207	8,594,645	2,246,020	8,681,969	10,927,989	685,200	(4,676,474)	15,531,360
Total liabilities	9,106,868	5,303,842	14,410,710	3,217,084	10,507,713	13,724,797	779,873	(6,952,877)	21,962,503
Net assets									
Unrestricted									
Cascadia Behavioral Healthcare, Inc. and Affiliates	8,651,572	1,586,829	10,238,401	3,374,486	127,855	3,502,341	(1,437,829)	(70,187)	12,232,726
Noncontrolling interest	-	-	-	-	3,810,424	3,810,424	-	-	3,810,424
Temporarily restricted	574,684	996,138	1,570,822	-	-	-	4,066,466	-	5,637,288
Total net assets	9,226,256	2,582,967	11,809,223	3,374,486	3,938,279	7,312,765	2,628,637	(70,187)	21,680,438
Total liabilities and net assets	\$ 18,333,124	\$ 7,886,809	\$ 26,219,933	\$ 6,591,570	\$ 14,445,992	\$ 21,037,562	\$ 3,408,510	\$ (7,023,064)	\$ 43,642,941

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATING INCOME STATEMENTS (UNRESTRICTED ONLY)
YEAR ENDING JUNE 30, 2015

	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
Ordinary income (expense)									
Income									
Mental health service fees	\$ 33,964,709	\$ -	\$ 33,964,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,964,709
Mental health contract revenue	16,014,044	138,063	16,152,107	-	-	-	-	-	16,152,107
Grants and contributions	2,325,932	393,128	2,719,060	50,247	61,344	111,591	11,287	(36,487)	2,805,451
Net rental income	(384,290)	2,589,441	2,205,151	-	1,360,748	1,360,748	517,401	-	4,083,300
Other rental income	327,262	16,454	343,716	-	21,879	21,879	7,033	-	372,628
Other income	388,535	-	388,535	-	169,837	169,837	-	-	558,372
Income from properties	460,523	-	460,523	66,275	-	66,275	-	(495,821)	30,977
Interest and investment income	50,526	1,093	51,619	147,765	690	148,455	569	(146,632)	54,011
Net assets released from restriction	580,200	105,704	685,904	-	-	-	-	-	685,904
Total income	53,727,441	3,243,883	56,971,324	264,287	1,614,498	1,878,785	536,290	(678,940)	58,707,459
Expense									
Payroll and related costs	40,225,000	-	40,225,000	-	217,656	217,656	70,911	(170,751)	40,342,816
Professional fees	1,587,248	511,460	2,098,708	1,150	239,610	240,760	98,554	(200,681)	2,237,341
Subcontract costs	462,986	-	462,986	-	-	-	-	-	462,986
Office supplies	196,575	2,385	198,960	7,190	12,590	19,780	7,182	-	225,922
Program supplies	1,661,875	496	1,662,371	-	-	-	-	-	1,662,371
Medical supplies and equipment	133,897	686	134,583	-	-	-	-	-	134,583
Repairs and maintenance	430,877	667,394	1,098,271	(109)	352,177	352,068	128,859	(80,907)	1,498,291
Equipment leases	154,989	-	154,989	-	-	-	-	-	154,989
Food and related expenses	615,876	-	615,876	-	-	-	-	-	615,876
Printing and postage	39,077	-	39,077	-	-	-	-	-	39,077
Telephone and utilities	721,314	538,807	1,260,121	-	169,173	169,173	69,521	-	1,498,815
Rent	1,766,374	219,198	1,985,572	-	1,293	1,293	-	-	1,986,865
Insurance and property tax	505,975	69,762	575,737	10,257	63,213	73,470	23,118	-	672,325
Dues and subscriptions	68,122	2,308	70,430	-	-	-	-	-	70,430
Training	452,089	-	452,089	-	-	-	-	-	452,089
Travel	536,611	-	536,611	-	9,620	9,620	4,004	(13,624)	536,611
Other	361,002	40,466	401,468	36,722	27,278	64,000	4,063	-	469,531
Total expense	49,919,887	2,052,962	51,972,849	55,210	1,092,610	1,147,820	406,212	(465,963)	53,060,918
Net ordinary income	3,807,554	1,190,921	4,998,475	209,077	521,888	730,965	130,078	(212,977)	5,646,541
Other income (expense)									
Other expense									
Fees to related party	-	-	-	66,344	66,345	132,689	-	(66,345)	66,344
Depreciation and amortization	365,910	469,346	835,256	-	571,462	571,462	135,429	-	1,542,147
Financial expenses	196,194	101,948	298,142	50,021	385,656	435,677	39,006	(146,632)	626,193
Total other expense	562,104	571,294	1,133,398	116,365	1,023,463	1,139,828	174,435	(212,977)	2,234,684
Change in net assets	\$ 3,245,450	\$ 619,627	\$ 3,865,077	\$ 92,712	\$ (501,575)	\$ (408,863)	\$ (44,357)	\$ -	\$ 3,411,857

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
CONSOLIDATING INCOME STATEMENTS (UNRESTRICTED ONLY)
YEAR ENDING JUNE 30, 2014

	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
Ordinary income (expense)									
Income									
Mental health service fees	\$ 29,801,066	\$ -	\$ 29,801,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,801,066
Mental health contract revenue	14,373,835	-	14,373,835	-	-	-	-	-	14,373,835
Grants and contributions	1,577,749	-	1,577,749	-	60,038	60,038	10,967	(92,471)	1,556,283
Net rental income	(326,686)	2,361,807	2,035,121	-	1,329,031	1,329,031	496,699	-	3,860,851
Other rental income	307,895	18,323	326,218	-	32,208	32,208	7,360	-	365,786
Other income	713,551	1,442	714,993	-	-	-	-	-	714,993
Income from properties	423,058	-	423,058	67,895	-	67,895	-	(391,494)	99,459
Interest and investment income	45,385	739	46,124	143,416	678	144,094	506	(142,831)	47,893
Net assets released from restriction	161,498	105,704	267,202	-	-	-	-	-	267,202
Total income	47,077,351	2,488,015	49,565,366	211,311	1,421,955	1,633,266	515,532	(626,796)	51,087,368
Expense									
Payroll and related costs	36,272,536	-	36,272,536	-	198,176	198,176	70,666	(150,435)	36,390,943
Professional fees	1,395,422	508,632	1,904,054	1,894	210,162	212,056	93,660	(194,695)	2,015,075
Subcontract costs	254,648	-	254,648	-	-	-	-	-	254,648
Office supplies	183,913	2,024	185,937	9,884	20,637	30,521	9,418	-	225,876
Program supplies	1,248,267	1,971	1,250,238	-	-	-	-	-	1,250,238
Medical supplies and equipment	122,498	-	122,498	-	-	-	-	-	122,498
Repairs and maintenance	510,157	615,824	1,125,981	1,223	370,077	371,300	276,625	(64,707)	1,709,199
Equipment leases	164,669	-	164,669	-	-	-	-	-	164,669
Food and related expenses	590,468	-	590,468	-	-	-	-	-	590,468
Printing and postage	34,852	-	34,852	-	-	-	-	-	34,852
Telephone and utilities	642,288	526,135	1,168,423	-	163,400	163,400	57,235	-	1,389,058
Rent	1,574,552	183,034	1,757,586	-	1,274	1,274	-	-	1,758,860
Insurance and property tax	472,658	65,807	538,465	4,311	63,688	67,999	22,103	-	628,567
Dues and subscriptions	59,987	775	60,762	-	-	-	-	-	60,762
Training	241,668	-	241,668	-	-	-	-	-	241,668
Travel	535,659	-	535,659	3	4,149	4,152	2,020	(6,172)	535,659
Other	273,740	29,187	302,927	27,879	11,075	38,954	11,554	-	353,435
Total expense	44,577,982	1,933,389	46,511,371	45,194	1,042,638	1,087,832	543,281	(416,009)	47,726,475
Net ordinary income	2,499,369	554,626	3,053,995	166,117	379,317	545,434	(27,749)	(210,787)	3,360,893
Other income (expense)									
Other expense									
Fees to related party	-	-	-	67,955	67,956	135,911	-	(67,956)	67,955
Depreciation and amortization	398,223	455,160	853,383	-	563,088	563,088	134,355	-	1,550,826
Financial expenses	192,001	107,409	299,410	48,711	385,289	434,000	39,349	(142,831)	629,928
Total other expense	590,224	562,569	1,152,793	116,666	1,016,333	1,132,999	173,704	(210,787)	2,248,709
Net income (loss)	\$ 1,909,145	\$ (7,943)	\$ 1,901,202	\$ 49,451	\$ (637,016)	\$ (587,565)	\$ (201,453)	\$ -	\$ 1,112,184

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors
Cascadia Behavioral Healthcare, Inc. and Affiliates

Report on Compliance for Each Major Federal Program

We have audited Cascadia Behavioral Healthcare, Inc. and Affiliates' (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2015. The Organization's major federal program is identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 (continued)**

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133 (continued)**

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 results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

Portland, Oregon
January 31, 2016

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of Major Federal Program and Type of Auditor's Report Issued for Major Federal Programs

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for Major Federal Programs</i>
14.235	Supportive Housing Program	Unmodified

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

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
FOR THE YEAR ENDED JUNE 30, 2015

FINDING 2014-001 Preparation of Schedule of Expenditures of Federal Awards – Significant Deficiency in Internal Control

Criteria: In accordance with the requirements of OMB Circular A-133 and the Single Audit Act, the Organization should report all federal expenditures in the Schedule of Expenditures of Federal Awards (SEFA) each fiscal year.

Condition: During our review of the preliminary SEFA, we noted two programs under CDFA #14.235 were included as new programs in 2014. We obtained and reviewed the grant agreements noting one of the two programs was inappropriately included on the preliminary SEFA for the year ended June 30, 2014. This was corrected when we received the final SEFA. However, the second program was inappropriately excluded from the SEFA in the prior year. Total expenses for this program totaled \$79,801, or approximately 3% of total prior year federal expenditures. Had this program been included within the SEFA in the prior year, our major program determination would not have changed.

In addition, subsequent to the receipt of the final SEFA and the performance of our audit procedures, the client provided an updated final SEFA. In the final SEFA, funds passed through Providence Health & Services for the Center for Medicare & Medicaid Services increased from approximately \$30,000 to \$102,000. With this change, the program moved from a low risk, Type B program to a high risk, Type A program as the program has not been subjected to testing in the prior two years. Had the client provided a correct SEFA prior to our final major program determination, we would not have been required to audit the Supportive Housing program (CFDA #14.235).

Finally, during the performance of our audit procedures over CFDA #93.610, when comparing total expenditures to the detail provided to select samples, it came to our attention that the funds passed through Providence Health & Services – Oregon was overstated by \$50,000. The additional funds were not related to CFDA #93.610 and thus were removed from the final SEFA. With this reduction, the program still qualified as a high risk, Type A program.

Questioned Costs: None reported.

Context: During the year, Cascadia’s grant accountant left the Organization and was not replaced. During Cascadia’s search for a replacement, the Controller took over all A-133 responsibilities.

Cause/Effect: The SEFA does not undergo a proper review process, whereby the expenditures are reviewed to ensure accuracy and completeness.

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
FOR THE YEAR ENDED JUNE 30, 2015

Recommendation: We recommend Cascadia develop policies and procedures to ensure the SEFA is reviewed and expenditures for all federal grant agreements are accurately presented on the SEFA.

Mgt Response: Management is putting in place policies and procedures that will provide a higher level of oversight in the production of the SEFA schedule. We have added additional tracking fields in our contract database that will aid us in determining which contract should be included on the schedule. In addition, once the draft schedule has been produced, it will undergo a rigorous internal review before being submitted to the auditors.

Current Status: Based on our audit procedures, we noted Cascadia's final SEFA was accurately presented. As such, we consider this issue resolved.

REPORT OF INDEPENDENT AUDITORS 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

To the Board of Directors
Cascadia Behavioral Healthcare, Inc. and Affiliates

We have audited, in accordance with the 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 Cascadia Behavioral Healthcare, Inc. and Affiliates (the Organization), which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated income statement, statement of changes in net assets, statement of functional expenses, and statement of cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 31, 2016.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's consolidated 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.

REPORT OF INDEPENDENT AUDITORS 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 (continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 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 results 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.

Moss Adams LLP

Portland, Oregon
January 31, 2016

SUPPLEMENTARY INFORMATION

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	FY 2015 Federal Expenditures
Department of Housing and Urban Development Direct Programs:			
Section 8 Housing Assistance Payments Program	14.195		54,181
Supportive Housing Program - Royal Palm	14.235		711,638
Supportive Housing Program - OTH	14.235		292,733
Supportive Housing Program - Special Needs Services	14.235		127,974
Supportive Housing Program - Residential Service Coordinator	14.235		72,434
Supportive Housing Program - McKinney Permanent Housing	14.235		16,342
Section 4 Capacity Building for Community Development and Affordable Housing	14.252		6,230
Moving to Work Demonstration Program	14.881		55,932
Subtotal Department of Housing and Urban Development Direct Programs			1,337,464
Department of Housing and Urban Development Pass-Through Programs:			
City of Portland - Supportive Housing Program - OTIS	14.235	CP32001100	167,689
Enterprise Community Partners - Supportive Housing Program - Partnership for Health Integration (OPHI) Expansion	14.235	14SG4041	30,805
State of Oregon - Housing Opportunities for Persons with AIDS	14.241	144651	33,868
Subtotal Department of Housing and Urban Development Pass-Through Programs			232,362
Total U.S. Department of Housing and Urban Development			1,569,826
Department of Health & Human Services Direct Programs:			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		400,000
Subtotal Department of Health & Human Services Direct Programs			400,000
Department of Health & Human Services Pass-Through Programs From:			
State of Oregon - Projects for Assistance in Transition from Homelessness (PATH)	93.150	142730	95,689
Multnomah County Department of County Human Services - Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	4400001606	15,371
Centers for Medicare and Medicaid Services - Health Care Innovation Awards	93.610	CMS330985, 4400000355	407,236
Multnomah County Department of County Human Services - Block Grants for Community Mental Health Services	93.958	4400000218	15,000
Multnomah County Department of County Human Services - Block Grants for Prevention and Treatment of Substance Abuse	93.959	4400000798	215,290
Subtotal Department of Health & Human Services Pass-Through Programs			748,586
Total U.S. Department of Health and Human Services			1,148,586
Total Expenditures of Federal Awards			2,718,412

CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Cascadia Behavioral Healthcare, Inc. and Affiliates (the Organization) under programs of the federal government for the year ended June 30, 2015. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Government, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the balance sheet, income statement, changes in net assets, functional expenses or cash flows of the Organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.