



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, 2014 and 2013

**MOSS ADAMS<sub>LLP</sub>**

Certified Public Accountants | Business Consultants

## CONTENTS

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	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Balance sheets	3-4
Income statements	5
Statements of changes in net assets	6
Statements of functional expenses	7-8
Statements of cash flows	9
Notes to financial statements	10-32
SUPPLEMENTARY INFORMATION	
Consolidating balance sheets	33-36
Consolidating income statements	37-38
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 <i>GOVERNMENT AUDITING STANDARDS</i>	39-40
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	41-43
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	44-46
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING	47-48
SUPPLEMENTARY INFORMATION	
Schedule of expenditures of federal awards	49
Notes to schedule of expenditures of federal awards	50

## 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, 2014 and 2013, and the related consolidated income statements, statements of changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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.

### ***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, 2014 and 2013, 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.

## REPORT OF INDEPENDENT AUDITORS (continued)

### **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.

The supplementary consolidating balance sheets, consolidating income statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the 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 supplementary consolidating balance sheets, consolidating income statements and schedule of expenditures of federal awards are 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 9, 2015 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 9, 2015

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**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**CONSOLIDATED BALANCE SHEETS**

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	ASSETS	
	June 30,	
	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash available for operations	\$ 6,027,400	\$ 3,400,892
Cash available for operations – management reserves	734,678	681,207
Restricted cash (Note 2)	1,987,764	2,157,088
Cash held on behalf of others (Note 2)	256,762	212,993
Investments (Note 4)	1,046,590	1,012,464
Accounts receivable, net of allowance (Note 5)	5,011,561	5,142,260
Prepaid expenses and other	371,867	303,483
Pledges receivable, current portion (Note 6)	<u>-</u>	<u>50,000</u>
Total current assets	<u>15,436,622</u>	<u>12,960,387</u>
LAND, BUILDINGS, EQUIPMENT, CONSTRUCTION IN PROGRESS, AND INTANGIBLE ASSETS, NET (Note 7)		
	<u>27,631,636</u>	<u>28,426,149</u>
OTHER ASSETS		
Pledges receivable, net of current portion and discount (Note 6)	<u>574,683</u>	<u>564,123</u>
Total assets	<u>\$ 43,642,941</u>	<u>\$ 41,950,659</u>

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**CONSOLIDATED BALANCE SHEETS**

**LIABILITIES AND NET ASSETS**

	June 30,	
	2014	2013
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 634,597	\$ 634,874
Accrued payroll and related expenses	1,569,179	1,764,805
Accrued paid time off	1,013,996	940,834
Funds held on behalf of others (Note 2)	256,762	212,993
Interest payable	444,348	446,617
Advances payable	1,776,543	124,924
Current portion of long-term debt (Note 9)	735,718	771,082
	<b>6,431,143</b>	<b>4,896,129</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current portion (Note 9)	9,864,027	10,903,455
Equity gap financing (Note 8)	5,157,479	5,157,479
Deferred rent (Note 2)	209,854	168,700
Other long term liabilities	300,000	-
	<b>15,531,360</b>	<b>16,229,634</b>
	<b>21,962,503</b>	<b>21,125,763</b>
<b>COMMITMENTS AND CONTINGENCIES (Note 11, Note 14)</b>		
<b>NET ASSETS</b>		
Unrestricted (Note 2)		
Cascadia Behavioral Healthcare, Inc. and Affiliates	12,232,726	10,787,871
Noncontrolling interest	3,810,424	4,143,095
Temporarily restricted (Note 2 and Note 10)	5,637,288	5,893,930
	<b>\$ 43,642,941</b>	<b>\$ 41,950,659</b>

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**CONSOLIDATED INCOME STATEMENTS**

	Year Ended June 30, 2014			Year Ended June 30, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>OPERATING REVENUES, GAINS, AND OTHER SUPPORT</b>						
Mental health service fees	\$ 32,575,772	\$ -	\$ 32,575,772	\$ 27,498,436	\$ -	\$ 27,498,436
Mental health contract revenue	11,599,129	-	11,599,129	14,863,797	-	14,863,797
Grants and contributions	1,556,283	10,560	1,566,843	1,541,555	382,151	1,923,706
Net rental income	3,860,851	-	3,860,851	3,702,539	-	3,702,539
Other rental income	365,786	-	365,786	337,557	-	337,557
Other income	714,993	-	714,993	632,438	-	632,438
Income from properties	99,459	-	99,459	116,285	-	116,285
Interest and investment income	47,893	-	47,893	25,392	-	25,392
Total operating revenues, gains, and other support	50,820,166	10,560	50,830,726	48,717,999	382,151	49,100,150
Net assets released from restrictions	267,202	(267,202)	-	243,162	(243,162)	-
Total revenues, gains, and other support	51,087,368	(256,642)	50,830,726	48,961,161	138,989	49,100,150
<b>EXPENSES</b>						
Program services	44,223,881	-	44,223,881	43,459,696	-	43,459,696
Administrative services	5,650,544	-	5,650,544	5,455,891	-	5,455,891
Fundraising	100,759	-	100,759	86,775	-	86,775
Total expenses	49,975,184	-	49,975,184	49,002,362	-	49,002,362
CHANGE IN NET ASSETS	\$ 1,112,184	\$ (256,642)	\$ 855,542	\$ (41,201)	\$ 138,989	\$ 97,788



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

	Year Ended June 30, 2014			Year Ended June 30, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
NET ASSETS AT BEGINNING OF YEAR	\$ 14,930,966	\$ 5,893,930	\$ 20,824,896	\$ 14,972,167	\$ 5,754,941	\$ 20,727,108
Change in net assets	1,112,184	(256,642)	855,542	(41,201)	138,989	97,788
NET ASSETS AT END OF YEAR	<u>\$ 16,043,150</u>	<u>\$ 5,637,288</u>	<u>\$ 21,680,438</u>	<u>\$ 14,930,966</u>	<u>\$ 5,893,930</u>	<u>\$ 20,824,896</u>

**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

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	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	\$ 4,132,322	\$ 7,569,752	\$ 3,658,699	\$ 9,524,133	\$ 2,334,335	1,153,793	\$ 3,301,151	\$ 749,547	\$ -	\$ (168,547)	\$ 32,255,185	\$ 52,775	\$ 3,603,496	\$ 3,656,271	\$ 35,911,456
Professional fees	224,212	98,027	17,684	63,315	140	883,148	341,984	151,499	(355,205)	(193,538)	1,231,266	27,885	652,333	680,218	1,911,484
Subcontract costs	-	26,590	4,533	180,332	-	-	166,662	-	-	-	378,117	-	-	-	378,117
Office supplies	5,995	58,429	20,552	42,213	5,584	26,445	20,688	2,098	-	-	182,004	76	57,688	57,764	239,768
Program supplies	34,088	67,258	224,987	404,427	672,793	1,215	75,862	276	(202,443)	-	1,278,463	-	21,668	21,668	1,300,131
Medical supplies and equipment	4,847	64,677	54,522	37,500	1,769	674	1,811	-	(35,281)	-	130,519	-	-	-	130,519
Repairs and maintenance	19,792	201,301	37,947	213,793	72,462	1,009,146	6,949	-	(120,578)	(66,139)	1,374,673	-	5,181	5,181	1,379,854
Equipment leases	4,415	52,455	12,044	25,726	4,445	0	7,079	1,551	-	-	107,715	-	42,676	42,676	150,391
Food and related expenses	48,907	386	90,307	545,351	91,180	4,403	174,187	-	(305,706)	-	649,015	-	-	-	649,015
Printing and postage	261	14,638	830	2,654	756	19	2,786	238	-	-	22,182	1,118	19,486	20,604	42,786
Telephone and utilities	58,763	233,983	37,785	127,293	40,371	725,987	36,502	1,750	-	-	1,262,434	-	68,738	68,738	1,331,172
Rent	98,336	916,201	132,990	530,064	89,088	182,202	39,183	-	(657,687)	-	1,330,377	-	376,320	376,320	1,706,697
Insurance and property tax	23,266	61,919	15,366	58,448	10,290	142,458	16,296	65	-	-	328,108	-	266,231	266,231	594,339
Dues and subscriptions	804	4,786	17,237	2,187	1,426	2,033	799	630	-	-	29,902	581	32,152	32,733	62,635
Training	6,014	10,888	12,240	21,612	7,710	5,389	29,003	3,731	-	-	96,587	-	82,101	82,101	178,688
Travel	45,470	86,584	56,273	158,421	27,779	30,199	77,413	691	-	(5,029)	477,801	-	10,728	10,728	488,529
Interest	-	141,134	-	-	-	587,044	-	-	-	(139,968)	588,210	-	9,135	9,135	597,345
Other	1,291	18,503	9,161	20,335	4,930	224,141	19,690	21,163	(2,706)	(74,608)	241,900	4,340	135,923	140,263	382,163
Allocated clinical billing costs	134,772	481,638	155,136	262,106	83,286	-	45,119	(1,162,057)	-	-	-	-	-	-	-
Total expenses before depreciation and amortization	4,843,555	10,109,149	4,558,293	12,219,910	3,448,344	4,978,296	4,363,164	(228,818)	(1,679,606)	(647,829)	41,964,458	86,775	5,383,856	5,470,631	47,435,089
Depreciation and amortization	37,521	164,923	-	9,578	-	1,135,536	-	133,378	14,302	-	1,495,238	-	72,035	72,035	1,567,273
Total expenses	\$ 4,881,076	\$ 10,274,072	\$ 4,558,293	\$ 12,229,488	\$ 3,448,344	\$ 6,113,832	\$ 4,363,164	\$ (95,440)	\$ (1,665,304)	\$ (647,829)	\$ 43,459,696	\$ 86,775	\$ 5,455,891	\$ 5,542,666	\$ 49,002,362

See accompanying notes.

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

	June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 855,542	\$ 97,788
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	1,550,826	1,567,273
Gain on sale of equipment	(2,775)	-
Changes in assets and liabilities:		
Cash held on behalf of others	(43,769)	267,691
Accounts receivable, net of allowance	130,699	(1,375,492)
Prepaid expenses and deposits	(68,384)	156,822
Pledges receivable	39,440	92,264
Related party receivable	-	(28,167)
Accounts payable and accrued expenses	(277)	207,409
Accrued payroll and related expenses	(195,626)	325,726
Accrued paid time off	73,162	58,650
Funds held on behalf of others	43,769	(118,824)
Interest payable	(2,269)	31,186
Advances payable	1,651,619	(103,113)
Deferred rent	41,154	81,202
Other long term liabilities	300,000	-
Net cash from operating activities	<u>4,373,111</u>	<u>1,260,415</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of land, buildings, and equipment	(756,313)	(871,099)
Proceeds received on sale of equipment	2,775	-
Purchase of investments	(247,614)	(735,137)
Proceeds from sale of investments	213,488	1,581,458
Changes in restricted cash	169,324	132,365
Net cash from investing activities	<u>(618,340)</u>	<u>107,587</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on equity gap financing	(3,757)	(7,954)
Payments on long-term debt	(2,471,035)	(351,554)
Proceeds from long-term debt	1,400,000	-
Payments on capital leases	-	(38,431)
Net cash from financing activities	<u>(1,074,792)</u>	<u>(397,939)</u>
<b>NET CHANGE IN CASH</b>	2,679,979	970,063
<b>CASH AVAILABLE FOR OPERATIONS, at beginning of year</b>	<u>4,082,099</u>	<u>3,112,036</u>
<b>CASH AVAILABLE FOR OPERATIONS, at end of year</b>	<u>\$ 6,762,078</u>	<u>\$ 4,082,099</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for interest	<u>\$ 632,197</u>	<u>\$ 566,159</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON CASH ACTIVITY</b>		
Long-term debt converted to equity gap	<u>\$ -</u>	<u>\$ 955,983</u>
Equipment purchased with long-term debt	<u>\$ -</u>	<u>\$ 249,925</u>

## **CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 1 – Business and Organization**

Cascadia Behavioral Healthcare, Inc. and Affiliates (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, 2014 and 2013, 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**

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#### **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**

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**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**

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#### **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**

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#### **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 Hospital

**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

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#### 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 \$4,143,095 at June 30, 2013 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**

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#### **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.

*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, 2014 and 2013.

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 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 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**

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#### **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, 2014 and 2013.

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 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**

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#### **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. During the year ended June 30, 2013, \$90,945 in contributed materials or equipment were recorded and there were no in-kind contributions of equipment and other materials during the year ended June 30, 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 \$256,762 and \$212,993 as of June 30, 2014 and 2013, 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

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#### 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 market 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.

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

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**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, 2014 and 2013:

	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
	Fair Value Measurements at June 30, 2013			
	Level 1	Level 2	Level 3	Total
Corporate bonds	\$ -	\$ 750,602	\$ -	\$ 750,602
Mutual funds	163,853	-	-	163,853
State and municipal bonds	-	98,009	-	98,009
	\$ 163,853	\$ 848,611	\$ -	\$ 1,012,464

**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 financial statements as of June 30, 2014 and 2013.

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.

**Advances payable** – During the year ending June 30, 2014, the Organization received approximately \$1,500,000 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.

## **CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 2 – Summary of Significant Accounting Policies (continued)**

**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 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 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. The Organization and its affiliates are no longer subject to U.S. federal or state income tax examinations by tax authorities for years before 2010.

**Subsequent events** – Subsequent events are events or transactions that occur after the balance sheet date but before 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 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 financial statements are issued.

The Organization has evaluated subsequent events through January 9, 2015, which is the date the financial statements are issued.



## **CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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 are with the State of Oregon and other governmental institutions and are 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, 2014 and 2013). 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% and 28% of total consolidated revenues for the years ended June 30, 2014 and 2013, respectively). 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.

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.

At June 30, 2013, investments include \$750,602, \$163,853, and \$98,009 in corporate bonds, mutual funds, and state and municipal bonds, respectively. Investment income at June 30, 2013 includes \$14,614 in unrealized losses on investments and \$27,843 in interest and dividends.

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

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**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:

	<u>2014</u>	<u>2013</u>
Medicare and Medicaid	\$ 1,620,412	\$ 1,629,824
Multnomah County	1,081,981	1,063,048
State of Oregon	598,860	291,684
Clackamas County	230,151	196,583
Housing and Urban Development (HUD)	226,013	205,045
Medicaid intermediary	195,988	661,387
City of Portland	182,944	271,230
Lane Care	162,931	26,242
Other	<u>758,481</u>	<u>828,827</u>
	5,057,761	5,173,870
Less allowance for doubtful accounts	<u>(46,200)</u>	<u>(31,610)</u>
Total accounts receivable, net of estimated uncollectible accounts and contractual adjustments	<u>\$ 5,011,561</u>	<u>\$ 5,142,260</u>

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

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**Note 6 - Pledges Receivable**

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	2013
Less than one year		\$ 50,000
Discount for present value		-
	-	50,000
One year to five years	-	-
Discount for present value	-	-
	-	-
More than five years	580,200	580,200
Discount for present value	(5,517)	(16,077)
	574,683	564,123
Total pledges receivable	\$ 574,683	\$ 614,123

Discount rate used was 0.19% and 0.57% as of June 30, 2014 and 2013, respectively.

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

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**Note 7 – Land, Buildings, and Equipment**

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

	<u>2014</u>	<u>2013</u>
Land	\$ 4,105,496	\$ 4,105,496
Buildings and leasehold improvements	36,861,294	36,315,680
Furniture and equipment	3,305,622	3,275,916
Construction in progress	248,387	82,096
Intangible assets	<u>117,867</u>	<u>130,843</u>
	44,638,666	43,910,031
Less accumulated depreciation and amortization	<u>(17,007,030)</u>	<u>(15,483,882)</u>
 Total land, buildings, equipment and intangible assets net of accumulated depreciation and amortization	 <u>\$ 27,631,636</u>	 <u>\$ 28,426,149</u>

Depreciation and amortization expense was \$1,550,826 and \$1,567,273 for the years ended June 30, 2014 and 2013, 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, 2014, 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).

**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 \$5,012,875 as of June 30, 2014 and 2013.

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

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**Note 8 – Equity Gap Financing (continued)**

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, 2014 and 2013.

As of June 30, 2014, 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, 2014.

**Note 9 – Long-Term Debt**

The following obligations were outstanding at June 30:

	2014	2013
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	\$ 2,034,804
Capital Pacific Bank, 5.75%, monthly payments of \$15,426, due December 2023; Secured by land and building.	1,347,757	-
Multnomah County Credit Agreement, 4.00%, due in monthly payments of \$15,750 until July 31, 2010 when payments increase by 5.00% annually until September 30, 2021, original note maturity, when the entire unpaid principal and interest balance become due and payable. Secured by substantially all assets. Note was paid in full December 2013.	-	1,817,709
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.	4,119,867	4,229,059
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.	276,448	287,551
State of Oregon Department of Human Services settlement, agreement due in monthly payments of \$20,000 at 0.00% interest. Due June 1, 2015.	240,000	460,000
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.	344,924	353,191

## CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### Note 9 - Long-Term Debt (continued)

	2014	2013
OCWEN, 6.50%, due in monthly payments of \$727 through December 2028. Secured by land and building.	\$ 81,750	\$ 85,061
Columbia Bank, prime plus 3.25%, due in monthly payments of \$2,577, including interest. Due July 2014. Secured by land and building.	-	31,934
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.	1,350,346	1,385,601
Siuslaw 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%.	621,119	626,696
US Bank Equipment Finance, secured by equipment, due July 2015, payable in monthly payments of \$9,643, including interest at 5.99%.	93,201	180,957
	10,599,745	11,674,537
Less current portion	(735,718)	(771,082)
	\$ 9,864,027	\$ 10,903,455

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.

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.

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

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**Note 9 - Long-Term Debt (continued)**

Aggregate maturities of note principal for the five years subsequent to June 30, 2014 are as follows:

Year ending June 30,	2015	\$ 735,718
	2016	2,138,397
	2017	324,301
	2018	342,323
	2019	361,586
	Thereafter	<u>6,697,420</u>
		<u>\$ 10,599,745</u>

The Prime rate was 3.25% as of June 30, 2014 and 2013.

**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>2014</u>	<u>2013</u>
Prescott Terrace	\$ 454,000	\$ 529,667
Emerson Corner	109,376	114,585
Pisgah	124,000	132,000
Firefly	213,750	221,250
Funds required to be used for low income housing	95,011	104,340
Mental health services	574,685	725,622
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>\$ 5,637,288</u>	<u>\$ 5,893,930</u>

The Organization received \$10,560 and \$382,151 during the years ended June 30, 2014 and 2013, respectively in temporarily restricted contributions, and incurred \$267,202 and \$243,162 during the years ended June 30, 2014 and 2013, 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

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#### Note 11 - Commitments

Certain program facilities, administrative offices, and equipment are leased under operating leases. The leases expire in periods ranging from 8 months to 9 years. Leases which expire are generally renewed or replaced with similar leases.

At June 30, 2014, 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, 2015	\$ 1,879,469
2016	1,858,779
2017	1,808,899
2018	1,740,075
2019	1,717,842
Thereafter	<u>4,054,066</u>
	<u>\$ 13,059,130</u>

Rent expense was \$1,784,563 and \$1,750,874 for the years ended June 30, 2014 and 2013, 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 \$342,295 and \$296,341 for the years ended June 30, 2014 and 2013, respectively.



## **CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 13 - Related Party**

**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, 2014, 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, 2014, 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, 2014, 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, 2014, 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, 2014. However, as of June 30, 2014, Cascadia has not been required to advance any funds.

## **CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **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, 2014 and 2013, Cascadia Housing, Inc. owed Cascadia Behavioral Healthcare, Inc. \$1,130,766 and \$1,062,811, 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 0% interest rate and are due in monthly installments of \$694 and \$3,333, respectively. Balances outstanding as of June 30, 2014 were \$116,123 and \$26,667 and \$122,816 and \$66,667 as of June 30, 2013. The outstanding balance is due in full on March 5, 2015 and February 5, 2028, respectively.

#### **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 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.

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

## **CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 14 – Contingencies and Litigation (continued)**

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, 2014.

**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** – On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed, amending the PPACA (collectively the "Affordable Care Act"). The Affordable Care Act addresses a broad range of topics affecting the health care industry, including a significant expansion of healthcare coverage. The expansion is accomplished primarily through incentives to individuals to obtain and employers to provide healthcare coverage and an expansion in Medicaid eligibility. 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 were effective immediately; others will be phased in through 2016. Further legislative policies are required for several provisions that will be effective in future years. The impact of this legislation will likely affect the Organization. The effect 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, 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**

LIABILITIES AND NET ASSETS	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
<b>Liabilities</b>									
<b>Current liabilities</b>									
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
Advances payable	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
<b>Total current liabilities</b>	<b>5,504,430</b>	<b>311,635</b>	<b>5,816,065</b>	<b>971,064</b>	<b>1,825,744</b>	<b>2,796,808</b>	<b>94,673</b>	<b>(2,276,403)</b>	<b>6,431,143</b>
<b>Long-term liabilities</b>									
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
<b>Total long-term liabilities</b>	<b>3,602,438</b>	<b>4,992,207</b>	<b>8,594,645</b>	<b>2,246,020</b>	<b>8,681,969</b>	<b>10,927,989</b>	<b>685,200</b>	<b>(4,676,474)</b>	<b>15,531,360</b>
<b>Total liabilities</b>	<b>9,106,868</b>	<b>5,303,842</b>	<b>14,410,710</b>	<b>3,217,084</b>	<b>10,507,713</b>	<b>13,724,797</b>	<b>779,873</b>	<b>(6,952,877)</b>	<b>21,962,503</b>
<b>Net assets</b>									
<b>Unrestricted</b>									
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
<b>Total net assets</b>	<b>9,226,256</b>	<b>2,582,967</b>	<b>11,809,223</b>	<b>3,374,486</b>	<b>3,938,279</b>	<b>7,312,765</b>	<b>2,628,637</b>	<b>(70,187)</b>	<b>21,680,438</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,333,124</b>	<b>\$ 7,886,809</b>	<b>\$ 26,219,933</b>	<b>\$ 6,591,570</b>	<b>\$ 14,445,992</b>	<b>\$ 21,037,562</b>	<b>\$ 3,408,510</b>	<b>\$ (7,023,064)</b>	<b>\$ 43,642,941</b>

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**CONSOLIDATING BALANCE SHEETS**  
**JUNE 30, 2013**

	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
ASSETS									
Current assets									
Checking/savings									
Cash available for operations	\$ 2,804,310	\$ 377,407	\$ 3,181,717	\$ 50,459	\$ 125,784	\$ 176,243	\$ 42,932	\$ -	\$ 3,400,892
Cash available for operations - management reserves	130,599	199,906	330,505	350,702	-	350,702	-	-	681,207
Restricted cash	-	780,380	780,380	-	983,214	983,214	393,494	-	2,157,088
Cash held on behalf of others	212,993	-	212,993	-	-	-	-	-	212,993
Investments	1,012,464	-	1,012,464	-	-	-	-	-	1,012,464
Total checking/savings	4,160,366	1,357,693	5,518,059	401,161	1,108,998	1,510,159	436,426	-	7,464,644
Other current assets									
Accounts receivable, net of allowance	5,094,849	37,522	5,132,371	199,617	8,829	208,446	1,060	(199,617)	5,142,260
Related party receivable, current portion	510	-	510	200,474	-	200,474	-	(200,984)	-
Prepaid expenses and other	181,452	34,348	215,800	1,847	35,969	37,816	49,867	-	303,483
Pledges receivable, current portion	50,000	-	50,000	-	-	-	-	-	50,000
Total other current assets	5,326,811	71,870	5,398,681	401,938	44,798	446,736	50,927	(400,601)	5,495,743
Total current assets	9,487,177	1,429,563	10,916,740	803,099	1,153,796	1,956,895	487,353	(400,601)	12,960,387
Land, buildings, equipment construction in progress, and intangible assets									
Land, buildings, equipment, and construction in progress	7,372,810	12,736,516	20,109,326	-	18,384,759	18,384,759	5,286,629	-	43,780,714
Accumulated depreciation	(2,607,146)	(5,999,140)	(8,606,286)	-	(4,694,818)	(4,694,818)	(2,182,778)	-	(15,483,882)
Intangible assets, net of amortization	-	-	-	-	118,032	118,032	11,285	-	129,317
Total land, buildings, equipment and intangible assets, net	4,765,664	6,737,376	11,503,040	-	13,807,973	13,807,973	3,115,136	-	28,426,149
Other assets									
Pledges receivable, net of current portion	564,123	-	564,123	-	-	-	-	-	564,123
Related party receivable, net of current portion	702,417	-	702,417	5,596,203	-	5,596,203	-	(6,298,620)	-
Total other assets	1,266,540	-	1,266,540	5,596,203	-	5,596,203	-	(6,298,620)	564,123
Total assets	\$ 15,519,381	\$ 8,166,939	\$ 23,686,320	\$ 6,399,302	\$ 14,961,769	\$ 21,361,071	\$ 3,602,489	\$ (6,699,221)	\$ 41,950,659



**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**CONSOLIDATING BALANCE SHEETS**  
**JUNE 30, 2013**

LIABILITIES AND NET ASSETS	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
<b>Liabilities</b>									
<b>Current liabilities</b>									
Accounts payable and accrued expenses	\$ 413,322	\$ 143,581	\$ 556,903	\$ -	70,318	\$ 70,318	19,154	\$ (11,501)	\$ 634,874
Accounts payable to related parties	-	-	-	470,641	651,260	1,121,901	-	(1,121,901)	-
Accrued payroll and related expenses	1,764,805	-	1,764,805	-	-	-	-	-	1,764,805
Accrued paid time off	940,834	-	940,834	-	-	-	-	-	940,834
Funds held on behalf of others	212,993	-	212,993	-	-	-	-	-	212,993
Interest payable	18,621	5,868	24,489	357,606	794,075	1,151,681	37,609	(767,162)	446,617
Advances payable	6,653	57,705	64,358	-	41,626	41,626	18,940	-	124,924
Current portion of long-term debt	598,512	97,968	696,480	-	69,347	69,347	5,255	-	771,082
<b>Total current liabilities</b>	<b>3,955,740</b>	<b>305,122</b>	<b>4,260,862</b>	<b>828,247</b>	<b>1,626,626</b>	<b>2,454,873</b>	<b>80,958</b>	<b>(1,900,564)</b>	<b>4,896,129</b>
<b>Long-term liabilities</b>									
Long-term debt, net of current portion	3,926,892	1,822,710	5,749,602	-	4,532,412	4,532,412	621,441	-	10,903,455
Notes payable - related party	-	189,483	189,483	592,170	3,946,814	4,538,984	-	(4,728,467)	-
Equity gap financing	-	3,153,010	3,153,010	1,653,850	280,619	1,934,469	70,000	-	5,157,479
Deferred rent	168,700	-	168,700	-	-	-	-	-	168,700
<b>Total long-term liabilities</b>	<b>4,095,592</b>	<b>5,165,203</b>	<b>9,260,795</b>	<b>2,246,020</b>	<b>8,759,845</b>	<b>11,005,865</b>	<b>691,441</b>	<b>(4,728,467)</b>	<b>16,229,634</b>
<b>Total liabilities</b>	<b>8,051,332</b>	<b>5,470,325</b>	<b>13,521,657</b>	<b>3,074,267</b>	<b>10,386,471</b>	<b>13,460,738</b>	<b>772,399</b>	<b>(6,629,031)</b>	<b>21,125,763</b>
<b>Net assets</b>									
<b>Unrestricted</b>									
Cascadia Behavioral Healthcare, Inc. and Affiliates	6,742,427	1,594,772	8,337,199	3,325,035	432,203	3,757,238	(1,236,376)	(70,190)	10,787,871
Noncontrolling interest	-	-	-	-	4,143,095	4,143,095	-	-	4,143,095
<b>Temporarily restricted</b>									
	725,622	1,101,842	1,827,464	-	-	-	4,066,466	-	5,893,930
<b>Total net assets</b>	<b>7,468,049</b>	<b>2,696,614</b>	<b>10,164,663</b>	<b>3,325,035</b>	<b>4,575,298</b>	<b>7,900,333</b>	<b>2,830,090</b>	<b>(70,190)</b>	<b>20,824,896</b>
<b>Total liabilities and net assets</b>	<b>\$ 15,519,381</b>	<b>\$ 8,166,939</b>	<b>\$ 23,686,320</b>	<b>\$ 6,399,302</b>	<b>\$ 14,961,769</b>	<b>\$ 21,361,071</b>	<b>\$ 3,602,489</b>	<b>\$ (6,699,221)</b>	<b>\$ 41,950,659</b>

**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	\$ 32,575,772	\$ -	\$ 32,575,772	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,575,772
Mental health contract revenue	11,599,129	-	11,599,129	-	-	-	-	-	11,599,129
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

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**CONSOLIDATING INCOME STATEMENTS (UNRESTRICTED ONLY)**  
**YEAR ENDING JUNE 30, 2013**

	CBH Operations	CBH Properties	CBH Total	CHI Operations	CHI Properties	CHI Total	HUDs	Elimination	Consolidated
<b>Ordinary income (expense)</b>									
Income									
Mental health service fees	\$ 27,498,436	\$ -	\$ 27,498,436	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,498,436
Mental health contract revenue	14,863,797	-	14,863,797	-	-	-	-	-	14,863,797
Grants and contributions	1,521,021	47,918	1,568,939	-	57,249	57,249	11,944	(96,577)	1,541,555
Net rental income	(360,550)	2,322,485	1,961,935	-	1,278,715	1,278,715	461,889	-	3,702,539
Other rental income	286,383	14,131	300,514	-	26,989	26,989	10,054	-	337,557
Other income	611,287	21,151	632,438	-	-	-	-	-	632,438
Income from properties	453,023	-	453,023	74,546	-	74,546	-	(411,284)	116,285
Interest and investment income	22,689	893	23,582	140,482	699	141,181	597	(139,968)	25,392
Net assets released from restriction	141,835	101,327	243,162	-	-	-	-	-	243,162
<b>Total income</b>	<b>45,037,921</b>	<b>2,507,905</b>	<b>47,545,826</b>	<b>215,028</b>	<b>1,363,652</b>	<b>1,578,680</b>	<b>484,484</b>	<b>(647,829)</b>	<b>48,961,161</b>
Expense									
Payroll and related costs	35,809,986	-	35,809,986	-	206,668	206,668	63,349	(168,547)	35,911,456
Professional fees	1,287,289	521,226	1,808,515	3,162	239,445	242,607	97,838	(193,538)	1,955,422
Subcontract costs	378,117	-	378,117	-	-	-	-	-	378,117
Office supplies	212,974	2,186	215,160	3,014	12,208	15,222	8,346	-	238,728
Program supplies	1,295,956	1,115	1,297,071	-	-	-	-	-	1,297,071
Medical supplies and equipment	129,845	674	130,519	-	-	-	-	-	130,519
Repairs and maintenance	429,516	501,285	930,801	671	265,300	265,971	206,452	(66,139)	1,337,085
Equipment leases	150,391	-	150,391	-	-	-	-	-	150,391
Food and related expenses	644,612	4,403	649,015	-	-	-	-	-	649,015
Printing and postage	42,786	-	42,786	-	-	-	-	-	42,786
Telephone and utilities	609,346	516,229	1,125,575	-	153,443	153,443	52,154	-	1,331,172
Rent	1,568,672	180,969	1,749,641	-	1,233	1,233	-	-	1,750,874
Insurance and property tax	454,504	54,944	509,448	902	61,642	62,544	22,347	-	594,339
Dues and subscriptions	60,602	2,033	62,635	-	-	-	-	-	62,635
Training	178,688	-	178,688	-	-	-	-	-	178,688
Travel	488,529	-	488,529	-	3,290	3,290	1,739	(5,029)	488,529
Other	234,272	38,029	272,301	12,228	17,511	29,739	5,397	-	307,437
Allocated billing costs	(41,128)	-	(41,128)	-	-	-	-	-	(41,128)
<b>Total expense</b>	<b>43,934,957</b>	<b>1,823,093</b>	<b>45,758,050</b>	<b>19,977</b>	<b>960,740</b>	<b>980,717</b>	<b>457,622</b>	<b>(433,253)</b>	<b>46,763,136</b>
<b>Net ordinary income</b>	<b>1,102,964</b>	<b>684,812</b>	<b>1,787,776</b>	<b>195,051</b>	<b>402,912</b>	<b>597,963</b>	<b>26,862</b>	<b>(214,576)</b>	<b>2,198,025</b>
<b>Other income (expense)</b>									
Other expense									
Fees to related party	-	-	-	74,608	74,608	149,216	-	(74,608)	74,608
Depreciation and amortization	440,525	431,098	871,623	-	562,255	562,255	133,395	-	1,567,273
Financial expenses	153,727	111,221	264,948	47,438	385,255	432,693	39,672	(139,968)	597,345
<b>Total other expense</b>	<b>594,252</b>	<b>542,319</b>	<b>1,136,571</b>	<b>122,046</b>	<b>1,022,118</b>	<b>1,144,164</b>	<b>173,067</b>	<b>(214,576)</b>	<b>2,239,226</b>
<b>Net income (loss)</b>	<b>\$ 508,712</b>	<b>\$ 142,493</b>	<b>\$ 651,205</b>	<b>\$ 73,005</b>	<b>\$ (619,206)</b>	<b>\$ (546,201)</b>	<b>\$ (146,205)</b>	<b>\$ -</b>	<b>\$ (41,201)</b>

**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, 2014, and the related consolidated income statement, statements of changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2015.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Cascadia Behavioral Healthcare, Inc. and Affiliates' Response to Finding**

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 9, 2015

## **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 each of the Organization's major federal programs for the year ended June 30, 2014. The Organization's major federal programs are 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 each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

## **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 each of its major federal programs for the year ended June 30, 2014.

### **Report on Internal Control Over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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 9, 2015



**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2014**

**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

Type of auditor's report issued on compliance for major federal programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? \_\_\_ yes \_\_\_  no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.610	Health Care Innovation Awards
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
Dollar threshold used to distinguish Between type A and type B programs?	\$300,000
Auditee qualified as low-risk auditee?	___ <input checked="" type="checkbox"/> yes <span style="margin-left: 100px;">___ no</span>

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2014**

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**Section II - Financial Statement Findings**

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**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 CFDA #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.

**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**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2014**

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**Section II - Financial Statement Findings (continued)**

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**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.

**Views of responsible officials and planned corrective actions (unaudited):** 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.

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**Section III - Federal Award Findings and Questioned Costs**

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None reported.

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING  
FOR THE YEAR ENDED JUNE 30, 2014**

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**FINDING 2013-001      Subrecipient Monitoring – Significant Deficiency in Internal Control and Instances of Noncompliance**

**Federal Program:**      Substance Abuse and Mental Health Services – Projects of Regional and National Significance (CFDA #93.243)

**Federal Agency:**      Department of Health and Human Services

**Criteria:**              As noted in Title 2, Part 215.48, Contract Provisions, the recipient shall include, in addition to provisions to define a sound and complete agreement, the following provision in all contracts. The following provisions shall also be applied to sub-contracts-(e) all contracts, including small purchases, awarded by recipients and their contractors shall contain the procurement provisions of appendix A to this part, as applicable. As noted in Appendix A, #8 Debarment and Suspension states a contract award with an amount expected to equal or exceed \$25,000 and certain other contract awards shall not be made to parties listed on the government-wide Excluded Parties List System. The Excluded Parties List System contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority.

Additionally, as noted in Title 2, Part 215.51, Monitoring and Reporting Program Performance, recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award. Recipients shall monitor subawards to ensure subrecipients have met the audit requirements as delineated in Part 215.26. As noted in Title 2, Part 215.26, Non-Federal Audits, recipients and subrecipients that are institutions of higher education or other non-profit organization shall be subject to the audit requirements contained in the Single Audit Act Amendments of 1996 and revised OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**Condition:**              During our testing of subrecipient monitoring, we noted that one contract tested did not include any of the required federal clauses and certifications.

Additionally, we noted the Organization had not formally monitored the two subrecipients of the federal award.

The costs paid by the grant were allowable per the scope of the grant.

**Questioned Costs:**      None as discussed above.

**Context:**                Based on discussions with management, it appears that management was unaware of the requirements discussed above.

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDING**  
**FOR THE YEAR ENDED JUNE 30, 2014**

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***Cause/Effect:*** Cascadia passed through funds without securing an appropriate contract with the required federal clauses and certifications. Additionally, federal funds were passed through to subrecipients without the appropriate during-the-award monitoring. The cause appears to be due to insufficient controls surrounding subrecipient monitoring.

***Recommendation:*** Moss Adams recommends that the Organization establish sufficient controls to ensure that the required contract language is included and documentation is obtained and retained for all applicable subrecipients. We also recommend that the Organization formally monitor all subrecipients by maintaining appropriate documentation.

***Mgmt Response:*** Management was not aware of the requirement to do periodic monitoring of subrecipient's spending of the Federal subawards. A process has been put in place to receive on a quarterly basis financial reports from the subrecipients showing how the funds have been used. We are also amending the contract with Outside In so it contains the language stating the requirement to not award funds to parties listed on the government-wide Excluded Parties List System. We are also requiring subrecipients to provide the Organization with their audited financials including their A-133 results.

***Current Status:*** Based on our audit procedures, we noted Cascadia adequately monitored the subrecipients spending of the Federal subawards. Additionally, we noted the contract was subsequently amended to include the required contract language. As such, we consider this issue resolved.

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2014**

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Housing and Urban Development Direct Programs			
Supportive Housing Program - Royal Palm	14.235		\$ 711,636
Supportive Housing Program - McKinney Permanent Housing	14.235		22,217
Supportive Housing Program - OTIH	14.235		270,186
Supportive Housing Program - Special Needs Services	14.235		127,672
Supportive Housing Program - Residential Service Coordinator	14.235		70,313
Section 8 Housing Assistance Payments Program	14.195		<u>61,437</u>
Subtotal Department of Housing and Urban Development Direct Programs			<u>1,263,461</u>
Department of Housing and Urban Development Pass-Through Programs From:			
City of Portland - Supportive Housing Program - OTIS	14.235	CP-32000966	169,341
Enterprise Community Partners - Supportive Housing Program - Oregon Partnership for Health Integration (OPHI) Expansion	14.235	14SG4041	<u>8,096</u>
Subtotal Department of Housing and Urban Development Pass- Through Programs			<u>177,437</u>
<i>Total Department of Housing and Urban Development</i>			<u>1,440,898</u>
Department of Health and Human Services Direct Programs			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		<u>400,000</u>
Subtotal Department of Health and Human Services Direct Programs			<u>400,000</u>
Department of Health and Human Services Pass Through Programs From:			
Multnomah County Department of County Human Services - Block Grants for Community Mental Health Services	93.958	1000000092	31,849
State of Oregon - Projects for Assistance in Transition from Homelessness (PATH)	93.150	SO-142730	88,328
State of Oregon - Housing Opportunities for Persons with AIDS	14.241	SO-144651	37,712
Centers for Medicare and Medicaid Services			
Multnomah County Department of County Human Services - Health Care Innovation Awards (HCIA)	93.610	4400000355	139,438
Providence Health and Services - Oregon - Health Care Innovation Awards (HCIA)	93.610	CMS330985	<u>170,872</u>
Subtotal Department of Health and Human Services Pass Through Programs			<u>468,199</u>
<i>Total Department of Health and Human Services</i>			<u>868,199</u>
<b><i>Total Expenditures of Federal Awards</i></b>			<u><u>\$ 2,309,097</u></u>

**CASCADIA BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2014**

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**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. (Cascadia) under programs of the federal government for the year ended June 30, 2014. 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 Cascadia, it is not intended to and does not present the consolidated balance sheet, changes in net assets or cash flows of Cascadia.

**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.

**Note 3 – Subrecipients**

Of the federal expenditures presented in the Schedule, Cascadia provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amounts Provided to Subrecipients</u>
93.243	Projects of Regional and National Significance	\$ 250,000