



COMPASS HEALTH AND SUBSIDIARIES

Consolidated Financial Statements
For the Year Ended June 30, 2013

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Independent Auditors' Report***Board of Directors
Compass Health
Everett, Washington******REPORT ON THE FINANCIAL STATEMENTS***

We have audited the accompanying consolidated financial statements of Compass Health and Subsidiaries (collectively, the Organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

CLARK NUBER

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2013, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information, including comparative totals, shown on pages 29 to 33 is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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 the Organization's internal control over financial reporting and compliance.

Clark Nuber P.S.

Certified Public Accountants
November 18, 2013

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Financial Position
June 30, 2013
(With Comparative Totals for 2012)

	<u>2013</u>	<u>2012</u>
Current Assets:		
Cash and cash equivalents	\$ 3,917,664	\$ 4,331,286
Deposits held in trust	563,744	491,549
Accounts receivable, net of allowance for doubtful accounts of \$228,594 (\$159,635 - 2012)	379,430	391,591
Grants receivable, net of allowance for doubtful amounts of \$201,132 (\$138,850 - 2012)	1,812,293	831,859
Other receivables	4,259	1,124,866
Prepaid expenses and other assets	794,713	687,294
Total Current Assets	7,472,103	7,858,445
Restricted deposits and funded reserves (Note 3)	829,257	907,157
Investments (Note 4)	744,435	721,983
Property and equipment, net (Note 5)	24,243,014	23,890,131
Bond issue costs, net	85,980	84,732
Total Assets	\$ 33,374,789	\$ 33,462,448
Current Liabilities:		
Accounts payable	\$ 960,660	\$ 944,682
Construction payable		481,415
Accrued liabilities	2,366,617	3,128,262
Deferred revenue	20,351	15,935
Deposits held in trust	563,744	491,549
Current portion of capital lease obligations (Note 12)	27,560	4,182
Current portion of long-term debt (Note 7)	236,553	199,215
Total Current Liabilities	4,175,485	5,265,240
Capital lease obligations, less current portion (Note 12)	64,136	
Long-term debt, less current portion (Note 7)	7,422,889	7,179,916
Total Liabilities	11,662,510	12,445,156
Net Assets:		
Unrestricted-		
Controlling interest	14,644,576	13,763,254
Noncontrolling interest	2,100,758	2,233,410
Total unrestricted	16,745,334	15,996,664
Temporarily restricted (Note 8)	4,685,689	4,739,372
Permanently restricted (Note 11)	281,256	281,256
Total Net Assets	21,712,279	21,017,292
Total Liabilities and Net Assets	\$ 33,374,789	\$ 33,462,448

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Activities
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)**

	2013			Total	2012
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating Activities					
Support, Revenue and Gains:					
Net patient service revenue (Note 2)	\$ 30,063,139	\$ -	\$ -	\$ 30,063,139	\$ 27,428,080
Contributions and grants	2,488,257	156,381		2,644,638	3,123,746
In-kind contributions	20,565			20,565	52,318
Rental revenue	1,329,290			1,329,290	1,141,278
Estimated insurance proceeds - rental loss					34,702
Consultation revenue	221,868			221,868	162,873
Other	894			894	28,519
Total Operating Support, Revenue and Gains	34,124,013	156,381		34,280,394	31,971,516
Net assets released from restriction	63,280	(63,280)			
Total Operating Support, Revenue, Gains and Reclassifications	34,187,293	93,101		34,280,394	31,971,516
Expenses:					
Program services-					
Crisis response	3,460,843			3,460,843	3,193,909
Mental health outpatient	13,410,662			13,410,662	12,481,442
Residential treatment	2,143,640			2,143,640	2,052,522
Housing	2,287,434			2,287,434	2,264,812
Inpatient	2,674,084			2,674,084	2,712,690
Children's hospital alternative program	1,589,473			1,589,473	1,540,028
Psychiatry	2,160,045			2,160,045	2,050,079
Other program services	1,538,780			1,538,780	1,502,587
Total program services	29,264,961			29,264,961	27,798,069
Supporting services-					
Management and general	4,338,597			4,338,597	4,778,590
Information services	883,465			883,465	1,300,335
Fundraising	165,104			165,104	228,950
Total supporting services	5,387,166			5,387,166	6,307,875
Total Operating Expenses	34,652,127			34,652,127	34,105,944
Change in Net Assets from Operating Activities	(464,834)	93,101		(371,733)	(2,134,428)

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Activities (Continued)
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)

	2013			Total	2012
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Nonoperating Activities					
Investment returns (Note 4)	\$ 9,883	\$ 46,588	\$ -	\$ 56,471	\$ 22,328
Gain on sale or disposal of fixed assets	102,097			102,097	139,412
Estimated insurance proceeds - property loss					86,116
Interest income	3,197			3,197	15,014
Change in Net Assets from Nonoperating Activities	115,177	46,588		161,765	262,870
Excess (Deficiency) of Support and Revenues and Gains Over (Under) Expenses	(349,657)	139,689		(209,968)	(1,871,558)
Unrealized investment losses (Note 4)		(24,136)		(24,136)	(26,926)
Contributions and grants for the acquisition of long-term assets	700,794	228,297		929,091	133,920
Release of restricted assets related to long-term assets (Note 8)	397,533	(397,533)			
Total Change in Net Assets	748,670	(53,683)		694,987	(1,764,564)
Noncontrolling interest in net losses of subsidiaries	132,652			132,652	145,399
Total Change in Net Assets Excluding Noncontrolling Interest	\$ 881,322	\$ (53,683)	\$ -	\$ 827,639	\$ (1,619,165)

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Changes in Net Assets
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)**

	<i>Unrestricted</i>			<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2013 Total</i>	<i>2012</i>
	<i>Controlling Interest</i>	<i>Noncontrolling Interest</i>	<i>Total</i>				
Beginning of year, net assets	\$ 13,763,254	\$ 2,233,410	\$ 15,996,664	\$ 4,739,372	\$ 281,256	\$ 21,017,292	\$ 22,804,375
Change in net assets excluding noncontrolling interest	881,322		881,322	(53,683)		827,639	(1,619,165)
Change in net assets from noncontrolling interest		(132,652)	(132,652)			(132,652)	(145,399)
Total Change in Net Assets	881,322	(132,652)	748,670	(53,683)		694,987	(1,764,564)
Capital contributions							71
Capital distributions							(22,590)
End of Year Net Assets	\$ 14,644,576	\$ 2,100,758	\$ 16,745,334	\$ 4,685,689	\$ 281,256	\$ 21,712,279	\$ 21,017,292

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Cash Flows
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 694,987	\$ (1,764,564)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation and amortization	1,241,654	1,131,110
Contributions and grants for the acquisition of long-term assets	(929,091)	(133,920)
Dissolution of APN		(22,520)
Unrealized investment losses	24,136	26,926
Estimated insurance settlement		(120,818)
Gain on sale or disposal of fixed assets	(77,524)	(139,412)
Changes in assets and liabilities:		
Accounts receivable	12,161	25,367
Grants receivable	(719,884)	(35,810)
Other receivables	120,607	(49,428)
Prepaid expenses and other assets	(107,419)	2,394
Accounts payable and accrued expenses	254,333	(183,466)
Deferred revenue	4,416	936
Net Cash Provided (Used) by Operating Activities	518,376	(1,263,205)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(2,057,580)	(1,344,960)
Proceeds from sale of property and equipment	164,900	120,950
Net withdrawals from restricted deposits and funded reserves	77,900	33,069
Insurance proceeds from property and rental loss		1,100,833
Purchases of investments	(209,205)	(544,084)
Proceeds from sale of investments	162,617	571,010
Net Cash Used by Investing Activities	(1,861,368)	(63,182)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt (Note 7)	1,751,244	934
Repayment of capital lease obligation	(13,474)	(11,916)
Payment of bond issuance costs	(6,008)	(11,884)
Principal payments on long-term debt (Note 7)	(1,470,933)	(280,287)
Proceeds from contributions and grants for the acquisition of long-term assets	668,541	69,458
Net Cash Provided (Used) by Financing Activities	929,370	(233,695)
Change in Cash and Cash Equivalents	(413,622)	(1,560,082)
Cash and Cash Equivalents:		
Beginning of year	4,331,286	5,891,368
End of Year	\$ 3,917,664	\$ 4,331,286
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 308,121	\$ 332,686
Fixed asset purchases included in construction payable at year-end	\$ -	\$ 481,415
Acquisition of equipment under capital lease obligation	\$ 100,988	\$ -

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 1 - Organization and Summary of Significant Accounting Policies

Organization - The consolidated financial statements of Compass Health and Subsidiaries (collectively, the Organization) include the activities of Compass Health and its subsidiaries, Luther Child Center, College Hill Consociation, Child Advocacy Center of Snohomish County at Dawson Place, Compass Health Holdings, LLC, Marysville Studio Apartments, LLC and Milwaukee Park Apartments, LP, Counterpoint Commons and Mental Health Services of Snohomish County II.

Compass Health is a Washington State charitable corporation formed in October 1997 to merge the activities of several not-for profit organizations. Compass offers a full range of behavioral health services in the north Puget Sound region of Washington State.

Luther Child Center (LCC) is a not-for-profit organization that was integral to the formation of Compass Health. During fiscal year 2001, Compass Health became a sole member of LCC. LCC is presently inactive.

Compass Health elects a majority of the Board of Directors of College Hill Consociation and Mental Health Services of Snohomish County II. As Compass Health also has an economic interest in these organizations, they are consolidated with Compass Health in the accompanying consolidated financial statements. Though Compass Health does not have a majority voting interest in Counterpoint Commons, Compass Health has an economic interest in Counterpoint Commons and retains control through a sponsorship agreement.

Marysville Studio Apartments, LLC was formed as a limited partnership under the laws of the State of Washington in 2002. The project consists of 18 housing units in Marysville, Washington. The project received an allocation of low-income housing tax credits from the Washington State Housing Finance Commission under Section 42 of the Internal Revenue Code of 1986, as amended. Compass Health has a 0.01% member interest in the limited liability company. The limited liability company is reported as a consolidated subsidiary of Compass Health due to the control Compass Health has over the limited liability company as its managing member.

Compass Health is the sole and managing member of Compass Health Holdings, LLC (CHH), a consolidated entity of Compass Health which was formed in January 2007. CHH is the general partner of Milwaukee Park Apartments LP (MPA), also formed in January 2007. MPA was formed as a limited partnership under the laws of the State of Washington. The general partner is CHH and the investor member is the National Equity Fund. The project consists of 15 studio apartments located in Mount Vernon, Washington. The project received an allocation of low-income housing tax credits from the Washington State Housing Finance Commission under Section 42 of the Internal Revenue Code of 1986, as amended. Compass Health has a 0.01% partnership interest in MPA. MPA is reported as a consolidated entity of Compass Health due to the control Compass Health has over MPA as its general partner.

Child Advocacy Center of Snohomish County at Dawson Place (Dawson Place) was incorporated in July 2009, as a Washington not-for-profit corporation. Dawson Place is a child advocacy center located in Everett, WA that provides a facility where local governmental agencies and not-for-profit organizations provide comprehensive services to child victims of sexual or physical abuse in Snohomish County, Washington. As Compass Health has the ability to control and has an economic interest in Dawson Place, Dawson Place is reported as a consolidated entity of Compass Health.

Noncontrolling interest presented in the consolidated financial statements is comprised of the ownership interest of members and partners related to Marysville Studio Apartments, LLC and Milwaukee Park Apartments, LP.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 1 - Continued

Behavioral Health Northwest (BHN), a nonprofit corporation, was incorporated in fiscal year 2011 and facilitates a network of providers in Washington State to provide transitional care to keep individuals in their home. Compass Health and another not-for profit organization have equal membership rights to BHN. As such, BHN has not been consolidated with Compass Health for the years ended June 30, 2013 and 2012.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Compass Health and its subsidiaries. Inter-entity transactions and balances have been eliminated in consolidation. The consolidated entity is referred to as the Organization in the notes to the consolidated financial statements.

The Organization provides the following service programs:

Crisis Response - Serves people of all ages who are experiencing acute episodes requiring stabilization. Outpatient services include voluntary crisis outreach, evaluation for voluntary and involuntary inpatient admissions, urgent outpatient appointments, and referrals to ongoing services. Triage facility services provide a 24-hour 16 bed facility for short term observation and stabilization for individuals with a mental health or chemical dependency crisis. Triage provides professional and peer support, with referral and linkages to resources at discharge, as well as telephone follow-up.

Mental Health Outpatient - Provides counseling, case management, family therapy, group therapy, and psychiatric prescribing, along with other specialized outpatient services. Serves individuals of all ages and families. Services range in intensity from brief interventions to longer term treatment. Treatment plans are tailored to individual needs.

Residential Treatment - Three facilities totaling 44 beds provide 24-hour residential treatment to adults unable to live independently due to a mental illness. Residential services are designed to assist individuals in developing the independent living skills necessary to achieve independence and develop skills to manage their mental health needs in a less restrictive environment.

Housing - Provides safe and affordable housing to individuals who have chronic mental illness. Support services are provided to assist clients coming out of institutions and moving from homelessness to being stably housed. Other support services include HMIS (Homeless Management Information System) data entry required by the U.S. Department of Housing and Urban Development (HUD) and administering the Shelter plus Care program which provides clients with a voucher to live wherever they chose. At June 30, 2013, there were 17 units representing 169 beds in 7 cities throughout 3 counties. In addition, the Organization master leases 3 apartments with 6 beds, issues 125 Shelter Plus Care Vouchers and 10 - 2163 vouchers. The housing program also secures grant funds for motel vouchers to provide a safe place to sleep while staff help look for a permanent housing option.

Inpatient - Operates a 16-bed Evaluation and Treatment Center providing short-term inpatient treatment for individuals involuntarily hospitalized under the Involuntary Treatment Act.

Intensive Services - Provides intensive 24-hour outpatient services to children and adults using a variety of models, including the evidence-based practices of Wraparound for children, and the Program for Assertive Community Treatment (PACT) for adults. The program serves individuals who are at high risk of crisis intervention and hospitalization, and utilizes a team approach.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 1 - Continued

Psychiatry - Provides psychiatric evaluation and medication management, embedded in most of the service programs listed here.

Other Program Services - Other services related to the Compass Health mission provided directly to the public and affiliated agencies serving common populations, such as community outreach and education, chemical dependency treatment services, care coordination and hospital transition services, and payee services.

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

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time. See Note 8 for more information on the temporarily restricted net assets.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. See Note 11 for more information on the permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. Contributions with externally imposed restrictions that are met in the same year as received are reported as revenues of the unrestricted net asset class.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Totals - The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Cash and Cash Equivalents - For the purpose of the consolidated statement of cash flows, the Organization considers all highly liquid investments purchased with original maturities of three months or less, except for those held in its investment and reserves portfolios, to be cash and cash equivalents. Cash and cash equivalents held by financial institutions in interest-bearing accounts at times exceed federally insured limits.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 1 - Continued

Deposits Held in Trust - The Organization retains custody of client funds as part of the Community Support Services program, as well as, tenant security deposits.

Investments - Investments are carried at fair value and realized and unrealized gains and losses are reflected in the consolidated statement of activities.

Accounts Receivable - Accounts receivable are stated at net realizable value. Third-party contractual adjustments are made based on past experience. Receivables are reduced by an allowance for estimated uncollectible amounts and accounts deemed uncollectible are charged against this allowance. The allowance for doubtful accounts is maintained at a level considered adequate to provide for potential past due receivables. The adequacy of the allowance is based upon management's evaluation of the quality, character and inherent risks associated with the receivables based on past experience. The Organization provides care to patients regardless of their ability to pay. A minimum payment is requested for each visit and collection is made at the time of the visit. If the patient is unable to pay at the time of visit, they are subsequently billed. Because a number of private pay clients are homeless and cannot be located, a significant number of these accounts are ultimately determined to be uncollectible. The Organization's policy is to write off outstanding patient balances after one year. As of June 30, 2013 and 2012, the Organization estimated the allowance for contractual adjustments on outstanding accounts receivable to be \$345,321 and \$132,814, respectively.

Bond Issue Costs - Bond issue costs are capitalized and amortized using the effective interest method over 20 years, which corresponds to the life of the bonds. Amortization expense was \$5,925 and \$4,760 for the years ended June 30, 2013 and 2012, respectively.

Property and Equipment - The Organization capitalizes assets with an estimated useful life of more than one year and a cost greater than \$1,000 except for residential equipment where the capitalization threshold is \$500. Purchased property is carried at cost. Donated property is recorded at fair value when received. Depreciation is computed using the straight-line method based on estimated useful lives as follows:

Buildings and improvements	6 - 40 years
Furniture and equipment	3 - 7 years
Leasehold improvements	shorter of the asset useful life or lease term
Vehicles	5 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. When the long-lived assets are acquired, the Organization reflects the expiration of the donor-imposed restriction as a reclassification included in net assets released from restrictions.

Deferred Revenue - Deferred revenue consists of rents and contract payments received and not yet earned.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 1 - Continued

Malpractice Insurance and Other Claims - The Organization purchases professional and general liability insurance to cover medical malpractice claims. The insurance policy provides claims-made malpractice insurance coverage which covers only asserted malpractice claims. The Organization recognizes expenses associated with unasserted malpractice claims in the period in which the incidents are expected to have occurred, rather than when a claim is asserted. The Organization is involved from time to time in claims, proceedings and litigation arising in the ordinary course of business. In management's opinion, the outcome from these matters will not materially impact the Organization's financial position or results of activities.

Nonoperating Versus Operating - For the purpose of the changes in net assets on the consolidated statement of activities, the Organization considers the gain or loss on sale or disposition of fixed assets, investment returns (losses), estimated insurance proceeds relating to long-term assets, and other significant and unusual transactions to be nonoperating activities.

Excess (Deficiency) of Support, Revenues and Gains Over (Under) Expenses - The consolidated statement of activities includes excess (deficiency) of support, revenues and gains over (under) expenses which is considered its performance indicator. Changes in unrestricted net assets which are excluded from operations, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, restricted contributions, including temporary restrictions (such as time or purpose) or permanent restrictions, investment returns restricted by donors or by law, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets and the related releases).

Net Patient Service Revenue - The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include reimbursed costs, case rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors as final settlements are determined.

Contributions - Contributions, which include unconditional promises to give (pledges), are recognized as revenues at fair value in the period received. Promises to give receivable in more than one year are discounted at risk adjusted rates, determined at the time the promise is made, for each additional year through the term of the pledge.

In-Kind Contributions - The Organization accepts contributions of food, clothing, and other assets for the benefit of its clients. These contributions are recorded at fair value as in-kind contributions and represent the full amount of in-kind contributions recognized during the years ended June 30, 2013 and 2012.

Concentrations - The Organization is partly funded under fee for service contracts with the Regional Support Network (RSN), organized as the North Sound Mental Health Administration, and other governmental agencies. As of and for the year ended June 30, 2013, receivables and revenues related to the RSN and other governmental agencies accounted for approximately 87 percent and 93 percent, of total year end grants and accounts receivables and net patient service and grant revenue, respectively. As of and for the year ended June 30, 2012, the same receivables and revenues related to the agencies accounted for approximately 76 percent and 92 percent of total year end grants and accounts receivables and net patient service and grant revenue, respectively.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 1 - Continued

The Organization also grants credit without collateral to its patients, most of whom are local residents and are commonly insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Medicaid	3%	8%
Medicare	9	7
Other third party payors	59	41
Patients	<u>29</u>	<u>44</u>
	<u>100%</u>	<u>100%</u>

The health programs are dependent upon continued funding from government agencies and the legislative acts that impact the programs. The fee for service and cost reimbursement revenues from these programs are subject to periodic audit and review by the governmental agencies.

Charity Care - The Organization has a policy of providing discounted services to patients who are unable to pay full fees. Such patients are deemed eligible based upon financial information obtained from the patient. The Organization determines the cost associated with providing charity care by calculating the ratio of discounts as a percentage of total billed charges for the services provided and applies that ratio to the total cost of providing the service. During the year ended June 30, 2013, the cost of providing charity care to patients was \$791,205 with no restricted contributions being received to offset this cost during the year.

Collective Bargaining - The Organization continues to negotiate a collective bargaining agreement (the agreement) with the Service Employees International Union 1199NW with most recent agreement expiring March 31, 2013 with negotiations continuing in fiscal year 2013. Approximately 53 and 49 percent of the Organization's employees are covered under the agreement during the years ended June 30, 2013 and 2012, respectively.

Federal Income Taxes - Compass Health, Luther Child Center, Dawson Place, Counterpoint Commons and Mental Health Services of Snohomish County II are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and the Internal Revenue Service has determined these entities are exempt from federal income tax on income related to the respective exempt purposes. College Hill Consociation is a not-for-profit corporation as described in Section 501(c)(2) of the Internal Revenue Code and the Internal Revenue Service has determined this entity to be exempt from federal income tax on income related to its exempt purposes. None of these entities are considered private foundations.

MSA and CHH are limited liability companies which have elected to be taxed as partnerships under the provisions of the Internal Revenue Code and MPA is a limited partnership. All profits and losses are passed through to the partners or members. Accordingly, no provision for income taxes has been included in the consolidated financial statements.

The Organization files income tax returns with the U.S. government. The Organization is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 1 - Continued

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Subsequent Events - The Organization has evaluated subsequent events through November 18, 2013, the date on which the consolidated financial statements were available to be issued.

Note 2 - Net Patient Service Revenue

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

RSN - The RSN administers both Medicaid and Washington State funds. Providers earn these funds by receiving fees for service to qualified clients for outpatient services up to a pre-determined ceiling. Inpatient services, crisis services, and residential treatment services are reimbursed monthly on a pre-determined amount.

Medicare - Outpatient services rendered to Medicare program beneficiaries are paid at established rates specified by the Centers for Medicare Services Physician Fee Schedule (PFS rate) for mental health services in the State of Washington. For each visit provided to a Medicare program beneficiary, the Organization is paid 80 percent of the established PFS rate, with the beneficiary being responsible for the remaining 20 percent representing a co-pay.

Revenue from the RSN, Medicaid and Medicare programs accounted for approximately 93 percent and 92 percent of the Organization's net patient revenue for the year ended June 30, 2013 and 2012, respectively.

The Organization also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per encounter, case rates, discounted charges and per diem payments. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 3 - Restricted Deposits and Funded Reserves

The Organization is required to maintain cash in certain restricted deposits and funded reserves related to loans outstanding. These funds are to be used primarily for replacements of property and equipment and support of operations. All reserves are maintained in the custody of various banks. Restricted deposits and funded reserves are comprised of the following at June 30:

	<u>2013</u>	<u>2012</u>
Operating reserves	\$ 428,371	\$ 231,038
Capital reserves	367,347	644,562
Mortgage reserves	10,815	8,645
Bond fund	<u>22,724</u>	<u>22,912</u>
Total	<u>\$ 829,257</u>	<u>\$ 907,157</u>

Note 4 - Investments and Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value and requires certain disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Valuation Techniques - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets for identical assets and liabilities. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities valued using Level 3 inputs are based on management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied. There were no financial assets or liabilities valued using Level 3 inputs.

The Organization's mutual funds were valued at quoted market prices in active markets for identical assets, which represent the net asset value (NAV) of shares held by the Organization at year-end. Mutual funds are valued using Level 1 inputs. There have been no changes in the methodologies used during the year ended June 30, 2013.

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2013**

Note 4 - Continued

Fair values of assets measured on a recurring basis were as follows:

	<i>Fair Value Measurements</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Mutual funds-				
Domestic equity	\$ 147,588	\$ -	\$ -	\$ 147,588
International equity	35,677			35,677
Domestic bond	190,033			190,033
International bond	169,498			169,498
Total investments at fair value	542,796			542,796
Money market	201,639			201,639
Total June 30, 2013	\$ 744,435	\$ -	\$ -	\$ 744,435
Total June 30, 2012	\$ 721,983	\$ -	\$ -	\$ 721,983

Investment return is reported in the consolidated statement of activities for the year ended June 30 as follows:

	<u>2013</u>	<u>2012</u>
Investment returns	\$ 56,471	\$ 22,328
Unrealized investment losses	(24,136)	(26,926)
Total Investment Returns	\$ 32,335	\$ (4,598)

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 5 - Property and Equipment

A summary of property and equipment is as follows:

	<u>2013</u>	<u>2012</u>
Land	\$ 4,355,997	\$ 4,382,273
Leasehold improvements	1,093,722	1,093,722
Buildings and improvements	27,355,087	26,321,326
Construction in progress	758,267	617,370
Furniture and equipment	2,325,112	2,372,428
Vehicles	144,447	187,595
	<u>36,032,632</u>	<u>34,974,714</u>
Less accumulated depreciation	<u>(11,789,618)</u>	<u>(11,084,583)</u>
Total Property and Equipment, Net	<u><u>\$ 24,243,014</u></u>	<u><u>\$ 23,890,131</u></u>

Construction in progress as of June 30, 2013 consisted primarily of costs accumulated for the purchase and implementation of a new electronic health records system with the costs primarily being funded by contribution and grant revenue. As part of the electronic health records implementation, the Organization entered into a contract with a software provider totaling \$418,250 of which \$97,088 had yet to be earned and paid to the software provider as of June 30, 2013. Construction in progress reported at June 30, 2012 represented costs accumulated for energy upgrades at the Bailey building which were completed and placed into service during 2013.

As of and for the years ended June 30, 2013 and June 30, 2012 accumulated depreciation and amortization related to housing totaled \$3,640,692 and \$3,262,192 respectively. As of and for the years ended June 30, 2013 and June 30, 2012, depreciation and amortization expense related to housing buildings and improvements was \$387,881 and \$373,806 respectively.

Note 6 - Unemployment Insurance

The Organization has elected to be self-insured for unemployment compensation. The costs of claims under this program are accrued when incidents occur that give rise to claims. Management has estimated a provision for incurred-but-not-reported claims of \$112,998 and \$117,937 which are included in accrued liabilities in the consolidated statement of financial position at June 30, 2013 and 2012, respectively.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 7 - Long-Term Debt

Long-term debt, at June 30 consists of the following:

	<u>2013</u>	<u>2012</u>
<u>Compass Health:</u>		
Series 2002 Washington Health Care Facilities Authority Bonds (privately placed) payable in principal and interest payments of \$11,449, including fixed interest at 2.38%, due monthly through May 21, 2022. The bonds are collateralized by property at 3322 Broadway in Everett, WA and 3320 173rd Place NE in Arlington, WA. Compass Health is required to comply with restrictive covenants contained in the bond agreement. These covenants were met during 2013.	\$ 943,373	\$ 1,037,082
Series 2001 Low Income Housing Assistance Revenue Bonds issued by the Housing Authority of the City of Everett (privately placed) payable in monthly installments of \$7,833, including interest of 5.367%. The note matures on December 1, 2016, at which time the remaining balance is due in full. The note is collateralized by the Northstar Apartments. Compass is required to comply with restrictive covenants contained in the bond agreement. As of June 30, 2013, Compass Health had not met the debt service coverage ratio requirement and obtained a waiver from Chase Bank.	1,098,082	1,132,141
Series 2012 Washington State Housing Finance Commission Revenue Bonds (privately placed) payable in principal and interest payments of \$3,436, including fixed interest at 2.94%, due monthly through July 1, 2017. Beginning August 1, 2017, the interest rate shall reset every five years through maturity of July 1, 2027. The bonds are collateralized by energy efficiency improvements made on the Compass Health Baily Center.	472,730	
Note payable to the Washington State Department of Commerce payable in annual payments of \$15,989, including a fixed interest rate of 1.00%. Note matures October 2046 and is collateralized by Lafollette Place.	458,931	470,214
Note payable to a bank with a variable interest rate with payments that are variable based on the current interest rate. Interest rate and monthly payment at June 30, 2013, was 7.375% and \$3,492. The note matures June 2023 and is collateralized by the Alder Commons property.	453,538	461,215

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 7 - Continued

	<u>2013</u>	<u>2012</u>
<u>Compass Health (Continued):</u>		
Note payable to the Washington State Department of Commerce is payable in annual payments of \$9,316, including interest of 1.00%. Note matures September 2047 and is collateralized by the Tri Level, McKinney and Rambler properties.	273,549	280,064
Note payable to the Washington State Department of Commerce payable in annual installments of \$8,948, including interest of 1.00%. The note matures January 2048 and is collateralized by the Haven House property.	269,395	275,587
Note payable to Washington Community Reinvestment Association and is payable in monthly payments of \$1,576, including interest at 6.25%. The note matures October 2024 and is collateralized by the 209 Milwaukee St, Mount Vernon, WA property.	244,024	247,566
Note payable to the State of Washington Department of Commerce and is payable in annual payments of \$3,503, including interest of 1.00%. The note matures January 2050 and is collateralized by the O'Leary House property.	150,402	152,381
Note payable to the State of Washington Department of Commerce and is non-interest bearing. Deferred principal payment due the earlier of December 2032, upon refinancing, or such time as the property acquired with the loan is no longer used to house low income, chronically mentally ill persons. Collateralized by the Zeigen House property.	78,550	78,550
<u>Marysville Studio Apartments:</u>		
Note payable to Snohomish County bears interest at 0.50% and requires monthly interest only payments with full payment due in September 2044 and is collateralized by the Marysville Studio Apartments. The property is required to be used for low income housing purposes.	102,095	100,851
<u>Milwaukee Park Apartments:</u>		
Note payable to the State of Washington Department of Commerce. The note is noninterest bearing, matures December 2048, and is collateralized by the Milwaukee Park Apartments. The property is required to be used for low income housing purposes.	999,269	999,269

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2013**

Note 7 - Continued

	<u>2013</u>	<u>2012</u>
<u>Child Advocacy Center of Snohomish County at Dawson Place:</u>		
Note payable, due November 30, 2014, payable \$7,381 per month, including fixed interest at 5.50%. Secured by the Dawson Place land and building. The note payable was refinanced and paid in full during 2013.		1,254,350
Note payable, due March 11, 2023, payable \$7,354 per month, including interest fixed at 4.99% until April 2018 at which time interest rate will be based on the Federal Home Loan Bank of Seattle Five Year Fixed Advanced Rate plus a margin of 2.5%. Secured by the land and building.	1,242,455	
<u>Mental Health Services of Snohomish County II:</u>		
The mortgage note is payable in monthly installments of \$8,018 including interest at 9.00% through May 2032. Substantially all of the rental property and equipment is pledged as collateral on the mortgage.	873,049	889,861
	7,659,442	7,379,131
Less current portion	(236,553)	(199,215)
Long-Term Debt	<u>\$ 7,422,889</u>	<u>\$ 7,179,916</u>

Principal maturities of long-term notes are as follows:

For the Year Ending June 30,

2014	\$ 236,553
2015	251,852
2016	261,506
2017	1,217,743
2018	237,647
Thereafter	5,454,141
	<u>\$ 7,659,442</u>

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2013**

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30 are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Restricted for program services	\$ 209,509	\$ 116,278
Acquisition of fixed assets	287,242	60,000
Time restricted	32,932	32,500
Time restricted endowment assets (Note 11)	463,179	440,727
Forgivable loans (Note 9)	3,692,827	4,089,867
	<u>\$ 4,685,689</u>	<u>\$ 4,739,372</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended June 30 were as follows:

	<u>2013</u>	<u>2012</u>
Released for program expenses	\$ 63,280	\$ 212,819
Amortization of forgivable loans	397,533	333,019
	<u>\$ 460,813</u>	<u>\$ 545,838</u>

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2013**

Note 9 - Forgivable Loans

The Organization received forgivable loan proceeds of \$5,903,130 through the fiscal years ended June 30, 2013. Under terms of the agreements, the facilities funded by these proceeds must be used to continue the mission of the Organization and provide housing for mentally ill and low to very-low income individuals for periods of time expiring through 2056. The forgivable loans are secured by the property at those sites. As management believes the conditions related to these loans are being met and are likely to continue to be met, the proceeds from these forgivable loans have been recognized as temporarily restricted revenues (Note 8). The restricted balances are being released over the terms of the agreements. These proceeds are due on demand and in some cases the funders' prorated share of accumulated appreciation would also be due should the Organization sell the property or fall out of compliance with the specified use restriction. As of June 30, 2013, the Organization is in compliance with the restrictions. The following were the unamortized balances at June 30:

	<i>Restricted Balances 2013</i>	<i>Restricted Balances 2012</i>
Federal note payable to the State of Washington Department of Commerce with an original amount of \$682,793. Note is noninterest bearing and is forgivable in June 2044 provided the property is continuously used to house the chronically mentally ill. Collateralized by Alder Commons.	\$ 529,165	\$ 546,234
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$247,555. Note is noninterest bearing and is forgivable August 2028 provided the property is used to house the chronically mentally ill. Collateralized by Alder Commons.	150,683	160,085
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$231,628. The note is noninterest bearing and is forgivable December 2017 provided the property is used to house the chronically mental ill. Collateralized by the Camellia property.	52,116	63,698
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$200,000. The note is noninterest bearing and is forgivable September 2049 provided the property is used to house the chronically mentally ill. Collateralized by the Haven House.	145,000	149,000

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2013**

Note 9 - Continued

	<i>Restricted Balances 2013</i>	<i>Restricted Balances 2012</i>
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$188,134. The note is noninterest bearing and is forgivable July 2056 provided the property is used to house the chronically mentally ill. Collateralized by the Burke.	135,091	138,226
Note payable to Snohomish County Office of Housing and Community Development with an original amount of \$151,529. The note is noninterest bearing and forgivable July 2056 provided the property is used to house the chronically mentally ill. Collateralized by the Burke.	108,806	111,332
Federal note payable to Community Housing Improvement Program with an original amount of \$115,000. The note is noninterest bearing and is forgivable August 2029 provided the property is used by Compass Health. Collateralized by Bailey.	74,367	78,967
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$111,820. The note is noninterest bearing and forgivable July 2056 provided the property is used to house the chronically mentally ill. Collateralized by the Burke.	80,293	82,167
Note payable to Washington State Department of Commerce with an original amount of \$79,526. The note is noninterest bearing and forgivable June 2049 provided the property is used to house low income, chronically mentally ill persons. Collateralized by the Camellia.	57,259	58,849
Note payable to Washington State Department of Commerce with an original amount of \$76,363. The note is noninterest bearing and forgivable July 2056 provided the property is used continuously to house the chronically mentally ill. Collateralized by the Burke.	56,636	57,907
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$75,000. The note is noninterest bearing and forgivable December 2017 provided the property is used to house the chronically mentally ill. Collateralized by the Camellia.	16,875	20,625

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2013**

Note 9 - Continued

	<u>2013</u>	<u>2012</u>
Note payable to Community Housing Improvement Program with an original amount of \$67,500. The note is noninterest bearing and forgivable March 2034 provided the property is used by Compass Health. Collateralized by the Hoyt.	57,168	59,923
Note payable to Washington State Department of Commerce with an original amount of \$65,968. The note is noninterest bearing and forgivable October 2046 provided the property is used to house the chronically mentally ill. Collateralized by the Lafollette Place.	48,865	50,331
Federal note payable to Snohomish County Office of Housing and Community Development with an original amount of \$65,172. The note is noninterest bearing and forgivable December 2017 provided the property is used to house the chronically mentally ill. Collateralized by the Camellia.	14,664	17,922
Note payable to Snohomish County Housing Trust Fund with an original amount of \$30,000. The note is noninterest bearing and forgivable March 2013 provided the property is used to house the chronically mentally ill. Collateralized by the Zeigen House property. This note was completely forgiven during the year.		1,125
Capital advance from the Washington State Department of Commerce with an original amount totaling \$1,500,000. The capital advances are due and payable if property is not used for the co-location of services to serve children who have been abused for a period of ten years through 2020. The property is secured and restricted to be used as a child advocacy center.	1,000,203	1,162,400
Capital advances from Snohomish County passed through from the U.S. Department of Housing and Urban Development (HUD) with original amounts totaling \$974,000. The capital advances are due and payable if property is not used for planned purposes for a period of seven years through 2017.	652,374	797,126
Capital advances from Snohomish County with an original amount of \$83,767. Under terms of the agreement, the facilities funded by these proceeds must be used to continue to provide housing for very-low income individuals for periods of time expiring through July 17, 2046. The forgivable capital advances are secured by the property at those sites.	56,962	58,637

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 9 - Continued

	<u>2013</u>	<u>2012</u>
Capital advances from HUD with an original amount of \$760,500. Under terms of the agreement, the facilities funded by these proceeds must be used to continue to provide housing for very-low income individuals for periods of time expiring through September 28, 2035. The forgivable capital advances are secured by the property at those sites.	<u>456,300</u>	<u>475,313</u>
	<u>\$ 3,692,827</u>	<u>\$ 4,089,867</u>

Note 10 - Employee Benefit Plans

The Organization sponsors a 403(b) Tax Deferred Annuity plan covering all eligible employees. Eligible employees include all employees of the Organization other than those covered under the collective bargaining agreement. Effective January 1, 2012, the 403(b) plan was amended and restated where the Organization makes nonelective contributions of 3% of each participant's compensation and matches 100% of the first 1% of contributions made by the participants. The Organization also sponsors a 401(k) defined contribution plan covering all eligible employees. However, the 401(k) was inactivated for all contributions. Retirement plan expense was \$607,877 and \$771,256 for the years ended June 30, 2013 and 2012, respectively.

Note 11 - Endowments

The Organization's endowment fund consists of one fund the income of which is donor-restricted as a reserve for operational needs. The endowment assets are invested in bond and equity mutual funds that are included in the investments at June 30, 2013 and 2012.

Interpretation of Relevant Law - The Organization has interpreted the Washington State Prudent Management of Institutional Funds Act (PMIFA) as making it advisable for the Organization to track the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2013

Note 11 - Continued

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Organization; and
- The investment policies of the Organization.

Endowment Investment and Spending Policies - The long-range financial goal for the Organization is to enhance its available resources through the generation of annual distributable income from invested funds. The Board of Directors has adopted a "total return" philosophy. "Total return" investing, combined with a prudent spending rate, allows for donated funds to increase their value through growth. The amount available from the endowment fund for distribution will be the balance of the fund that exceeds the sum total of all gifts made to the endowment fund.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires the Organization to retain as a fund of perpetual duration. As of June 30, 2013 and 2012, no such deficiencies existed.

Endowment net asset composition by type of fund was as follows at June 30:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
Endowment to Fund					
Operating Reserves	<u>\$ -</u>	<u>\$ 463,179</u>	<u>\$ 281,256</u>	<u>\$ 744,435</u>	<u>\$ 721,983</u>

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2013**

Note 11 - Continued

Changes to endowment net assets for the year ended June 30 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
Endowment net assets beginning of year	\$ -	\$ 440,727	\$ 281,256	\$ 721,983	\$ 726,581
Investment returns (Note 4)		22,452		22,452	(4,598)
Endowment Net Assets, End of Year	\$ -	\$ 463,179	\$ 281,256	\$ 744,435	\$ 721,983

Note 12 - Leases

Operating Lease - The Organization leases facilities under cancellable lease agreements with lease maturity periods through 2020. The facilities are mostly leased on a month-to-month basis with governmental and not-for profit organizations. For the years ended June 30, 2013 and 2012, rental expense under these arrangements were \$418,143 and \$403,693, respectively.

Capital Leases - During the year ended June 30, 2013, the Organization entered into leases for printer and copier equipment under capital lease arrangements extending through 2016. Accordingly, the accompanying consolidated financial statements reflect the related assets and obligations.

The following schedule summarizes equipment leased under a capital lease at June 30:

	<u>2013</u>
Capital lease assets, at cost	\$ 100,988
Less accumulated depreciation	(6,733)
	\$ 94,255

COMPASS HEALTH AND SUBSIDIARIES

***Notes to Consolidated Financial Statements
For the Year Ended June 30, 2013***

Note 12 - Continued

The following is a schedule of future minimum lease payments under capital lease obligations together with the present value of the net minimum lease payments for the years ending June 30:

For the Year Ending June 30,

2014	\$	31,123
2015		31,123
2016		31,123
2017		<u>5,187</u>
Total minimum lease payments		98,556
Less amount representing interest		<u>(6,860)</u>
Present value of net minimum lease payments		91,696
Less current portion		<u>(27,560)</u>
	\$	<u><u>64,136</u></u>

SUPPLEMENTARY INFORMATION

COMPASS HEALTH AND SUBSIDIARIES

Consolidating Statement of Financial Position - Assets
June 30, 2013
(With Comparative Totals for 2012)

<i>Assets</i>	<i>Compass Health</i>	<i>College Hill Consociation</i>	<i>Child Advocacy Center of Snohomish Co. at Dawson Place</i>	<i>Marysville Studio Apartments</i>	<i>Milwaukee Park Apartments</i>	<i>Counterpoint Commons</i>	<i>Mental Health Services of Snohomish County II</i>	<i>Subtotal</i>	<i>Eliminations</i>	<i>Consolidated 2013 Total</i>	<i>Consolidated 2012 Total</i>
Current Assets:											
Cash and cash equivalents	\$ 3,527,185	\$ 56,079	\$ 306,799	\$ 1,480	\$ 15,646	\$ -	\$ 10,475	\$ 3,917,664	\$ -	\$ 3,917,664	\$ 4,331,286
Deposits held in trust	552,841			2,663	2,299	2,008	3,933	563,744		563,744	491,549
Accounts receivable, net	378,488					468	474	379,430		379,430	391,591
Grants receivable	1,638,768		389,666	3,537	318			2,032,289	(219,996)	1,812,293	831,859
Other receivables	6,048							6,048	(1,789)	4,259	1,124,866
Current portion of notes receivable	97,272							97,272	(97,272)		
Prepaid expenses and other assets	789,654		5,059					794,713		794,713	687,294
Total Current Assets	6,990,256	56,079	701,524	7,680	18,263	2,476	14,882	7,791,160	(319,057)	7,472,103	7,858,445
Restricted deposits and funded reserves	637,047			75,777	57,282	78	59,073	829,257		829,257	907,157
Investments	744,435							744,435		744,435	721,983
Property and equipment, net	13,140,652	2,264,036	3,381,314	1,480,834	2,775,360	587,391	613,427	24,243,014		24,243,014	23,890,131
Notes receivable, less current portion	773,129							773,129	(773,129)		
Bond issue costs, net	30,723			8,324	46,933			85,980		85,980	84,732
Inter-agency accounts	510,202							510,202	(510,202)		
Total Assets	\$ 22,826,444	\$ 2,320,115	\$ 4,082,838	\$ 1,572,615	\$ 2,897,838	\$ 589,945	\$ 687,382	\$ 34,977,177	\$ (1,602,388)	\$ 33,374,789	\$ 33,462,448

See independent auditors' report.

COMPASS HEALTH AND SUBSIDIARIES

Consolidating Statement of Financial Position - Liabilities
June 30, 2013
(With Comparative Totals for 2012)

	<u>Compass Health</u>	<u>College Hill Consociation</u>	<u>Center of Snohomish Co. at Dawson Place</u>	<u>Marysville Studio Apartments</u>	<u>Milwaukee Park Apartments</u>	<u>Counterpoint Commons</u>	<u>Services of Snohomish County II</u>	<u>Subtotal</u>	<u>Eliminations</u>	<u>Consolidated 2013 Total</u>	<u>Consolidated 2012 Total</u>
Liabilities and Net Assets											
Current Liabilities:											
Accounts payable	\$ 1,047,603	\$ 14,107	\$ 20,750	\$ -	\$ 22,197	\$ 60,916	\$ 88,653	\$ 1,254,226	\$ (293,566)	\$ 960,660	\$ 944,682
Construction payable											481,415
Accrued liabilities	2,208,062		3,272	81,680	67,055		6,548	2,366,617		2,366,617	3,128,262
Deferred revenue	17,513			806	193	1,761	78	20,351		20,351	15,935
Deposits held in trust	552,841			2,663	2,299	2,008	3,933	563,744		563,744	491,549
Current portion of capital lease obligation	27,560							27,560		27,560	4,182
Current portion of long-term debt	192,179		25,982	15,200			18,392	251,753	(15,200)	236,553	199,215
Total Current Liabilities	4,045,758	14,107	50,004	100,349	91,744	64,685	117,604	4,484,251	(308,766)	4,175,485	5,265,240
Capital lease obligations, less current portion	64,136							64,136		64,136	
Long-term debt, less current portion	4,250,392		1,216,473	593,033	1,074,284	217,388	854,656	8,206,226	(783,337)	7,422,889	7,179,916
Total Liabilities	8,360,286	14,107	1,266,477	693,382	1,166,028	282,073	972,260	12,754,613	(1,092,103)	11,662,510	12,445,156
Net Assets and Equity:											
Unrestricted-											
Controlling interest	12,164,926	2,306,008	663,910			(205,390)	(284,878)	14,644,576		14,644,576	13,763,254
Noncontrolling interest									2,100,758	2,100,758	2,233,410
Total Unrestricted Net Assets	12,164,926	2,306,008	663,910			(205,390)	(284,878)	14,644,576	2,100,758	16,745,334	15,996,664
Temporarily restricted	2,019,976		2,152,451			513,262		4,685,689		4,685,689	4,739,372
Permanently restricted	281,256							281,256		281,256	281,256
Total net assets	14,466,158	2,306,008	2,816,361			307,872	(284,878)	19,611,521	2,100,758	21,712,279	21,017,292
Owners' equity				879,233	1,731,810			2,611,043	(2,611,043)		
Total Net Assets and Equity	14,466,158	2,306,008	2,816,361	879,233	1,731,810	307,872	(284,878)	22,222,564	(510,285)	21,712,279	21,017,292
Total Liabilities, Net Assets and Equity	\$ 22,826,444	\$ 2,320,115	\$ 4,082,838	\$ 1,572,615	\$ 2,897,838	\$ 589,945	\$ 687,382	\$ 34,977,177	\$ (1,602,388)	\$ 33,374,789	\$ 33,462,448

See independent auditors' report.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidating Statement of Activities
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)**

	Compass Health	College Hill Consociation	Child Advocacy Center of Snohomish Co. at Dawson Place	Marysville Studio Apartments	Milwaukee Park Apartments	Counterpoint Commons	Mental Health Services of Snohomish County II	Subtotal	Eliminations	Consolidated 2013	Consolidated 2012
Operating Activities											
Unrestricted Public Support and Revenue:											
Net patient service revenue	\$ 30,063,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,063,139	\$ -	\$ 30,063,139	\$ 27,428,080
Support and other revenue-											
Contributions and grants	2,227,106		222,001		39,150			2,488,257		2,488,257	3,084,242
In-kind contributions	20,565							20,565		20,565	52,318
Rental revenue	640,159	10,000	188,496	138,744	76,745	66,648	208,498	1,329,290		1,329,290	1,141,278
Estimated insurance proceeds - rental loss											34,702
Consultation revenue	484,498							484,498	(262,630)	221,868	162,873
Other						279	615	894		894	28,519
Total support and other revenue	3,372,328	10,000	410,497	138,744	115,895	66,927	209,113	4,323,504	(262,630)	4,060,874	4,503,932
Total Unrestricted Support, and Revenue	33,435,467	10,000	410,497	138,744	115,895	66,927	209,113	34,386,643	(262,630)	34,124,013	31,932,012
Net assets released from restriction	26,327		36,953					63,280		63,280	212,819
Total Unrestricted Support, Revenue, and Reclassifications	33,461,794	10,000	447,450	138,744	115,895	66,927	209,113	34,449,923	(262,630)	34,187,293	32,144,831
Expenses:											
Program services-											
Crisis response	3,450,500	10,343						3,460,843		3,460,843	3,220,507
Mental health outpatient	13,354,749	55,913						13,410,662		13,410,662	12,602,447
Residential treatment	2,143,640							2,143,640		2,143,640	2,070,656
Housing	1,615,779	5,159		163,526	196,444	98,837	227,759	2,307,504	(20,070)	2,287,434	2,267,077
Inpatient	2,674,084							2,674,084		2,674,084	2,735,896
Children's hospital alternative program	1,567,777	21,696						1,589,473		1,589,473	1,553,473
Psychiatry	2,148,885	11,160						2,160,045		2,160,045	2,061,283
Other program services	1,351,025	5,473	428,895					1,785,393	(246,613)	1,538,780	1,513,243
Total program services	28,306,438	109,744	428,895	163,526	196,444	98,837	227,759	29,531,643	(266,682)	29,264,961	28,024,582
Supporting services-											
Management and general	4,154,793	73,495	54,169	14,702	12,926	14,436	15,158	4,339,679	(1,082)	4,338,597	4,805,249
Fundraising	141,940	3,869	19,295					165,104		165,104	230,053
Information services	879,699	3,766						883,465		883,465	1,046,060
Total supporting services	5,176,432	81,130	73,464	14,702	12,926	14,436	15,158	5,388,248	(1,082)	5,387,166	6,081,362
Total Expenses	33,482,871	190,874	502,359	178,228	209,370	113,273	242,917	34,919,892	(267,765)	34,652,127	34,105,944
Change in Net Assets from Unrestricted Operating Activities	(21,077)	(180,874)	(54,909)	(39,484)	(93,475)	(46,346)	(33,804)	(469,969)	5,135	(464,834)	(1,961,113)

See independent auditors' report.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidating Statement of Activities
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)**

	Compass Health	College Hill Consociation	Child Advocacy Center of Snohomish Co. at Dawson Place	Marysville Studio Apartments	Milwaukee Park Apartments	Counterpoint Commons	Mental Health Services of Snohomish County II	Subtotal	Eliminations	Consolidated 2013	Consolidated 2012
Unrestricted Nonoperating Activities											
Interest income	\$ 8,014	\$ 9	\$ -	\$ 155	\$ 139	\$ -	\$ -	\$ 8,317	\$ (5,120)	\$ 3,197	\$ 6,167
Investment returns	9,883							9,883		9,883	8,847
Contributions and grants	700,794							700,794		700,794	
(Loss) Gain on sale of fixed assets	102,097							102,097		102,097	139,412
Estimated insurance proceeds - property											86,116
Release of restricted net assets related to long-term assets	69,896		306,949			20,688		397,533		397,533	333,019
Change in Net Assets from Unrestricted Nonoperating Activities	890,684	9	306,949	155	139	20,688		1,218,624	(5,120)	1,213,504	573,561
Change in Unrestricted Net Assets	869,607	(180,865)	252,040	(39,329)	(93,336)	(25,658)	(33,804)	748,655	15	748,670	(1,387,552)
Temporarily Restricted Net Assets											
Contributions for program services	28,761		127,620					156,381		156,381	173,424
Investment returns (Note 4)	46,588							46,588		46,588	(26,926)
Unrealized investment losses (Note 4)	(24,136)							(24,136)		(24,136)	22,328
Contributions for the acquisition of long-term assets			228,297					228,297		228,297	
Endowment adjustment											(21,131)
Release of restricted net assets	(96,223)		(343,902)			(20,688)		(460,813)		(460,813)	(545,838)
Change in Temporarily Restricted Net Assets	(45,010)		12,015			(20,688)		(53,683)		(53,683)	(398,143)
Permanently Restricted Net Assets											
Endowment adjustment											21,131
Change in Permanently Restricted Net Assets											21,131
Change in Net Assets before Noncontrolling Interest	824,597	(180,865)	264,055	(39,329)	(93,336)	(46,346)	(33,804)	694,972	15	694,987	(1,764,564)
Noncontrolling interest in net losses of subsidiaries									132,652	132,652	145,399
Change in Net Assets Excluding Noncontrolling Interest	\$ 824,597	\$ (180,865)	\$ 264,055	\$ (39,329)	\$ (93,336)	\$ (46,346)	\$ (33,804)	\$ 694,972	\$ 132,667	\$ 827,639	\$ (1,619,165)

See independent auditors' report.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2013
(With Comparative Totals for 2012)**

	<i>Crisis Response</i>	<i>Mental Health Outpatient</i>	<i>Residential Treatment</i>	<i>Housing</i>	<i>Inpatient</i>	<i>Intensive Services Program</i>	<i>Psychiatry</i>	<i>Other Program Services</i>	<i>Total Program Services</i>	<i>Management and General</i>	<i>Information Services</i>	<i>Fundraising</i>	<i>Total Supporting Services</i>	<i>2013 Total</i>
Salaries and wages	\$ 2,292,343	\$ 8,375,620	\$ 1,195,968	\$ 180,889	\$ 1,791,430	\$ 845,197	\$ 1,650,439	\$ 784,876	\$ 17,116,762	\$ 2,360,593	\$ 512,332	\$ 94,157	\$ 2,967,082	\$ 20,083,844
Pension plan contributions	73,858	240,726	34,340	3,990	49,437	23,782	60,040	20,666	506,839	86,042	12,151	2,823	101,016	607,855
Employee benefits	333,928	1,679,797	245,820	37,012	253,357	208,639	113,185	145,377	3,017,115	436,694	64,299	10,775	511,768	3,528,883
Payroll taxes	213,690	775,927	133,170	16,638	181,725	81,020	122,845	72,589	1,597,604	209,878	43,092	8,592	261,562	1,859,166
Total Salaries and Related Expenses	2,913,819	11,072,070	1,609,298	238,529	2,275,949	1,158,638	1,946,509	1,023,508	22,238,320	3,093,207	631,874	116,347	3,841,428	26,079,748
Accounting fees				225				2,010	2,235	145,822			145,822	148,057
Legal fees				4,827					4,827	160,449		118	160,567	165,394
Other professional fees	13,048	230,176	26,371	485,025	25,373	6,535	24,670	5,101	816,299	89,488	11,593	9,070	110,151	926,450
Advertising and marketing	403	3,122		25			67	2,316	5,933	1,813		3,500	5,313	11,246
Office expenses	120,026	386,108	207,157	43,923	127,966	22,658	27,410	96,100	1,031,348	235,178	61,850	11,018	308,046	1,339,394
Occupancy	167,331	563,251	169,712	813,234	137,037	29,994	85,559	217,611	2,183,729	161,835	11,608	4,255	177,698	2,361,427
Travel	57,533	158,301	8,939	14,389	543	72,605	3,541	16,614	332,465	52,990	5,621	688	59,299	391,764
Conferences, conventions and meetings	4,252	23,757	1,466	4,764	1,663	2,310	1,746	7,220	47,178	22,551	189	3,124	25,864	73,042
Depreciation and amortization	91,502	208,858	53,471	430,784	1,362	17,278	30,901	114,489	948,645	145,022	144,924	3,063	293,009	1,241,654
Client assistance	5,633	242,911	13,465	147,794	58,284	247,995		4,776	720,858			11,523	11,523	732,381
Bad debt	15,125	63,988	(959)	79,164		(5,741)	14,726	7,548	173,851					173,851
Employee recruitment	4,096	33,663	472	1,187	1,007	777	1,836	6,176	49,214	5,297		295	5,592	54,806
Insurance	65,719	219,592	51,922		40,157	33,423	16,994	21,211	449,018	41,842	1,358	2	43,202	492,220
Miscellaneous	2,356	204,865	2,326	23,564	4,743	3,001	6,086	14,100	261,041	183,103	14,448	2,101	199,652	460,693
Total Operating Expenses	\$ 3,460,843	\$ 13,410,662	\$ 2,143,640	\$ 2,287,434	\$ 2,674,084	\$ 1,589,473	\$ 2,160,045	\$ 1,538,780	\$ 29,264,961	\$ 4,338,597	\$ 883,465	\$ 165,104	\$ 5,387,166	\$ 34,652,127

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