



COMPASS HEALTH AND SUBSIDIARIES

Consolidated Financial Statements

For the Year Ended June 30, 2014

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Independent Auditor's 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, 2014, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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, 2014, 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 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 18, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, 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 October 28, 2014, 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
October 28, 2014

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Financial Position
June 30, 2014
(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,400,456	\$ 3,917,664
Deposits held in trust	464,485	563,744
Accounts receivable, net of allowance for doubtful accounts of \$87,693 (\$228,594 - 2013)	241,236	379,430
Grants and contracts receivable, net of allowance for doubtful amounts of \$250,540 (\$201,132 - 2013)	3,899,445	1,812,293
Other receivables	38,458	4,259
Prepaid expenses and other assets	<u>777,869</u>	<u>794,713</u>
Total Current Assets	8,821,949	7,472,103
Restricted deposits and funded reserves (Note 3)	736,213	829,257
Investments (Notes 4 and 11)	786,782	744,435
Property and equipment, net (Note 5)	23,859,049	24,243,014
Bond issue costs, net	<u>79,949</u>	<u>85,980</u>
Total Assets	<u>\$ 34,283,942</u>	<u>\$ 33,374,789</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 820,238	\$ 960,660
Accrued liabilities	2,593,087	2,366,617
Current portion of deferred revenue	18,530	20,351
Deposits held in trust	464,485	563,744
Current portion of capital lease obligations (Note 12)	51,437	27,560
Current portion of long-term debt (Note 7)	<u>251,816</u>	<u>236,553</u>
Total Current Liabilities	4,199,593	4,175,485
Deferred revenue, less current portion	1,041,649	
Capital lease obligations, less current portion (Note 12)	80,605	64,136
Long-term debt, less current portion (Note 7)	<u>7,169,863</u>	<u>7,422,889</u>
Total Liabilities	12,491,710	11,662,510
Net Assets:		
Unrestricted-		
Controlling interest	15,136,099	14,644,576
Noncontrolling interest	<u>1,958,209</u>	<u>2,100,758</u>
Total unrestricted	17,094,308	16,745,334
Temporarily restricted (Note 8)	4,416,668	4,685,689
Permanently restricted (Note 11)	<u>281,256</u>	<u>281,256</u>
Total Net Assets	21,792,232	21,712,279
Total Liabilities and Net Assets	<u>\$ 34,283,942</u>	<u>\$ 33,374,789</u>

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Activities
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	2014			Total	2013
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Operating Activities					
Support, Revenue and Gains:					
Net patient service revenue (Note 2)	\$ 32,041,926	\$ -	\$ -	\$ 32,041,926	\$30,063,139
Contributions and grants	3,371,483	141,714		3,513,197	2,644,638
In-kind contributions	29,869			29,869	20,565
Rental revenue	1,190,601			1,190,601	1,329,290
Consultation revenue	30,765			30,765	221,868
Other	7,263			7,263	894
Total Operating Support, Revenue and Gains	36,671,907	141,714		36,813,621	34,280,394
Net assets released from restriction	60,763	(60,763)			
Total Operating Support, Revenue, Gains and Reclassifications	36,732,670	80,951		36,813,621	34,280,394
Expenses:					
Program services-					
Crisis response	3,749,556			3,749,556	3,460,843
Mental health outpatient	14,931,800			14,931,800	13,410,662
Residential treatment	2,370,376			2,370,376	2,143,640
Housing	2,075,514			2,075,514	2,287,434
Inpatient	3,048,131			3,048,131	2,674,084
Children's hospital alternative program	1,702,919			1,702,919	1,589,473
Psychiatry	2,501,592			2,501,592	2,160,045
Other program services	1,448,849			1,448,849	1,538,780
Total program services	31,828,737			31,828,737	29,264,961
Supporting services-					
Management and general	4,403,927			4,403,927	4,338,597
Information services	703,547			703,547	883,465
Fundraising	244,415			244,415	165,104
Total supporting services	5,351,889			5,351,889	5,387,166
Total Operating Expenses	37,180,626			37,180,626	34,652,127
Change in Net Assets From Operating Activities	(447,956)	80,951		(367,005)	(371,733)

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Activities (Continued)
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)

	2014			Total	2013
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Nonoperating Activities					
Investment returns (Note 4)	\$ 8,582	\$ 16,798	\$ -	\$ 25,380	\$ 56,471
Gain on sale or disposal of fixed assets	122,682			122,682	102,097
Interest income	1,162			1,162	3,197
Change in Net Assets From Nonoperating Activities	132,426	16,798		149,224	161,765
Excess (Deficiency) of Support and Revenues and Gains Over (Under) Expenses	(315,530)	97,749		(217,781)	(209,968)
Unrealized investment gains (losses) (Note 4)		25,549		25,549	(24,136)
Contributions and grants for the acquisition of long-term assets	268,097	4,088		272,185	929,091
Release of restricted assets related to long-term assets (Note 8)	396,407	(396,407)			
Total Change in Net Assets	348,974	(269,021)		79,953	694,987
Noncontrolling interest in net losses of subsidiaries	142,549			142,549	132,652
Total Change in Net Assets Excluding Noncontrolling Interest	\$ 491,523	\$ (269,021)	\$ -	\$ 222,502	\$ 827,639

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Changes in Net Assets
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	<i>Unrestricted</i>			<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2014 Total</i>	<i>2013</i>
	<i>Controlling Interest</i>	<i>Noncontrolling Interest</i>	<i>Total</i>				
Beginning of year, net assets	\$ 14,644,576	\$ 2,100,758	\$ 16,745,334	\$ 4,685,689	\$ 281,256	\$ 21,712,279	\$ 21,017,292
Change in net assets excluding noncontrolling interest	491,523		491,523	(269,021)		222,502	827,639
Change in net assets from noncontrolling interest		(142,549)	(142,549)			(142,549)	(132,652)
Total Change in Net Assets	491,523	(142,549)	348,974	(269,021)		79,953	694,987
End of Year Net Assets	\$ 15,136,099	\$ 1,958,209	\$ 17,094,308	\$ 4,416,668	\$ 281,256	\$ 21,792,232	\$ 21,712,279

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Cash Flows
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 79,953	\$ 694,987
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities-		
Depreciation and amortization	1,254,966	1,241,654
Contributions and grants for the acquisition of long-term assets	(268,097)	(929,091)
Unrealized investment (gains) losses	(25,549)	24,136
Gain on sale or disposal of fixed assets	(122,682)	(77,524)
Changes in assets and liabilities:		
Accounts receivable	138,194	12,161
Grants and contracts receivable	(2,184,527)	(719,884)
Other receivables	(34,199)	120,607
Prepaid expenses and other assets	16,844	(107,419)
Accounts payable and accrued expenses	77,196	254,333
Deferred revenue	1,039,828	4,416
Net Cash (Used In) Provided by Operating Activities	(28,073)	518,376
Cash Flows From Investing Activities:		
Acquisition of property and equipment	(897,223)	(2,057,580)
Proceeds from sale of property and equipment	229,350	164,900
Net withdrawals from restricted deposits and funded reserves	93,044	77,900
Purchases of investments	(25,382)	(209,205)
Proceeds from sale of investments	8,584	162,617
Net Cash Used by Investing Activities	(591,627)	(1,861,368)
Cash Flows From Financing Activities:		
Proceeds from issuance of long-term debt		1,751,244
Repayment of capital lease obligation	(25,217)	(13,474)
Payment of bond issuance costs		(6,008)
Principal payments on long-term debt	(237,763)	(1,470,933)
Proceeds from contributions and grants for the acquisition of long-term assets	365,472	668,541
Net Cash Provided by Financing Activities	102,492	929,370
Change in Cash and Cash Equivalents	(517,208)	(413,622)
Cash and Cash Equivalents:		
Beginning of year	3,917,664	4,331,286
End of Year	\$ 3,400,456	\$ 3,917,664
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	\$ 301,127	\$ 308,121
Acquisition of equipment under capital lease obligation	\$ 65,563	\$ 100,988

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 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, 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 with Compass Health being LLC's sole member.

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 liability company under the laws of the State of Washington in 2002. The project (Alder Commons) 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 is the sole corporate member of Dawson Place 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, 2014 (With Comparative Totals for 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, 2014 and 2013.

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, 2014, Compass Health had 18 housing units; 167 beds throughout Snohomish, Skagit and Island counties. In addition, the agency master leases 3 2-bedroom apartments in Oak Harbor, issued 125 Shelter Plus Care voucher in Snohomish and has 10- 2163 vouchers in Skagit. 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.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 1 - Continued

Children's Hospital Alternative Program - 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.

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 US. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 1 - Continued

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.

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, 2014 and 2013, the Organization estimated the allowance for contractual adjustments on outstanding accounts receivable to be \$366,887 and \$345,321, 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 \$6,031 and \$5,925 for the years ended June 30, 2014 and 2013, 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.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 1 - Continued

Deferred Revenue - Deferred revenue consists of rents and contract payments received and not yet earned. At June 30, 2014, deferred revenue included \$1,041,000 received from the Regional Support Network (RSN) as an advanced payment against the September 2015 contract activity and was provided to the Organization to offset the impact of the RSN changing its reimbursement methodology for certain contract services provided.

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, 2014 and 2013.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 1 - Continued

Concentrations - The Organization is partly funded under fee for service contracts with the RSN, organized as the North Sound Mental Health Administration, and other governmental agencies. As of and for the year ended June 30, 2014, receivables and revenues related to the RSN and other governmental agencies accounted for approximately 86 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, 2013, the same receivables and revenues related to the 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.

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, 2014 and 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Medicaid	10%	3%
Medicare	9	9
Other third party payors	64	59
Patients	17	29
	<u><u>100%</u></u>	<u><u>100%</u></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, 2014, the cost of providing charity care to patients was \$592,665 with no restricted contributions being received to offset this cost during the year.

Collective Bargaining - The Organization has negotiated a collective bargaining agreement (the Agreement) with the Service Employees International Union 1199NW. Approximately 55 and 56 percent of the Organization's employees are covered under the Agreement during the years ended June 30, 2014 and 2013, 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.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 1 - Continued

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.

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 October 28, 2014, 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 a pre-determined amount or on a fee-for-service basis.

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 of the Organization's net patient revenue for both the years ended June 30, 2014 and 2013.

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, 2014 (With Comparative Totals for 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>2014</u>	<u>2013</u>
Operating reserves	\$ 361,441	\$ 428,371
Capital reserves	339,956	367,347
Mortgage reserves	12,212	10,815
Bond fund	<u>22,604</u>	<u>22,724</u>
Total	<u>\$ 736,213</u>	<u>\$ 829,257</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, 2014.

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

Note 4 - Continued

Fair values of assets measured on a recurring basis were as follows at June 30, 2014:

	<i>Fair Value Measurements</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Mutual funds-				
Domestic equity	\$ 54,555	\$ -	\$ -	\$ 54,555
International equity	42,723			42,723
Blended	258,561			258,561
Domestic bond	201,024			201,024
International bond	36,842			36,842
Total investments at fair value	593,705			593,705
Money market	193,077			193,077
Total June 30, 2014	\$ 786,782	\$ -	\$ -	\$ 786,782
Total June 30, 2013	\$ 744,435	\$ -	\$ -	\$ 744,435

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

	<i>2014</i>	<i>2013</i>
Investment returns	\$ 25,380	\$ 56,471
Unrealized investment gains (losses)	25,549	(24,136)
Total Investment Returns	\$ 50,929	\$ 32,335

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 5 - Property and Equipment

A summary of property and equipment is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 4,315,997	\$ 4,355,997
Leasehold improvements	1,122,187	1,093,722
Buildings and improvements	27,378,646	27,355,087
Projects in progress	1,128,033	758,267
Furniture and equipment	2,570,038	2,325,112
Vehicles	159,213	144,447
	<u>36,674,114</u>	<u>36,032,632</u>
Less accumulated depreciation	<u>(12,815,065)</u>	<u>(11,789,618)</u>
Total Property and Equipment, Net	<u><u>\$ 23,859,049</u></u>	<u><u>\$ 24,243,014</u></u>

Projects in progress as of June 30, 2014 consisted 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 of and for the years ended June 30, 2014 and June 30, 2013, accumulated depreciation and amortization related to housing totaled \$4,045,289 and \$3,640,692 respectively. As of and for the years ended June 30, 2014 and June 30, 2013, depreciation and amortization expense related to housing buildings and improvements was \$358,486 and \$387,881 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 \$103,953 and \$112,998 which are included in accrued liabilities in the consolidated statement of financial position at June 30, 2014 and 2013, respectively.

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 7 - Long-Term Debt

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

	<u>2014</u>	<u>2013</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 interest shall reset on May 21, 2017. 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. As of June 30, 2014, Compass Health had met the debt covenant requirement.	\$ 847,379	\$ 943,373
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, 2014, Compass Health had not met the debt service coverage ratio requirement and obtained a waiver from Chase Bank.	1,065,218	1,098,082
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.	447,365	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.	447,531	458,931
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, 2014, was 7.375% and \$3,492. The note matures June 2023 and is collateralized by the Alder Commons property.	446,009	453,538

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

Note 7 - Continued

	<u>2014</u>	<u>2013</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.	266,968	273,549
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.	263,141	269,395
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.	240,253	244,024
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.	148,403	150,402
Note payable to the State of Washington Department of Commerce and is noninterest 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.	100,458	102,095
<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, 2014
(With Comparative Totals for 2013)**

Note 7 - Continued

	<u>2014</u>	<u>2013</u>
<u>Child Advocacy Center of Snohomish County at Dawson Place:</u>		
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.	1,216,479	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.	854,656	873,049
	7,421,679	7,659,442
Less current portion	<u>(251,816)</u>	<u>(236,553)</u>
Long-Term Debt	<u>\$ 7,169,863</u>	<u>\$ 7,422,889</u>

Principal maturities of long-term notes are as follows:

For the Years Ending June 30,

2015	\$ 251,816
2016	261,467
2017	1,217,703
2018	237,602
2019	247,782
Thereafter	<u>5,205,309</u>
	<u>\$ 7,421,679</u>

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

Note 8 - Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Restricted for program services	\$ 284,295	\$ 209,509
Acquisition of fixed assets	297,502	287,242
Time restricted	32,932	32,932
Time restricted endowment assets (Note 11)	505,526	463,179
Forgivable loans (Note 9)	<u>3,296,413</u>	<u>3,692,827</u>
	<u>\$ 4,416,668</u>	<u>\$ 4,685,689</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>2014</u>	<u>2013</u>
Released for program expenses	\$ 60,763	\$ 63,280
Amortization of forgivable loans	<u>396,407</u>	<u>397,533</u>
	<u>\$ 457,170</u>	<u>\$ 460,813</u>

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 9 - Forgivable Loans

The Organization received forgivable loan proceeds of \$5,903,130 through the fiscal years ended June 30, 2014. 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, 2014, the Organization is in compliance with the restrictions. The following were the unamortized balances at June 30:

	<u>2014</u>	<u>2013</u>
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.	\$ 512,095	\$ 529,165
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.	140,281	150,683
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.	40,535	52,116
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.	141,000	145,000

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 9 - Continued

	<u>2014</u>	<u>2013</u>
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.	131,955	135,091
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.	106,806	108,806
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.	69,767	74,367
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.	78,429	80,293
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.	55,668	57,259
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.	55,363	56,636
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.	13,125	16,875

COMPASS HEALTH AND SUBSIDIARIES

***Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)***

Note 9 - Continued

	<u>2014</u>	<u>2013</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.	54,413	57,168
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.	47,399	48,865
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.	11,405	14,664
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 a period of ten years through 2020 for the co-location of services to serve children who have been abused. The property is secured and restricted to be used as a child advocacy center.	838,006	1,000,203
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.	507,622	652,374
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.	55,257	56,962

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 2013)

Note 9 - Continued

	<u>2014</u>	<u>2013</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>437,287</u>	<u>456,300</u>
	<u>\$ 3,296,413</u>	<u>\$ 3,692,827</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. 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 \$662,242 and \$607,877 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013.

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, 2014 (With Comparative Totals for 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, 2014 and 2013, 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>2014 Total</u>	<u>2013 Total</u>
Endowment to Fund					
Operating Reserves	\$ -	\$ 505,526	\$ 281,256	\$ 786,782	\$ 744,435

COMPASS HEALTH AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2014
(With Comparative Totals for 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>2014 Total</u>	<u>2013 Total</u>
Endowment net assets beginning of year	\$ -	\$ 463,179	\$ 281,256	\$ 744,435	\$ 721,983
Investment returns		42,347		42,347	22,452
Endowment Net Assets, End of Year	\$ -	\$ 505,526	\$ 281,256	\$ 786,782	\$ 744,435

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, 2014 and 2013, rental expense under these arrangements were \$343,577 and \$418,143, respectively.

Capital Leases - During the year ended June 30, 2014, the Organization entered into two 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>2014</u>	<u>2013</u>
Capital lease assets, at cost	\$ 166,551	\$ 100,988
Less accumulated depreciation	(29,116)	(6,733)
	\$ 137,435	\$ 94,255

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements For the Year Ended June 30, 2014 (With Comparative Totals for 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 are as follows:

For the Year Ending June 30,

2015	\$	55,955
2016		55,955
2017		<u>32,363</u>
Total minimum lease payments		144,273
Less amount representing interest		<u>(12,231)</u>
Present value of net minimum lease payments		132,042
Less current portion		<u>(51,437)</u>
	\$	<u><u>80,605</u></u>

Note 13 - Subsequent Events

Acquisition of Whatcom Counseling and Psychiatric Clinic (WCPC) - On July 1, 2014, Compass Health acquired Whatcom Counseling and Psychiatric Clinic (WCPC) extending the reach of Compass to Whatcom County. WCPC's services align with those of Compass and expand the continuum to include Primary Care and Suboxone treatment. Two Board members from WCPC joined the Compass Health Board of Directors. Compass assumed all assets and liabilities of WCPC with no consideration paid as part of the business acquisition.

Acquisition of Harmony House North - On October 1, 2014, Compass Health acquired Harmony House North Association (HHN) and became the sole member. HHN Association is a 501(c)(3) organization which manages a 15 unit HUD Section 202 affordable housing property in Marysville, Washington. Compass assumed all assets and liabilities of HHN Association with no consideration paid as part of the business acquisition.

SUPPLEMENTARY INFORMATION

COMPASS HEALTH AND SUBSIDIARIES

Consolidating Statement of Financial Position - Assets
June 30, 2014
(With Comparative Totals for 2013)

<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 2014 Total</i>	<i>Consolidated 2013 Total</i>
Current Assets:											
Cash and cash equivalents	\$ 2,813,923	\$ 20,492	\$ 548,355	\$ 2,283	\$ 6,124	\$ 352	\$ 8,927	\$ 3,400,456	\$ -	\$ 3,400,456	\$ 3,917,664
Deposits held in trust	454,788			2,014	2,099	1,651	3,933	464,485		464,485	563,744
Accounts receivable, net	237,510					2,731	995	241,236		241,236	379,430
Grants and contracts receivable	3,843,673		314,234	(763)	4,493			4,161,637	(262,192)	3,899,445	1,812,293
Other receivables	8,923		36,257					45,180	(6,722)	38,458	4,259
Current portion of notes receivable	117,820							117,820	(117,820)		
Prepaid expenses and other assets	767,247		10,622					777,869		777,869	794,713
Total Current Assets	8,243,884	20,492	909,468	3,534	12,716	4,734	13,855	9,208,683	(386,734)	8,821,949	7,472,103
Restricted deposits and funded reserves	553,224			66,808	55,669	78	60,434	736,213		736,213	829,257
Investments	786,782							786,782		786,782	744,435
Property and equipment, net	13,135,183	2,117,726	3,312,898	1,442,055	2,697,684	565,989	587,514	23,859,049		23,859,049	24,243,014
Notes receivable, less current portion	752,582							752,582	(752,582)		
Bond issue costs, net	28,013			7,418	44,518			79,949		79,949	85,980
Inter-agency accounts	510,123							510,123	(510,123)		
Total Assets	\$ 24,009,791	\$ 2,138,218	\$ 4,222,366	\$ 1,519,815	\$ 2,810,587	\$ 570,801	\$ 661,803	\$ 35,933,381	\$ (1,649,439)	\$ 34,283,942	\$ 33,374,789

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidating Statement of Financial Position - Liabilities and Net Assets
June 30, 2014
(With Comparative Totals for 2013)**

	<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 2014 Total</i>	<i>Consolidated 2013 Total</i>
Liabilities and Net Assets											
Current Liabilities:											
Accounts payable	\$ 929,120	\$ 4,189	\$ 34,471	\$ -	\$ 21,550	\$ 9,839	\$ 8,255	\$ 1,007,424	\$ (187,186)	\$ 820,238	\$ 960,660
Accrued liabilities	2,435,268		3,204	84,725	63,480		6,410	2,593,087		2,593,087	2,366,617
Current portion of deferred revenue	17,205			387	223	710	5	18,530		18,530	20,351
Deposits held in trust	454,788			2,014	2,099	1,651	3,933	464,485		464,485	563,744
Current portion of capital lease obligation	51,437							51,437		51,437	27,560
Current portion of long-term debt	204,372		27,327	45,944			20,117	297,760	(45,944)	251,816	236,553
Total Current Liabilities	4,092,190	4,189	65,002	133,070	87,352	12,200	38,720	4,432,723	(233,130)	4,199,593	4,175,485
Deferred revenue, less current portion	1,041,649							1,041,649		1,041,649	
Capital lease obligations, less current portion	80,605							80,605		80,605	64,136
Long-term debt, less current portion	4,046,444		1,189,152	567,232	1,074,268	282,927	915,878	8,075,901	(906,038)	7,169,863	7,422,889
Total Liabilities	9,260,888	4,189	1,254,154	700,302	1,161,620	295,127	954,598	13,630,878	(1,139,168)	12,491,710	11,662,510
Net Assets and Equity:											
Unrestricted-											
Controlling interest	12,443,386	2,134,029	1,068,379			(216,900)	(292,795)	15,136,099		15,136,099	14,644,576
Noncontrolling interest									1,958,209	1,958,209	2,100,758
Total unrestricted net assets	12,443,386	2,134,029	1,068,379			(216,900)	(292,795)	15,136,099	1,958,209	17,094,308	16,745,334
Temporarily restricted	2,024,261		1,899,833			492,574		4,416,668		4,416,668	4,685,689
Permanently restricted	281,256							281,256		281,256	281,256
Total net assets	14,748,903	2,134,029	2,968,212			275,674	(292,795)	19,834,023	1,958,209	21,792,232	21,712,279
Owners' equity				819,513	1,648,967			2,468,480	(2,468,480)		
Total Net Assets and Equity	14,748,903	2,134,029	2,968,212	819,513	1,648,967	275,674	(292,795)	22,302,503	(510,271)	21,792,232	21,712,279
Total Liabilities, Net Assets and Equity	\$ 24,009,791	\$ 2,138,218	\$ 4,222,366	\$ 1,519,815	\$ 2,810,587	\$ 570,801	\$ 661,803	\$ 35,933,381	\$ (1,649,439)	\$ 34,283,942	\$ 33,374,789

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidating Statement of Activities
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	<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 2014</i>	<i>Consolidated 2013</i>
Operating Activities											
Unrestricted Public Support and Revenue:											
Net patient service revenue	\$ 32,041,926	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,041,926	\$ -	\$ 32,041,926	\$ 30,063,139
Support and other revenue-											
Contributions and grants	2,888,314		441,544		41,625			3,371,483		3,371,483	2,259,960
In-kind contributions	23,470		6,399					29,869		29,869	20,565
Rental revenue	554,457		176,917	105,585	80,844	61,540	217,428	1,196,771	(6,170)	1,190,601	1,329,290
Consultation revenue	342,250							342,250	(311,485)	30,765	221,868
Other			6,813			342	108	7,263		7,263	894
Total support and other revenue	3,808,491		631,673	105,585	122,469	61,882	217,536	4,947,636	(317,655)	4,629,981	3,832,577
Total Unrestricted Support, and Revenue	35,850,417		631,673	105,585	122,469	61,882	217,536	36,989,562	(317,655)	36,671,907	33,895,716
Net assets released from restriction	18,688		42,075					60,763		60,763	63,280
Total Unrestricted Support, Revenue, and Reclassifications	35,869,105		673,748	105,585	122,469	61,882	217,536	37,050,325	(317,655)	36,732,670	33,958,996
Expenses:											
Program services-											
Crisis response	3,740,520	9,036						3,749,556		3,749,556	3,460,843
Mental health outpatient	14,885,560	52,785						14,938,345	(6,545)	14,931,800	13,410,662
Residential treatment	2,370,376							2,370,376		2,370,376	2,143,640
Housing	1,512,667	4,507		154,421	194,402	58,054	167,603	2,091,654	(16,140)	2,075,514	2,287,434
Inpatient	3,048,131							3,048,131		3,048,131	2,674,084
Children's hospital alternative program	1,683,966	18,953						1,702,919		1,702,919	1,589,473
Psychiatry	2,491,173	10,419						2,501,592		2,501,592	2,160,045
Other program services	1,221,961	4,790	466,011					1,692,762	(243,913)	1,448,849	1,538,780
Total program services	30,954,354	100,490	466,011	154,421	194,402	58,054	167,603	32,095,335	(266,598)	31,828,737	29,264,961
Supporting services-											
Management and general	4,218,143	58,064	47,121	11,052	11,062	36,026	57,850	4,439,318	(35,391)	4,403,927	4,338,597
Fundraising	198,569	3,380	63,095					265,044	(20,629)	244,415	165,104
Information services	700,257	3,290						703,547		703,547	883,465
Total supporting services	5,116,969	64,734	110,216	11,052	11,062	36,026	57,850	5,407,909	(56,020)	5,351,889	5,387,166
Total Expenses	36,071,323	165,224	576,227	165,473	205,464	94,080	225,453	37,503,244	(322,618)	37,180,626	34,652,127
Change in Net Assets From Unrestricted Operating Activities	(202,218)	(165,224)	97,521	(59,888)	(82,995)	(32,198)	(7,917)	(452,919)	4,963	(447,956)	(693,131)

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidating Statement of Activities
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	<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 2014</i>	<i>Consolidated 2013</i>
Unrestricted Nonoperating Activities											
Interest income	\$ 5,791	\$ -	\$ -	\$ 168	\$ 152	\$ -	\$ -	\$ 6,111	\$ (4,949)	\$ 1,162	\$ 3,197
Investment returns	8,582							8,582		8,582	9,883
Contributions and grants	268,097							268,097		268,097	929,091
(Loss) Gain on sale of fixed assets	129,437	(6,755)						122,682		122,682	102,097
Release of restricted net assets related to long-term assets	68,771		306,948			20,688		396,407		396,407	397,533
Change in Net Assets From Unrestricted Nonoperating Activities	480,678	(6,755)	306,948	168	152	20,688		801,879	(4,949)	796,930	1,441,801
Change in Unrestricted Net Assets	278,460	(171,979)	404,469	(59,720)	(82,843)	(11,510)	(7,917)	348,960	14	348,974	748,670
Temporarily Restricted Net Assets											
Contributions for program services	49,397		92,317					141,714		141,714	156,381
Investment returns (Note 4)	42,347							42,347		42,347	46,588
Unrealized investment losses (Note 4)			4,088					4,088		4,088	(24,136)
Contributions for the acquisition of long-term assets			(349,023)			(20,688)		(457,170)		(457,170)	228,297
Release of restricted net assets	(87,459)										(460,813)
Change in Temporarily Restricted Net Assets	4,285		(252,618)			(20,688)		(269,021)		(269,021)	(53,683)
Change in Net Assets Before Noncontrolling Interest	282,745	(171,979)	151,851	(59,720)	(82,843)	(32,198)	(7,917)	79,939	14	79,953	694,987
Noncontrolling interest in net losses of subsidiaries									142,549	142,549	132,652
Change in Net Assets Excluding Noncontrolling Interest	\$ 282,745	\$ (171,979)	\$ 151,851	\$ (59,720)	\$ (82,843)	\$ (32,198)	\$ (7,917)	\$ 79,939	\$ 142,563	\$ 222,502	\$ 827,639

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)**

	Crisis Response	Mental Health Outpatient	Residential Treatment	Housing	Inpatient	Children's Hospital Alternative Program	Psychiatry	Other Program Services	Total Program Services	Management and General	Information Services	Fundraising	Total Supporting Services	2014	2013
Salaries and wages	\$ 2,466,614	\$ 9,184,681	\$ 1,295,135	\$ 174,236	\$ 1,988,488	\$ 903,634	\$ 1,911,287	\$ 742,761	\$ 18,666,836	\$ 2,355,795	\$ 469,297	\$ 114,754	\$ 2,939,846	\$ 21,606,681	\$ 20,083,844
Pension plan contributions	81,157	264,895	39,270	4,932	54,636	21,670	65,972	18,786	551,320	92,244	16,330	2,349	110,922	662,242	607,855
Employee benefits	394,748	1,969,955	267,299	37,135	274,104	234,522	155,933	153,523	3,487,219	479,859	64,407	16,365	560,631	4,047,850	3,528,883
Payroll taxes	205,329	746,706	125,656	14,756	177,297	74,616	131,712	59,173	1,535,244	207,737	35,908	9,550	253,195	1,788,439	1,859,166
Total Salaries and Related Expenses	3,147,847	12,166,237	1,727,361	231,059	2,494,525	1,234,442	2,264,904	974,244	24,240,618	3,135,634	585,942	143,018	3,864,594	28,105,212	26,079,748
Accounting fees				1,027					1,027	165,834			165,834	166,861	148,057
Legal fees		613		2,542			95		3,250	222,629			222,629	225,879	165,394
Other professional fees	479	241,557	57,664	387,549	162,875	10,697	14,020	7,429	882,270	116,811	28,429	17,102	162,342	1,044,612	926,450
Advertising and marketing								97	97	1,500		5,672	7,172	7,270	11,246
Office expenses	152,162	355,627	235,260	39,172	154,688	36,667	30,539	109,500	1,113,616	187,268	67,226	21,459	275,953	1,389,569	1,339,394
Occupancy	167,039	616,585	193,071	746,812	124,042	27,259	90,405	161,271	2,126,484	168,103	7,006	4,865	179,974	2,306,458	2,361,427
Travel	58,451	192,520	7,178	15,666	9,103	77,651	3,629	18,940	383,138	69,433	1,720	2,196	73,349	456,487	391,764
Conferences, conventions and meetings	4,370	29,669	2,686	2,110	8,596	1,961	1,624	8,738	59,753	(102)	979	29,673	30,550	90,303	73,042
Depreciation and amortization	119,443	300,686	70,604	429,521	17,079	23,456	38,138	105,622	1,104,548	138,541	8,500	3,377	150,418	1,254,966	1,241,654
Client assistance	9,229	421,695	10,157	141,302	20,237	230,917	3	336	833,875			3,363	3,363	837,239	732,381
Bad debt	8,470	222,572	4,787	46,303	95	7,339	21,829	6,865	318,260	3,570		11,715	15,285	333,546	173,851
Employee recruitment	25	77,365	71	4,020	3,345	1,710	4,073	16,390	107,000	11,886	25	110	12,021	119,021	54,806
Insurance	75,184	260,694	58,310	8,710	44,556	39,856	22,929	17,617	527,855	47,468	1,465		48,932	576,787	492,220
Miscellaneous	6,857	45,980	3,227	19,721	8,990	10,965	9,406	21,800	126,945	135,353	2,257	1,863	139,473	266,417	460,693
Total Operating Expenses	\$ 3,749,556	\$ 14,931,800	\$ 2,370,376	\$ 2,075,514	\$ 3,048,131	\$ 1,702,919	\$ 2,501,592	\$ 1,448,849	\$ 31,828,737	\$ 4,403,927	\$ 703,547	\$ 244,415	\$ 5,351,889	\$ 37,180,626	\$ 34,652,127

See independent auditor's report.