



**COMPASS HEALTH AND SUBSIDIARIES**

Consolidated Financial Statements

For the Year Ended June 30, 2016

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## Independent Auditor's Report

**To the 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 consolidated statement of financial position as of June 30, 2016, and the related consolidated 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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



T: 425-454-4919  
T: 800-504-8747  
F: 425-454-4620

10900 NE 4th St  
Suite 1700  
Bellevue WA  
98004

[clarknuber.com](http://clarknuber.com)

## **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, 2016, 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 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 30 to 34 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 4, 2016 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 4, 2016

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Financial Position  
 June 30, 2016  
 (With Comparative Totals for 2015)

	2016	2015
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,334,746	\$ 3,605,020
Deposits held in trust	673,563	558,804
Accounts receivable, net of allowance for doubtful accounts of \$32,701 (\$94,758 - 2015)	5,961,820	5,272,343
Grants and contracts receivable, net of allowance for doubtful amounts of \$569 (\$230,540 - 2015)	614,116	738,436
Current portion of facility contribution receivable (Note 12)	193,179	187,476
Other receivables	195,906	111,889
Prepaid expenses and other current assets	987,495	845,165
<b>Total Current Assets</b>	<b>12,960,825</b>	<b>11,319,133</b>
Restricted deposits and funded reserves (Note 3)	254,617	244,710
Facility contribution receivable, less current portion (Note 12)		193,179
Investments (Notes 4 and 11)	749,540	770,393
Beneficial interest in trust	9,689	9,764
Property held for sale (Note 5)		328,321
Property and equipment, net (Note 5)	25,246,415	24,911,126
Bond issue costs, net	92,168	102,026
<b>Total Assets</b>	<b>\$ 39,313,254</b>	<b>\$ 37,878,652</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 1,014,901	\$ 974,402
Accrued liabilities	3,104,840	3,028,777
Current portion of deferred revenue (Note 1)	222,558	1,480,971
Deposits held in trust	673,563	558,804
Current portion of capital lease obligations (Note 12)	485,875	226,995
Current portion of long-term debt (Note 7)	1,428,687	405,877
<b>Total Current Liabilities</b>	<b>6,930,424</b>	<b>6,675,826</b>
Deferred revenue, less current portion (Note 1)	1,725,589	
Capital lease obligations, less current portion (Note 12)	698,569	331,157
Long-term debt, less current portion (Note 7)	6,163,148	7,739,210
<b>Total Liabilities</b>	<b>15,517,730</b>	<b>14,746,193</b>
<b>Net Assets:</b>		
Unrestricted-		
Controlling interest	18,015,504	16,470,471
Noncontrolling interest	1,695,807	1,821,566
Total unrestricted	19,711,311	18,292,037
Temporarily restricted (Note 8)	3,797,725	4,553,934
Permanently restricted (Note 11)	286,488	286,488
<b>Total Net Assets</b>	<b>23,795,524</b>	<b>23,132,459</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 39,313,254</b>	<b>\$ 37,878,652</b>

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Activities  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Operating Activities</b>					
<b>Support, Revenue and Gains:</b>					
Net patient service revenue	\$ 27,573,171	\$ -	\$ -	\$ 27,573,171	\$ 26,119,407
Capitation revenue	20,064,393			20,064,393	14,578,590
Contributions and grants	3,561,805	392,612		3,954,417	4,411,655
Meaningful use incentives	63,750			63,750	382,500
In-kind contributions	76,813			76,813	617,443
Rental revenue	1,443,679			1,443,679	1,356,342
Consultation revenue	79,795			79,795	137,656
Other	5,157			5,157	1,860
<b>Total Operating Support, Revenue and Gains</b>	<b>52,868,563</b>	<b>392,612</b>		<b>53,261,175</b>	<b>47,605,453</b>
Net assets released from restriction (Note 8)	477,573	(477,573)			
<b>Total Operating Support, Revenue, Gains and Reclassifications</b>	<b>53,346,136</b>	<b>(84,961)</b>		<b>53,261,175</b>	<b>47,605,453</b>
<b>Expenses:</b>					
Program services-					
Crisis response	7,992,214			7,992,214	6,042,016
Mental health outpatient	20,068,475			20,068,475	18,847,198
Residential treatment	2,823,077			2,823,077	2,498,052
Housing	2,084,884			2,084,884	2,187,429
Inpatient	3,531,999			3,531,999	3,424,409
Intensive outpatient	3,309,211			3,309,211	1,956,441
Psychiatry	3,676,845			3,676,845	3,523,991
Other program services	2,280,175			2,280,175	2,426,519
Total program services	45,766,880			45,766,880	40,906,055
Supporting services-					
Management and general	5,668,035			5,668,035	5,802,238
Information services	1,237,035			1,237,035	1,237,982
Fundraising	343,204			343,204	288,461
Total supporting services	7,248,274			7,248,274	7,328,681
<b>Total Operating Expenses</b>	<b>53,015,154</b>			<b>53,015,154</b>	<b>48,234,736</b>
<b>Change in Net Assets From Operating Activities</b>	<b>330,982</b>	<b>(84,961)</b>		<b>246,021</b>	<b>(629,283)</b>

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Activities (Continued)  
 For the Year Ended June 30, 2016  
 (With Comparative Totals for 2015)

	2016			Total	2015
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Nonoperating Activities</b>					
Investment returns (Note 4)	\$ 7,538	\$ 26,283	\$ -	\$ 33,821	\$ 15,088
Gain on sale of fixed assets	428,087			428,087	157,285
Interest income	2,271			2,271	494
<b>Change in Net Assets From Nonoperating Activities</b>	<b>437,896</b>	<b>26,283</b>		<b>464,179</b>	<b>172,867</b>
<b>Excess (Deficiency) of Support, Revenues and Gains Over (Under) Expenses</b>	<b>768,878</b>	<b>(58,678)</b>		<b>710,200</b>	<b>(456,416)</b>
Unrealized investment losses (Note 4)		(47,135)		(47,135)	(27,160)
Contributions and grants for the acquisition of long-term assets					1,317
Contribution related to the acquisition of Not-for-Profit Entities (Note 13)					1,822,486
Release of restricted net assets related to long-term assets (Note 8)	684,461	(684,461)			
Net assets transfer	(34,065)	34,065			
<b>Total Change in Net Assets</b>	<b>1,419,274</b>	<b>(756,209)</b>		<b>663,065</b>	<b>1,340,227</b>
Noncontrolling interest in net losses of subsidiaries	125,759			125,759	136,643
<b>Total Change in Net Assets Excluding Noncontrolling Interest</b>	<b>\$ 1,545,033</b>	<b>\$ (756,209)</b>	<b>\$ -</b>	<b>\$ 788,824</b>	<b>\$ 1,476,870</b>

See accompanying notes.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Changes in Net Assets  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	Unrestricted			Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
	Controlling Interest	Noncontrolling Interest	Total				
Beginning of year, net assets	\$ 16,470,471	\$ 1,821,566	\$ 18,292,037	\$ 4,553,934	\$ 286,488	\$ 23,132,459	\$ 21,792,232
Change in net assets excluding noncontrolling interest	1,545,033		1,545,033	(756,209)		788,824	1,476,870
Change in net assets from noncontrolling interest		(125,759)	(125,759)			(125,759)	(136,643)
<b>Total Change in Net Assets</b>	<b>1,545,033</b>	<b>(125,759)</b>	<b>1,419,274</b>	<b>(756,209)</b>		<b>663,065</b>	<b>1,340,227</b>
<b>End of Year Net Assets</b>	<b>\$ 18,015,504</b>	<b>\$ 1,695,807</b>	<b>\$ 19,711,311</b>	<b>\$ 3,797,725</b>	<b>\$ 286,488</b>	<b>\$ 23,795,524</b>	<b>\$ 23,132,459</b>

See accompanying notes.



COMPASS HEALTH AND SUBSIDIARIES

**Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

	2016	2015
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 663,065	\$ 1,340,227
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation and amortization	1,796,799	1,642,294
Contribution related to the acquisition of Not-for-Profit Entities		(1,822,486)
Contributions and grants for the acquisition of long-term assets		(1,317)
Facility contribution receivable	187,476	(380,655)
Unrealized investment losses	47,135	27,160
Gain on sale fixed assets	(428,087)	(157,285)
Changes in assets and liabilities:		
Accounts receivable	(689,477)	(765,863)
Grants and contracts receivable	124,320	(240,774)
Other receivables	(84,017)	(58,451)
Prepaid expenses and other assets	(142,255)	(66,241)
Accounts payable and accrued liabilities	38,890	13,822
Deferred revenue	467,176	170,337
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>1,981,025</b>	<b>(299,232)</b>
<b>Cash Flows From Investing Activities:</b>		
Acquisition of property and equipment	(2,057,406)	(554,404)
Proceeds from sale of property and equipment	769,256	206,794
Cash assumed from acquisition of Not-for-Profit Entities		236,703
Net deposits to restricted deposits and funded reserves	(9,907)	(31,780)
Loan fees paid		(28,110)
Purchases of investments	(106,325)	(700,294)
Proceeds from sale of investments	80,043	689,523
<b>Net Cash Used by Investing Activities</b>	<b>(1,324,339)</b>	<b>(181,568)</b>
<b>Cash Flows From Financing Activities:</b>		
Proceeds from capital lease obligations	1,006,501	500,819
Repayment of capital lease obligations	(380,209)	(124,975)
Proceeds from issuance of long-term debt		1,194,724
Principal payments on long-term debt	(553,252)	(1,534,081)
Proceeds from contributions and grants for the acquisition of long-term assets		95,653
<b>Net Cash Provided by Financing Activities</b>	<b>73,040</b>	<b>132,140</b>
<b>Change in Cash and Cash Equivalents</b>	<b>729,726</b>	<b>(348,660)</b>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	3,605,020	3,953,680
<b>End of Year</b>	<b>\$ 4,334,746</b>	<b>\$ 3,605,020</b>
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	\$ 319,217	\$ 350,424
Fixed asset purchases included in accounts payable at year-end	\$ 108,172	\$ 30,500
Acquisition of equipment under capital lease obligation	\$ 851,660	\$ -

See accompanying notes.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### 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, Harmony House North Association 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 Health 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 LCC'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 (MSA) 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 is the managing member with a 0.01% member interest in the limited liability company and the investing member is the National Equity Fund. 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 through CHH as its general partner.

Child Advocacy Center of Snohomish County at Dawson Place (Dawson Place) was incorporated in July 2009, as a Washington state charitable corporation. Dawson Place is a child advocacy center located in Everett, Washington 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.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 1 - Continued

Harmony House North Association (Harmony House) was incorporated in November 1990 as a Washington not-for-profit corporation. Harmony House developed and built Harmony House North (the Project), a 15-unit apartment complex located in Marysville, Washington. The Project provides affordable housing to chronically mentally ill tenants. Effective October 1, 2014, Compass Health acquired Harmony House. As Compass Health is the sole corporate member of Harmony House and has an economic interest in Harmony House, Harmony House is reported as a consolidated entity of Compass Health. See Note 13 for further details on the prior year acquisition of Harmony House.

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.

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 homes. 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, 2016 and 2015.

**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. Services are provided by a mental health professional, a peer counselor, and in some locations a chemical dependency professional. Triage facility services provide a 24-hour facility-based model 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 48 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.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 1 - Continued

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, 2016, Compass Health had 15 housing units; 167 beds throughout Snohomish, Skagit and Island counties. In addition, the Organization master leases 3 2-bedroom apartments in Oak Harbor, issued 134 Shelter Plus Care vouchers in Snohomish County and has 10 - 2163 vouchers in Skagit County. 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 Outpatient - 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 programs serve individuals and families with complex needs who are at high risk of crisis and hospitalization, and utilizes a team approach. After hours response is provided first by the treatment team rather than the crisis system.

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, 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.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 1 - Continued

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 of America (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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2015, 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.

**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's policy is to write off outstanding patient balances at the time that they are deemed uncollectible. As of June 30, 2016 and 2015, the Organization estimated the contractual adjustments on outstanding accounts receivable to be \$554,074 and \$712,016, respectively.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 1 - Continued

**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 \$9,859 and \$7,195 for the years ended June 30, 2016 and 2015, 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 placed into service, 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. At June 30, 2016, deferred revenue included \$1,725,589 received from the Behavioral Health Organization (BHO) as an advanced payment against the March 2018 contract activity and was provided to the Organization to offset the impact of the BHO 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), contributions and grants restricted for the acquisition of long-term assets, and other significant and unusual transactions to be nonoperating activities.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 1 - Continued

**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 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.

**Capitation Revenue** - The monthly capitation payments under agreements with NSBHO to provide mental health services to subscribing participants are based on factors including costs and the number of participants, regardless of services actually performed by the Organization.

**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, donated use of facilities 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, 2016 and 2015.

**Concentrations** - The Organization is partly funded under fee for service contracts with the BHO, organized as the North Sound Behavioral Health Organization, and other governmental agencies. As of and for the year ended June 30, 2016, receivables and revenues related to the BHO and other governmental agencies accounted for approximately 90 percent and 95 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, 2015, the same receivables and revenues related to the agencies accounted for approximately 78 percent and 95 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, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Medicaid	15%	20%
Medicare	8	27
Other third party payors	75	36
Patients	<u>2</u>	<u>17</u>
	<u><b>100%</b></u>	<u><b>100%</b></u>

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 1 - Continued

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.

**Collective Bargaining** - The Organization has negotiated two collective bargaining agreements (the Agreement) with the Service Employees International Union 1199NW of which both expired on March 31, 2016. Approximately 46 and 55 percent of the Organization's employees are covered under these Agreements during the years ended June 30, 2016 and 2015, respectively.

**Federal Income Taxes** - Compass Health, Luther Child Center, Dawson Place, Counterpoint Commons, Harmony House North Association 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.

**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.

**Reclassifications of Prior Year Balances** - Certain reclassifications have been made to prior year accounts to conform to the presentation in the current year consolidated financial statements. The reclassifications have no effect on the previously reported change in net assets or net asset balances.

**Subsequent Events** - The Organization has evaluated subsequent events through November 4, 2016, the date on which the consolidated financial statements were available to be issued.



## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### 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:

NSBHO - The North Sound BHO 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 based on 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 NSBHO, Medicaid and Medicare programs accounted for approximately 96 percent and 95 percent of the Organization's net patient revenue for the years ended June 30, 2016 and 2015, 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 Medicare, Medicaid, the NSBHO agreement and the Organization's other 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.

#### 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>2016</u>	<u>2015</u>
Operating reserves	\$ 100,087	\$ 97,788
Capital reserves	154,530	146,922
<b>Total</b>	<b><u>\$ 254,617</u></b>	<b><u>\$ 244,710</u></b>

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

#### 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.

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 years ended June 30, 2016 and 2015.

Fair values of assets measured on a recurring basis were as follows at June 30, 2016:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Mutual funds-				
Domestic equity	\$ 143,964	\$ -	\$ -	\$ 143,964
International equity	16,780			16,780
Blended	167,395			167,395
Bonds	321,631			321,631
Total mutual funds at fair value	<u>\$ 649,770</u>	<u>\$ -</u>	<u>\$ -</u>	649,770
Money market				99,770
<b>Total Investments</b>				<u><b>\$ 749,540</b></u>

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

	2016	2015
Dividends and interest	\$ 33,821	\$ 15,088
Realized and unrealized investment losses	(47,135)	(27,160)
<b>Total Investment Returns</b>	<u><b>\$ (13,314)</b></u>	<u><b>\$ (12,072)</b></u>

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 5 - Property and Equipment

A summary of property and equipment at June 30 is as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 4,650,348	\$ 4,575,348
Leasehold improvements	1,789,871	1,681,142
Buildings and improvements	27,595,573	27,839,272
Projects in progress	581,901	133,438
Furniture and equipment	6,144,093	4,577,150
Vehicles	<u>153,328</u>	<u>125,654</u>
	40,915,114	38,932,004
Less accumulated depreciation	<u>(15,668,699)</u>	<u>(14,020,878)</u>
<b>Total Property and Equipment, Net</b>	<b><u>\$ 25,246,415</u></b>	<b><u>\$ 24,911,126</u></b>

Projects in progress at June 30, 2016 and 2015 consisted of various building and system improvement projects.

For the years ended June 30, 2016 and 2015, depreciation was \$1,786,941 and \$1,642,294, respectively.

Property held for sale at June 30, 2015 consisted of three real properties which were sold during fiscal year 2016 at purchase prices totaling \$960,000.

#### 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 \$38,864 and \$168,565 which are included in accrued liabilities in the consolidated statement of financial position at June 30, 2016 and 2015, respectively.

**COMPASS HEALTH AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

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**Note 7 - Long-Term Debt**

Long-term debt at June 30 consisted of the following:

	<u>2016</u>	<u>2015</u>
<u>Compass Health:</u>		
Series 2002 Washington Health Care Facilities Authority Bonds (privately placed) payable in monthly installments 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, 2016, Compass Health had met the debt covenant requirements.	\$ 648,350	\$ 749,040
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 fixed 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 Health is required to comply with restrictive covenants contained in the bond agreement which were not met as of June 30, 2016. Management anticipates the note will be refinanced by its maturity date.	987,660	1,027,477
Series 2012 Washington State Housing Finance Commission Revenue Bonds (privately placed) payable in monthly installments of \$3,436, including fixed interest at 2.94%, through July 1, 2017. Beginning August 1, 2017, the interest rate shall reset every five years through maturity at July 1, 2027. The bonds are collateralized by energy efficiency improvements made on the Compass Health Baily Center.	389,597	418,905
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.	424,388	436,017
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, 2016, was 7.375% and \$3,492, respectively. The note matures June 2023 and is collateralized by the Alder Commons property.	427,703	437,153

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

Note 7 - Continued

	<u>2016</u>	<u>2015</u>
<u>Compass Health (Continued):</u>		
Note payable to the Washington State Department of Commerce 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. The note was repaid in fiscal year 2016 upon the sale of the properties.		178,339
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.	250,444	256,824
Note payable to Washington Community Reinvestment Association and is payable in monthly payments of \$1,576, including fixed interest at 6.25%. The note matures October 2024 and is collateralized by the 209 Milwaukee St, Mount Vernon, WA property.	231,969	236,240
Note payable to the State of Washington Department of Commerce payable in annual payments of \$3,503, including fixed interest of 1.00%. The note matures January 2050 and is collateralized by the O'Leary House property.	144,345	146,384
Noninterest bearing note payable to the Washington State Department of Commerce. 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. The note was repaid in fiscal year 2016 upon the sale of the property.		78,550
Note payable to a bank payable in monthly payments of \$1,015, including interest at a variable rate (5.09% at June 30, 2016). The note matures April 2029. Collateralized by the 1604 I Street, Bellingham, WA 98225 property.	115,642	121,752
Note payable to a bank payable in monthly payments of \$1,337, including interest at a variable rate (5.09% at June 30, 2016). The note matures April 2029. Collateralized by the 3645 E McLeod Rd, Bellingham, WA property.	152,670	160,712

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

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Note 7 - Continued

	<u>2016</u>	<u>2015</u>
<u>Compass Health (Continued):</u>		
Noninterest bearing note payable to the City of Bellingham. Deferred principal payment until such time as the property acquired with the loan is no longer used to house low income, chronically mentally ill persons. Collateralized by the 1604 I Street, Bellingham, WA property.	60,000	60,000
Noninterest bearing note payable to the City of Bellingham. Deferred principal payment until such time as the property acquired with the loan is no longer used to house low income, chronically mentally ill persons. Collateralized by the 1604 I Street, Bellingham, WA property.	65,047	65,047
Noninterest bearing note payable to the State of Washington. Deferred principal payment until February 2017. Collateralized by the 1604 I Street, Bellingham, WA property.	112,500	112,500
<u>Marysville Studio Apartments:</u>		
Note payable to Snohomish County that bears interest at 0.50% and requires monthly interest only payments with full payment due in September 2044. The property is required to be used for low income housing purposes and is collateralized by the Marysville Studio Apartments.	100,458	110,683
<u>Milwaukee Park Apartments:</u>		
Note payable to the Washington State Department of Commerce. The note is noninterest bearing, payments deferred until maturity in 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
<u>Child Advocacy Center of Snohomish County at Dawson Place:</u>		
Note payable, due March 11, 2023, payable \$5,863 per month, including interest fixed at 3.25% until May 2022 at which time interest rate will be the greater of (i) 3.25%, or (ii) the Federal Home Loan Bank of Seattle Three Year Long-Term Fixed Advanced Rate plus a margin of 3%, multiplied by .65, plus .03%. Secured by the land and building.	1,163,031	1,194,399

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

Note 7 - Continued

	<u>2016</u>	<u>2015</u>
<u>Harmony House North:</u>		
Mortgage payable to the U.S. Department of Housing and Urban Development, due February 2032, payable \$4,843 per month, including interest fixed at 8.38%. Secured by the land and building.	506,228	521,258
<u>Mental Health Services of Snohomish County II:</u>		
Mortgage 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.	812,534	834,538
	7,591,835	8,145,087
Less current portion	<u>(1,428,687)</u>	<u>(405,877)</u>
<b>Long-Term Debt</b>	<b><u>\$ 6,163,148</u></b>	<b><u>\$ 7,739,210</u></b>

Principal maturities of long-term debt are as follows:

For the Year Ending June 30,

2017	\$ 1,428,687
2018	267,008
2019	277,994
2020	289,732
2021	302,033
Thereafter	<u>5,026,381</u>
	<b><u>\$ 7,591,835</u></b>

**COMPASS HEALTH AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

**Note 8 - Temporarily Restricted Net Assets**

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

	<u>2016</u>	<u>2015</u>
Restricted for program services	\$ 369,910	\$ 184,030
Secure the future	167,000	161,731
Acquisition of fixed assets	53,778	341,156
Facility contribution receivable (Note 12)	193,179	380,655
Time restricted	16,500	102,931
Time restricted endowment accumulated earnings (Note 11)	463,052	483,905
Forgivable loans (Note 9)	2,534,306	2,899,526
	<u><u>\$ 3,797,725</u></u>	<u><u>\$ 4,553,934</u></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 years ended June 30 were as follows:

	<u>2016</u>	<u>2015</u>
Released for program expenses	\$ 240,280	\$ 76,610
Acquisition of fixed assets	287,325	3,171
Facility contribution receivable (Note 12)	187,476	
Secure the future		69,668
Time restricted	47,682	
Amortization of forgivable loans	399,271	396,407
	<u><u>\$ 1,162,034</u></u>	<u><u>\$ 545,856</u></u>

**Note 9 - Forgivable Loans**

The Organization received forgivable loan proceeds of \$5,759,225 through the fiscal years ended June 30, 2016. 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, 2016, the Organization is in compliance with the restrictions. The following were the unamortized balances at June 30:

	<u>2016</u>	<u>2015</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 the Alder Commons property.	\$ 477,955	\$ 495,023



COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

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Note 9 - Continued

	<u>2016</u>	<u>2015</u>
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 the Alder Commons property.	120,477	130,379
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.	17,372	28,954
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 property.	133,000	137,000
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 property.	125,684	128,820
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 property.	101,230	103,755
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 the Bailey property.	60,566	65,167
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 property.	74,702	76,566

COMPASS HEALTH AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
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Note 9 - Continued

	<u>2016</u>	<u>2015</u>
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 property.	52,487	54,078
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 property.	52,817	54,090
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 property.	5,625	9,375
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 property.	48,903	51,658
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 property.	44,467	45,933
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 property.	4,888	8,147
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.	513,222	675,824

**COMPASS HEALTH AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

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**Note 9 - Continued**

	<u>2016</u>	<u>2015</u>
Capital advances from Snohomish County passed through from 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.	217,722	362,871
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.	51,936	53,611
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.	399,263	418,275
Capital advance from the Washington State Department of Commerce with an original amount totaling \$83,000. Under terms of the agreement, the facilities funded by these proceeds must be used to continue to provide housing for low income individuals for periods of time expiring through May 1, 2031. The forgivable capital advance is secured by the property at Harmony House North.	31,990	
	<u>\$ 2,534,306</u>	<u>\$ 2,899,526</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. The Organization also took over management of an existing 403(b) Tax Deferred Annuity plan for former employees of Whatcom Counseling & Psychiatric Clinic (WCPC). Retirement plan expense was \$873,659 and \$845,872 for the years ended June 30, 2016 and 2015, respectively.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### 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, 2016 and 2015.

**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.

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.

**COMPASS HEALTH AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

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**Note 11 - Continued**

**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, 2016 and 2015, 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>2016 Total</u>	<u>2015 Total</u>
Endowment to Fund					
Operating Reserves	\$ -	\$ 463,052	\$ 286,488	\$ 749,540	\$ 770,393

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>2016 Total</u>	<u>2015 Total</u>
Endowment net assets beginning of year	\$ -	\$ 483,905	\$ 286,488	\$ 770,393	\$ 786,782
Contributions					5,232
Investment returns		<u>(20,853)</u>		<u>(20,853)</u>	<u>(21,621)</u>
<b>Endowment Net Assets, End of Year</b>	<u>\$ -</u>	<u>\$ 463,052</u>	<u>\$ 286,488</u>	<u>\$ 749,540</u>	<u>\$ 770,393</u>

**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, 2016 and 2015, rental expense under these arrangements was \$534,439 and \$548,479, respectively.

**Capital Leases** - The Organization acquired office equipment and software licenses under capital lease arrangements extending through 2021 with a combined capitalized cost and accumulated depreciation of \$1,145,911 and \$275,867, respectively at June 30, 2016. At June 30, 2016, \$69,278 of software licenses are included in prepaid expenses.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 12 - Continued

During the year ended June 30, 2015, the Organization entered into a sale-lease back transaction, whereby, the Organization sold equipment and improvements to First American Equipment Finance (First American) and leased back the same equipment and improvements retaining full and exclusive use. The capital lease arrangement requires minimum monthly lease payments of \$16,147 through maturity in 2018 and includes a \$1 purchase option at the end of the lease period. The equipment and improvements were sold to First American for total capital lease proceeds of \$500,819. The leased items consist of items that were either previously capitalized or expensed by the Organization. As of June 30, 2016, fixed assets included those leased assets with a cost of \$263,604 and accumulated depreciation of \$98,690.

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 as follows:

For the Year Ending June 30,

2017	\$	595,795
2018		424,069
2019		169,624
2020		85,005
2021		<u>68,048</u>
Total minimum lease payments		1,342,541
Less amount representing interest		<u>(158,097)</u>
Present value of net minimum lease payments		1,184,444
Less current portion		<u>(485,875)</u>
	\$	<u><u>698,569</u></u>

**Contributed Facilities** - The Organization leases a facility located in Bellingham, Washington from Whatcom County expiring in 2017 with an option to renew for five (5) consecutive three year periods. Under terms of the lease, Compass Health shall pay Whatcom County \$10 annually.

The Organization has reported the value of the contributed lease commitments from Whatcom County as a receivable on the consolidated statement of financial position. The facility contribution receivable, discounted to present value, recorded at June 30, 2016 and 2015 was \$193,179 and \$380,655, respectively.

The remaining facility contribution receivable will be recognized during the year ended June 30, 2017.

## COMPASS HEALTH AND SUBSIDIARIES

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016 (With Comparative Totals for 2015)

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#### Note 13 - Acquisition of Not-For-Profit Entities

Effective October 1, 2014, Compass Health acquired rights to all assets and assumed all liabilities of the Harmony House North Association, a not-for-profit entity owning a 15-unit apartment complex located in Marysville, Washington providing affordable housing to chronically mentally ill tenants. As a result of the acquisition, Compass Health acquired assets totaling \$1,085,711 and assumed liabilities totaling \$552,389 resulting in an inherent contribution of \$533,322.

Effective July 1, 2014, Compass Health acquired rights to all assets and assumed all liabilities of the Whatcom Counseling & Psychiatric Clinic, a not-for-profit entity operating in Whatcom County. As a result of the acquisition, Compass Health acquired assets totaling \$2,659,801 and assumed liabilities totaling \$1,370,637 resulting in an inherent contribution of \$1,289,164 as of and for the year ended June 30, 2015.

**SUPPLEMENTARY INFORMATION**



**COMPASS HEALTH AND SUBSIDIARIES**

**Consolidating Statement of Financial Position - Assets**  
**June 30, 2016**  
**(With Comparative Totals for 2015)**

	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	Harmony House North	Subtotal	Eliminations	Consolidated 2016 Total	Consolidated 2015 Total
<b>Assets</b>												
<b>Current Assets:</b>												
Cash and cash equivalents	\$ 3,606,462	\$ 15,937	\$ 688,084	\$ 3,117	\$ 1,881	\$ 15,528	\$ 1,362	\$ 2,375	\$ 4,334,746	\$ -	\$ 4,334,746	\$ 3,605,020
Deposits held in trust	659,522	7,350		2,634	2,099	2,004	3,738	3,566	680,913	(7,350)	673,563	558,804
Accounts receivable, net	5,959,234					721	1,865		5,961,820		5,961,820	5,272,343
Grants and contracts receivable, net	606,485		53,737	2,865	6,578			2,095	671,760	(57,644)	614,116	738,436
Current portion of facility contribution receivable	193,179								193,179		193,179	187,476
Other receivables	95,604		108,775						204,379	(8,473)	195,906	111,889
Current portion of notes receivable	159,535								159,535	(159,535)		
Prepaid expenses and other current assets	977,544	12,641	20,662		507				1,011,354	(23,859)	987,495	845,165
<b>Total Current Assets</b>	<b>12,257,565</b>	<b>35,928</b>	<b>871,258</b>	<b>8,616</b>	<b>11,065</b>	<b>18,253</b>	<b>6,965</b>	<b>8,036</b>	<b>13,217,686</b>	<b>(256,861)</b>	<b>12,960,825</b>	<b>11,319,133</b>
Restricted deposits and funded reserves				64,194	70,776	62,015	32,908	24,724	254,617		254,617	244,710
Facility contribution receivable, less current portion												193,179
Investments	749,540								749,540		749,540	770,393
Beneficial interest in trust	9,689								9,689		9,689	9,764
Property held for sale												328,321
Property and equipment, net	13,824,713	1,855,956	3,580,047	1,365,169	2,536,916	521,798	556,771	1,005,045	25,246,415		25,246,415	24,911,126
Notes receivable, less current portion	710,866								710,866	(710,866)		
Bond issue costs, net	22,489		24,383	5,605	39,691				92,168		92,168	102,026
Inter-agency accounts	509,953								509,953	(509,953)		
<b>Total Assets</b>	<b>\$ 28,084,815</b>	<b>\$ 1,891,884</b>	<b>\$ 4,475,688</b>	<b>\$ 1,443,584</b>	<b>\$ 2,658,448</b>	<b>\$ 602,066</b>	<b>\$ 596,644</b>	<b>\$ 1,037,805</b>	<b>\$ 40,790,934</b>	<b>\$ (1,477,680)</b>	<b>\$ 39,313,254</b>	<b>\$ 37,878,652</b>

See independent auditor's report.

**COMPASS HEALTH AND SUBSIDIARIES**

**Consolidating Statement of Financial Position - Liabilities and Net Assets  
June 30, 2016  
(With Comparative Totals for 2015)**

	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	Harmony House North	Subtotal	Eliminations	Consolidated 2016 Total	Consolidated 2015 Total
<b>Liabilities and Net Assets</b>												
<b>Current Liabilities:</b>												
Accounts payable	\$ 851,557	\$ 101	\$ 133,905	\$ 113,325	\$ 73,957	\$ 49,862	\$ 49,767	\$ 36,236	1,308,710	\$ (293,809)	\$ 1,014,901	\$ 974,402
Accrued liabilities	3,081,571		3,150	21,515	983		6,094		3,113,313	(8,473)	3,104,840	3,028,777
Current portion of deferred revenue	212,268	23,675		2	709	6,900	2,589	90	246,233	(23,675)	222,558	1,480,971
Deposits held in trust	659,522	7,350		2,634	2,099	2,004	3,738	3,566	680,913	(7,350)	673,563	558,804
Current portion of capital lease obligations	485,875								485,875		485,875	226,995
Current portion of long-term debt	1,283,883		32,523	87,660			95,943	16,338	1,516,347	(87,660)	1,428,687	405,877
<b>Total Current Liabilities</b>	<b>6,574,676</b>	<b>31,126</b>	<b>169,578</b>	<b>225,136</b>	<b>77,748</b>	<b>58,766</b>	<b>158,131</b>	<b>56,230</b>	<b>7,351,391</b>	<b>(420,967)</b>	<b>6,930,424</b>	<b>6,675,826</b>
Deferred revenue, less current portion	1,725,589								1,725,589		1,725,589	
Capital lease obligations, less current portion	698,569								698,569		698,569	331,157
Long-term debt, less current portion	2,726,433		1,130,508	518,936	1,074,268	217,388	788,466	489,890	6,945,889	(782,741)	6,163,148	7,739,210
<b>Total Liabilities</b>	<b>11,725,267</b>	<b>31,126</b>	<b>1,300,086</b>	<b>744,072</b>	<b>1,152,016</b>	<b>276,154</b>	<b>946,597</b>	<b>546,120</b>	<b>16,721,438</b>	<b>(1,203,708)</b>	<b>15,517,730</b>	<b>14,746,193</b>
<b>Net Assets and Equity:</b>												
Unrestricted-												
Controlling interest	13,756,028	1,860,758	2,178,097			(125,286)	(349,953)	459,695	17,779,339	236,165	18,015,504	16,470,471
Noncontrolling interest										1,695,807	1,695,807	1,821,566
Total unrestricted	13,756,028	1,860,758	2,178,097			(125,286)	(349,953)	459,695	17,779,339	1,931,972	19,711,311	18,292,037
Temporarily restricted	2,317,032		997,505			451,198		31,990	3,797,725		3,797,725	4,553,934
Permanently restricted	286,488								286,488		286,488	286,488
Total net assets	16,359,548	1,860,758	3,175,602			325,912	(349,953)	491,685	21,863,552	1,931,972	23,795,524	23,132,459
Owners' equity				699,512	1,506,432				2,205,944	(2,205,944)		
<b>Total Net Assets and Equity</b>	<b>16,359,548</b>	<b>1,860,758</b>	<b>3,175,602</b>	<b>699,512</b>	<b>1,506,432</b>	<b>325,912</b>	<b>(349,953)</b>	<b>491,685</b>	<b>24,069,496</b>	<b>(273,972)</b>	<b>23,795,524</b>	<b>23,132,459</b>
<b>Total Liabilities, Net Assets and Equity</b>	<b>\$ 28,084,815</b>	<b>\$ 1,891,884</b>	<b>\$ 4,475,688</b>	<b>\$ 1,443,584</b>	<b>\$ 2,658,448</b>	<b>\$ 602,066</b>	<b>\$ 596,644</b>	<b>\$ 1,037,805</b>	<b>\$ 40,790,934</b>	<b>\$ (1,477,680)</b>	<b>\$ 39,313,254</b>	<b>\$ 37,878,652</b>

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

Consolidating Statement of Activities  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	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	Harmony House North	Subtotal	Eliminations	Consolidated Total 2016	Consolidated Total 2015
<b>Operating Activities</b>												
<b>Unrestricted Public Support and Revenue:</b>												
Net patient service revenue	\$ 27,352,114	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,352,114	\$ 221,057	\$ 27,573,171	\$ 26,119,407
Capitation revenue	20,064,393								20,064,393		20,064,393	14,578,590
Contributions and grants	3,122,250		397,930		41,625				3,561,805		3,561,805	4,078,113
Meaningful use incentives	63,750								63,750		63,750	382,500
In-kind contributions	9,468		67,345						76,813		76,813	236,788
Rental revenue	571,204	40,425	186,892	107,189	92,020	148,830	213,074	130,703	1,490,337	(46,658)	1,443,679	1,356,342
Consultation revenue	525,503								525,503	(445,708)	79,795	137,656
Other			1,323			1,717	266	1,851	5,157		5,157	1,860
<b>Total Unrestricted Support and Revenue</b>	<b>51,708,682</b>	<b>40,425</b>	<b>653,490</b>	<b>107,189</b>	<b>133,645</b>	<b>150,547</b>	<b>213,340</b>	<b>132,554</b>	<b>53,139,872</b>	<b>(271,309)</b>	<b>52,868,563</b>	<b>46,891,256</b>
Net assets transfer								(34,065)	(34,065)		(34,065)	
Net assets released from restriction	372,569		102,929					2,075	477,573		477,573	76,610
<b>Total Unrestricted Support, Revenue, and Reclassifications</b>	<b>52,081,251</b>	<b>40,425</b>	<b>756,419</b>	<b>107,189</b>	<b>133,645</b>	<b>150,547</b>	<b>213,340</b>	<b>100,564</b>	<b>53,583,380</b>	<b>(271,309)</b>	<b>53,312,071</b>	<b>46,967,866</b>
<b>Expenses:</b>												
<b>Program services-</b>												
Crisis response	7,985,736	8,403							7,994,139	(1,925)	7,992,214	6,042,016
Mental health outpatient	20,038,581	79,709							20,118,290	(49,815)	20,068,475	18,847,198
Residential treatment	2,823,077								2,823,077		2,823,077	2,498,052
Housing	1,385,105	5,155		155,262	188,872	81,584	182,905	147,312	2,146,195	(61,311)	2,084,884	2,187,429
Inpatient	3,531,999								3,531,999		3,531,999	3,424,409
Intensive outpatient	3,295,620	13,591							3,309,211		3,309,211	1,956,441
Psychiatry	3,667,980	12,715							3,680,695	(3,850)	3,676,845	3,523,991
Other program services	1,942,205	3,423	601,250						2,546,878	(266,703)	2,280,175	2,426,519
<b>Total program services</b>	<b>44,670,303</b>	<b>122,996</b>	<b>601,250</b>	<b>155,262</b>	<b>188,872</b>	<b>81,584</b>	<b>182,905</b>	<b>147,312</b>	<b>46,150,484</b>	<b>(383,604)</b>	<b>45,766,880</b>	<b>40,906,055</b>
<b>Supporting services-</b>												
Management and general	5,494,495	44,042	54,231	12,101	10,804	36,989	61,632	7,748	5,722,042	(54,007)	5,668,035	5,802,238
Information services	1,234,675	2,360							1,237,035		1,237,035	1,237,982
Fundraising	296,407	2,427	118,838						417,672	(74,468)	343,204	288,461
<b>Total supporting services</b>	<b>7,025,577</b>	<b>48,829</b>	<b>173,069</b>	<b>12,101</b>	<b>10,804</b>	<b>36,989</b>	<b>61,632</b>	<b>7,748</b>	<b>7,376,749</b>	<b>(128,475)</b>	<b>7,248,274</b>	<b>7,328,681</b>
<b>Total Expenses</b>	<b>51,695,880</b>	<b>171,825</b>	<b>774,319</b>	<b>167,363</b>	<b>199,676</b>	<b>118,573</b>	<b>244,537</b>	<b>155,060</b>	<b>53,527,233</b>	<b>(512,079)</b>	<b>53,015,154</b>	<b>48,234,736</b>
<b>Change in Net Assets From Unrestricted Operating Activities</b>	<b>385,371</b>	<b>(131,400)</b>	<b>(17,900)</b>	<b>(60,174)</b>	<b>(66,031)</b>	<b>31,974</b>	<b>(31,197)</b>	<b>(54,496)</b>	<b>56,147</b>	<b>240,770</b>	<b>296,917</b>	<b>(1,266,870)</b>

COMPASS HEALTH AND SUBSIDIARIES

See independent auditor's report.

**COMPASS HEALTH AND SUBSIDIARIES**

**Consolidating Statement of Activities  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

	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	Harmony House North	Subtotal	Eliminations	Consolidated Total 2016	Consolidated Total 2015
<b>Unrestricted Nonoperating Activities</b>												
Investment returns	\$ 7,538	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,538	\$ -	\$ 7,538	\$ 15,088
Gain on sale of fixed assets	428,087								428,087		428,087	157,285
Interest income	6,428	2		201	178				6,809	(4,538)	2,271	494
Contribution related to the acquisition of Not-for-Profit Entities												1,822,486
Release of restricted net assets related to long-term assets	68,711		595,062			20,688			684,461		684,461	469,246
<b>Change in Net Assets From Unrestricted Nonoperating Activities</b>	<b>510,764</b>	<b>2</b>	<b>595,062</b>	<b>201</b>	<b>178</b>	<b>20,688</b>			<b>1,126,895</b>	<b>(4,538)</b>	<b>1,122,357</b>	<b>2,464,599</b>
<b>Change in Unrestricted Net Assets</b>	<b>896,135</b>	<b>(131,398)</b>	<b>577,162</b>	<b>(59,973)</b>	<b>(65,853)</b>	<b>52,662</b>	<b>(31,197)</b>	<b>(54,496)</b>	<b>1,183,042</b>	<b>236,232</b>	<b>1,419,274</b>	<b>1,197,729</b>
<b>Temporarily Restricted Net Assets</b>												
Contributions for program services	315,665		76,947						392,612		392,612	328,310
Contributed rent												380,655
Investment returns	26,283								26,283		26,283	(27,160)
Unrealized investment losses	(47,135)								(47,135)		(47,135)	
Contributions and grants for the acquisition of long-term assets												1,317
Net assets transfer								34,065	34,065		34,065	
Release of restricted net assets	(441,280)		(697,991)			(20,688)		(2,075)	(1,162,034)		(1,162,034)	(545,856)
<b>Change in Temporarily Restricted Net Assets</b>	<b>(146,467)</b>		<b>(621,044)</b>			<b>(20,688)</b>		<b>31,990</b>	<b>(756,209)</b>		<b>(756,209)</b>	<b>137,266</b>
<b>Permanently Restricted Net Assets</b>												
Endowment contributions												5,232
<b>Change in Permanently Restricted Net Assets</b>												<b>5,232</b>
<b>Change in Net Assets Before Noncontrolling Interest</b>	<b>749,668</b>	<b>(131,398)</b>	<b>(43,882)</b>	<b>(59,973)</b>	<b>(65,853)</b>	<b>31,974</b>	<b>(31,197)</b>	<b>(22,506)</b>	<b>426,833</b>	<b>236,232</b>	<b>663,065</b>	<b>1,340,227</b>
Noncontrolling interest in net losses of subsidiaries										125,759	125,759	136,643
<b>Change in Net Assets Excluding Noncontrolling Interest</b>	<b>\$ 749,668</b>	<b>\$ (131,398)</b>	<b>\$ (43,882)</b>	<b>\$ (59,973)</b>	<b>\$ (65,853)</b>	<b>\$ 31,974</b>	<b>\$ (31,197)</b>	<b>\$ (22,506)</b>	<b>\$ 426,833</b>	<b>\$ 361,991</b>	<b>\$ 788,824</b>	<b>\$ 1,476,870</b>

See independent auditor's report.

COMPASS HEALTH AND SUBSIDIARIES

Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	Crisis Response	Mental Health Outpatient	Residential Treatment	Housing	Inpatient	Intensive Outpatient	Psychiatry	Other Program Services	Total Program Services	Management and General	Information Services	Fundraising	Total Supporting Services	2016 Total	2015 Total
Salaries and wages	\$ 5,405,182	\$ 12,655,812	\$ 1,583,664	\$ 143,562	\$ 2,404,196	\$ 2,066,658	\$ 2,453,303	\$ 1,035,803	\$ 27,748,180	\$ 2,721,892	\$ 770,917	\$ 169,945	\$ 3,662,754	\$ 31,410,934	\$ 28,668,847
Pension plan contributions	139,649	368,733	44,063	4,645	54,170	28,896	88,201	26,787	755,144	85,407	26,757	6,349	118,513	873,657	845,872
Employee benefits	768,313	2,651,860	332,465	41,077	288,314	442,453	216,267	204,165	4,944,914	509,898	110,521	33,919	654,338	5,599,252	5,111,037
Payroll taxes	469,838	1,069,127	156,114	12,808	214,274	175,708	172,826	86,826	2,357,521	220,449	62,094	13,687	296,230	2,653,751	2,620,329
<b>Total Salaries and Related Expenses</b>	<b>6,782,982</b>	<b>16,745,532</b>	<b>2,116,306</b>	<b>202,092</b>	<b>2,960,954</b>	<b>2,713,715</b>	<b>2,930,597</b>	<b>1,353,581</b>	<b>35,805,759</b>	<b>3,537,646</b>	<b>970,289</b>	<b>223,900</b>	<b>4,731,835</b>	<b>40,537,594</b>	<b>37,246,085</b>
Occupancy	239,006	1,131,209	245,592	618,833	233,075	84,708	123,610	225,078	2,901,111	243,885	47,499	12,599	303,983	3,205,094	2,983,359
Other professional fees	276,557	139,622	63,284	429,999	39,890	10,152	470,021	175,421	1,604,946	238,224	29,582	12,180	279,986	1,884,932	1,153,060
Depreciation and amortization	145,525	402,107	76,112	453,069	15,420	69,509	52,575	145,850	1,360,167	389,804	33,146	3,824	426,774	1,786,941	1,642,294
Office expenses	193,947	279,008	205,308	19,343	146,477	52,858	19,123	64,357	980,421	94,746	98,657	16,453	209,856	1,190,277	1,172,221
Client assistance	26,276	446,515	29,725	89,797	24,885	162,880	29,725	103,007	883,085	13	66	79	883,164	804,176	
Insurance	89,034	271,576	32,272	31,684	45,645	21,027	22,419	513,657	97,894	1,096	155	99,145	612,802	607,189	
Travel	113,547	282,982	6,736	5,420	2,557	120,106	16,527	17,117	564,992	39,914	3,327	4,069	47,310	612,302	525,320
Information technology	56,748	141,550	15,044	7,731	13,827	23,720	16,051	19,637	294,308	82,447	45,960	11,521	139,928	434,236	403,913
Accounting fees				16,738					16,738	386,336			386,336	403,074	271,093
Interest	18,290	115,333	7,020	182,158	4,880	6,267	9,559	47,884	391,391	6,658	4,024	313	10,995	402,386	366,787
Legal fees				12,592	3,526				16,118	356,146			356,146	372,264	317,413
Miscellaneous	9,739	22,001	9,612	15,542	16,883	3,379	6,358	89,617	173,131	129,736	2,169	1,497	133,402	306,533	391,862
Conferences, conventions and meetings	12,604	29,487	3,400	1,658	2,786	6,378	3,314	3,224	62,851	43,162	72	44,762	87,996	150,847	129,821
Employee recruitment	27,913	54,642	6,696		10,316	9,894	5,462	4,186	119,109	3,609	1,214	80	4,903	124,012	63,589
Bad debt	46	6,911	5,970	29,912	24,839		2,621	8,797	79,096	16,315		5,785	22,100	101,196	138,930
Advertising and marketing										1,500		6,000	7,500	7,500	17,624
<b>Total Operating Expenses</b>	<b>\$ 7,992,214</b>	<b>\$ 20,068,475</b>	<b>\$ 2,823,077</b>	<b>\$ 2,084,884</b>	<b>\$ 3,531,999</b>	<b>\$ 3,309,211</b>	<b>\$ 3,676,845</b>	<b>\$ 2,280,175</b>	<b>\$ 45,766,880</b>	<b>\$ 5,668,035</b>	<b>\$ 1,237,035</b>	<b>\$ 343,204</b>	<b>\$ 7,248,274</b>	<b>\$ 53,015,154</b>	<b>\$ 48,234,736</b>

See independent auditor's report.